

Management Report

for

Independent School District No. 16
Spring Lake Park, Minnesota
June 30, 2009



PRINCIPALS

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To the School Board of
Independent School District No. 16
Spring Lake Park, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 16, Spring Lake Park, Minnesota's (the District) financial statements for the year ended June 30, 2009. The purpose of this report is to communicate information relevant to the financing of public education in Minnesota and to provide comments resulting from our audit process. We have organized this report into the following sections:

- Audit Summary
- Funding Public Education in Minnesota
- Financial Trends of Your District
- Accounting and Auditing Updates
- Legislative Summary

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

This report is intended solely for the information and use of those charged with governance, the School Board, management, and those who have responsibility for oversight of the financial reporting process and is not intended to be, and should not be, used by anyone other than these specified parties.

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.

December 16, 2009

AUDIT SUMMARY

We hereby provide you with the following summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the School Board, administration, or those charged with governance of the District.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND THE U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2009. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the U.S. Office of Management and Budget Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our letter to you dated June 16, 2009. Professional standards also require that we communicate to you the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the District's financial statements for the year ended June 30, 2009:

- We have issued an unqualified opinion on the District's annual financial statements.
- We noted no matters involving the District's internal control over financial reporting that we consider to be significant deficiencies or material weaknesses.
- The results of our testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
- We noted that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.
- The results of our tests indicate that the District has complied, in all material respects, with the requirements applicable to each major federal program.
- We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses in our testing of major federal programs.
- We have reported no findings based on our testing of the District's compliance with Minnesota laws and regulations.

GENERAL COMMENTS AND RECOMMENDATIONS

Capital Asset Internal Controls

Due to the significant amount of activity in recent years, we recommend that the District review their controls and programs over the accounting for capital assets. This review should consider the procedures for the tracking and maintenance of detailed capital asset records, including cost basis information.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 of the notes to basic financial statements.

The District implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions," during the year ended June 30, 2009. This statement provides new guidance on accounting and financial reporting for other post-employment benefits (OPEB) accounted for in the financial statements of plan sponsors or employers. This change required the District to report a change in accounting principle adjustment to beginning equity on the government-wide statements as described in Note 1 of the notes to basic financial statements.

The application of remaining policies was not changed during the year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a state-wide database—MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for fiscal year 2009 is not finalized until well into fiscal year 2010. General education revenue and certain other revenues are computed using preliminary information on the number of students served in the resident district and also utilizing some estimates, particularly in the area of enrollment options.

Special education state aid includes an adjustment related to tuition billings to and from other school districts for special education services which are computed using formulas derived by the Minnesota Department of Education (MDE). Because of the timing of the calculations, this adjustment for fiscal 2009 is not finalized until after the District has closed its financial records for the fiscal period. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the District.

The District has recorded a liability for severance benefits payable for which it is probable employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting), the potential use of accumulated sick leave prior to termination, and the age at which such employees are likely to retire.

The District has recorded activity for OPEB. These obligations are calculated using actuarial methodologies described in GASB Statement No. 45. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, and employee turnover.

The depreciation of capital assets involves estimates pertaining to useful lives.

Management expects any differences between estimates and actual amounts of these estimates to be insignificant. We evaluated the key factors and assumptions used by management in the areas discussed above in determining that they are reasonable in relation to the financial statements taken as a whole.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Where applicable, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management, when applicable, were material, either individually or in the aggregate, to the financial statements taken as a whole.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated December 16, 2009.

FUNDING PUBLIC EDUCATION IN MINNESOTA

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this report. The last section of this report, which contains a summary of legislative changes affecting school districts, gives an indication of how complicated the funding system is. The following section provides some state-wide funding and financial trend information.

BASIC GENERAL EDUCATION REVENUE

The largest single funding source for Minnesota school districts is basic general education aid. Each year, the Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to average daily membership (ADM). Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

The table below presents a summary of the formula allowance for the past decade and as approved for the next two fiscal years. We have adjusted the percentage change from year to year for non-comparable changes such as referendum reduction and aids that were previously separately funded and subsequently “rolled-in” or “rolled-out” to general education revenue.

School Year	Formula Allowance	
	Amount	Percent Increase
1999–2000	\$ 3,740	4.7 % (1)
2000–2001	\$ 3,964	4.2 % (1)
2001–2002	\$ 4,068	2.6 %
2002–2003	\$ 4,601	2.6 % (1)
2003–2004	\$ 4,601	– %
2004–2005	\$ 4,601	– %
2005–2006	\$ 4,783	4.0 %
2006–2007	\$ 4,974	4.0 %
2007–2008	\$ 5,074	2.0 %
2008–2009	\$ 5,124	1.0 %
2009–2010	\$ 5,124	– %
2010–2011	\$ 5,124	– %

(1) Percentage adjusted to eliminate changes caused by referendum reduction and rolled-in (out) aids which does not affect total district revenue.

As noted in the table above, current legislation has frozen the basic formula allowance at the 2008–2009 fiscal year level for the next two fiscal years. In general, the moderate increases in the formula allowance have forced districts to continually cut expenditure budgets or increase referendum revenue in order to maintain programs.

The table above does not reflect temporary funding changes such as the \$51 per pupil unit one-time additional general education aid school districts and charter schools received in 2008–2009, or the technology and operating capital aid received by school districts and charter schools in 2007–2008 (\$40 per pupil unit) and 2008–2009 (\$55 per pupil unit).

The table also does not reflect a one-time reduction to general education aid in 2009–2010 that will be offset by federal fiscal stabilization funds. The reduction, which will be allocated to school districts and charter schools based on their 2007–2008 general education revenue, amounts to approximately 8.7 percent of this revenue. The reduction will be offset dollar-for-dollar by federal stimulus funds used by the state for fiscal stabilization.

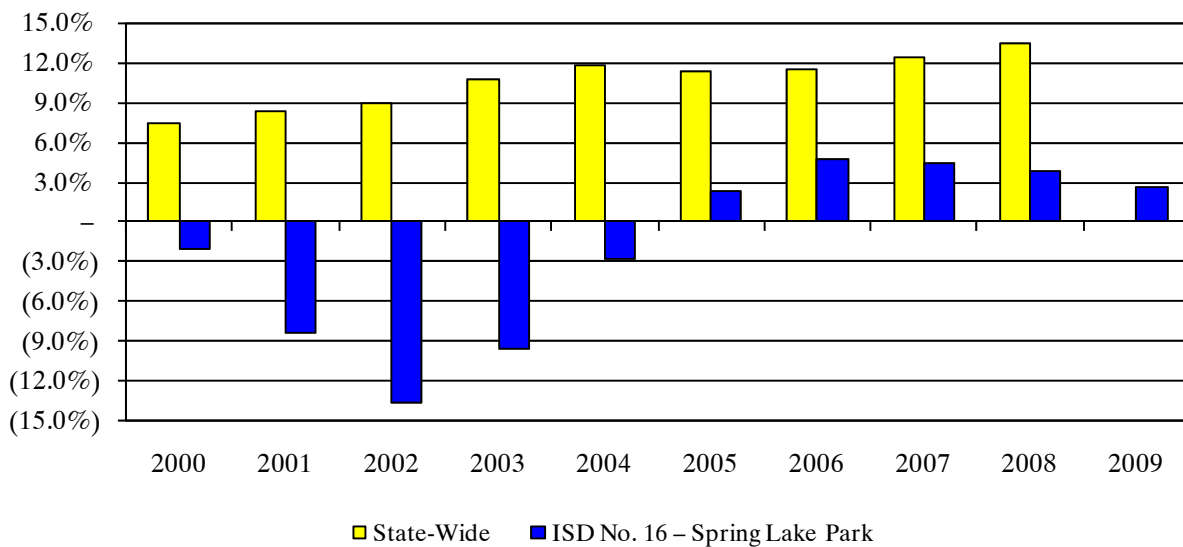
METERING OF STATE AID PAYMENTS

In order to help reduce the state budget deficit, the Governor changed the metering of state aid payments to Minnesota school districts and charter schools beginning in 2009–2010. In recent years, districts have been paid 90 percent of their estimated state aid entitlements by June 30 each year, with the remaining 10 percent paid out in the following fiscal year. In 2009–2010, the state will pay only 73 percent of estimated state aid entitlements by year-end, with the remaining 27 percent being paid out in the following fiscal year. This change will not affect the accrual based revenue recorded by districts for the year, but will have a significant impact on their cash flow.

STATE-WIDE SCHOOL DISTRICT FINANCIAL HEALTH

One of the most common and comparable statistics used to evaluate school district financial health is the unreserved operating fund balance as a percentage of operating expenditures.

State-Wide Unreserved Operating Fund Balance
as a Percentage of Operating Expenditures



Note: State-wide information is not available for fiscal 2009.

The calculation above reflects only the unreserved fund balance of the General Fund, and the corresponding expenditures, which is the same method which the state now uses for the calculation of statutory operating debt (SOD).

Even with limited funding increases, school districts have maintained a relatively stable unreserved fund balance on a state-wide basis in recent years. This stability may be the result of districts adapting to funding restrictions, effective cost containment measures, in some cases community support in the way of operating referendums, and other factors.

As of June 30, 2008, this ratio was 3.8 percent for the District, as compared to a state-wide average of 13.5 percent. The District’s unreserved operating fund balance as a percentage of operating expenditures was 2.6 percent at the end of the current year.

The table below shows a comparison of total revenue per ADM received by Minnesota school districts and your district. Revenues for all governmental funds are included, except for the Capital Projects – Building Construction Fund; proceeds from sales of real property and equipment; insurance recoveries; and sales of bonds, loans, and interfund transfers.

Revenue per Student (ADM) Served								
	State-Wide		Seven-County Metro Area		ISD No. 16 – Spring Lake Park			
	2007	2008	2007	2008	2007	2008	2009	
General Fund								
Property taxes	\$ 1,020	\$ 1,160	\$ 1,365	\$ 1,527	\$ 1,278	\$ 1,496	\$ 1,857	
Other local sources	504	487	414	417	362	334	252	
State	7,490	7,833	7,613	8,029	6,848	7,124	7,373	
Federal	444	456	464	492	361	375	370	
Special revenue funds								
Food Service	415	433	418	434	363	389	403	
Community Service	445	474	538	570	458	435	488	
Debt Service Fund	938	993	1,032	1,114	651	1,359	1,612	
Total revenue	<u>\$ 11,256</u>	<u>\$ 11,836</u>	<u>\$ 11,844</u>	<u>\$ 12,583</u>	<u>\$ 10,321</u>	<u>\$ 11,512</u>	<u>\$ 12,355</u>	
ADM served and tuition paid					<u>4,560</u>	<u>4,603</u>	<u>4,571</u>	
Source of state-wide and seven-county metro area data: School District Profiles Report published by the MDE								

The mix of local and state revenues vary from year to year primarily based on funding formulas and the state's financial condition. The mix of revenue components from district to district varies due to factors such as the strength of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered, and countless other criteria.

Total revenue per ADM served increased by \$843 to \$12,355, as presented in the table above. This increase is due to the increase in General Fund property taxes, General Fund state revenue, and Debt Service Fund revenue which increased \$361, \$249, and \$253, respectively.

The General Fund increase can be partially attributed to improvements in the per pupil formula allowance and in certain one-time funding programs, as discussed earlier. New levies on bonds issued to finance the District's long-range facilities improvement plan caused the increase in the Debt Service Fund.

The table below reflects comparative data available from the MDE for all governmental fund expenditures, excluding the Capital Projects – Building Construction Fund:

Expenditures per Student (ADM) Served							
	State-Wide		Seven-County Metro Area		ISD No. 16 – Spring Lake Park		
	2007	2008	2007	2008	2007	2008	2009
	Administration	\$ 395	\$ 412	\$ 380	\$ 405	\$ 381	\$ 395
District support services	385	399	392	412	324	390	392
Elementary and secondary							
regular instruction	4,362	4,528	4,523	4,730	4,260	4,349	5,059
Vocational education instruction	131	142	127	141	161	132	160
Special education instruction	1,649	1,703	1,815	1,904	1,398	1,369	1,691
Instructional support services	425	461	481	536	706	736	936
Pupil support services	784	835	857	914	823	904	1,073
Sites, buildings, and other	782	811	737	778	1,067	1,162	1,180
Total General Fund operating expenditures	8,913	9,291	9,312	9,820	9,120	9,437	10,960
General Fund capital expenditures	451	505	435	494	898	241	211
Special revenue funds							
Food Service	415	437	416	432	360	369	400
Community Service	446	470	539	564	459	429	485
Debt service	1,077	1,064	1,253	1,015	976	1,397	1,629
Total expenditures	<u>\$ 11,302</u>	<u>\$ 11,767</u>	<u>\$ 11,955</u>	<u>\$ 12,325</u>	<u>\$ 11,813</u>	<u>\$ 11,873</u>	<u>\$ 13,685</u>
ADM served and tuition paid					<u>4,560</u>	<u>4,603</u>	<u>4,571</u>
Source of state-wide and seven-county metro area data: School District Profiles Report published by the MDE							

Expenditure patterns also vary from district to district for various reasons. For example, one district may pay tuition to a cooperative that provides vocational or special education services for its students, while another may serve those students within the District, or even act as a host for other districts and receive tuition. Other factors affecting the comparison include the growth cycle or maturity of the District, average employee experience, availability of funding, population density, and even methods of allocating costs.

The differences from program to program reflect the District’s particular character, such as its community service programs, as well as the fluctuations from year to year for such things as capital expenditures.

As the table reflects, the District experienced an increase in all General Fund programs presented above. The considerable increase in per ADM expenditures was largely due to the issuance of approximately \$6.2 million of OPEB bonds that were placed into an irrevocable trust for OPEB benefit obligations of the District. Accounting standards require the receipt of these bond proceeds be reported as an “other financing source,” while the payment to the Trust Fund be reflected as an expenditure in the fund statements. Debt service increased as scheduled based on debt financing plans on bonded indebtedness.

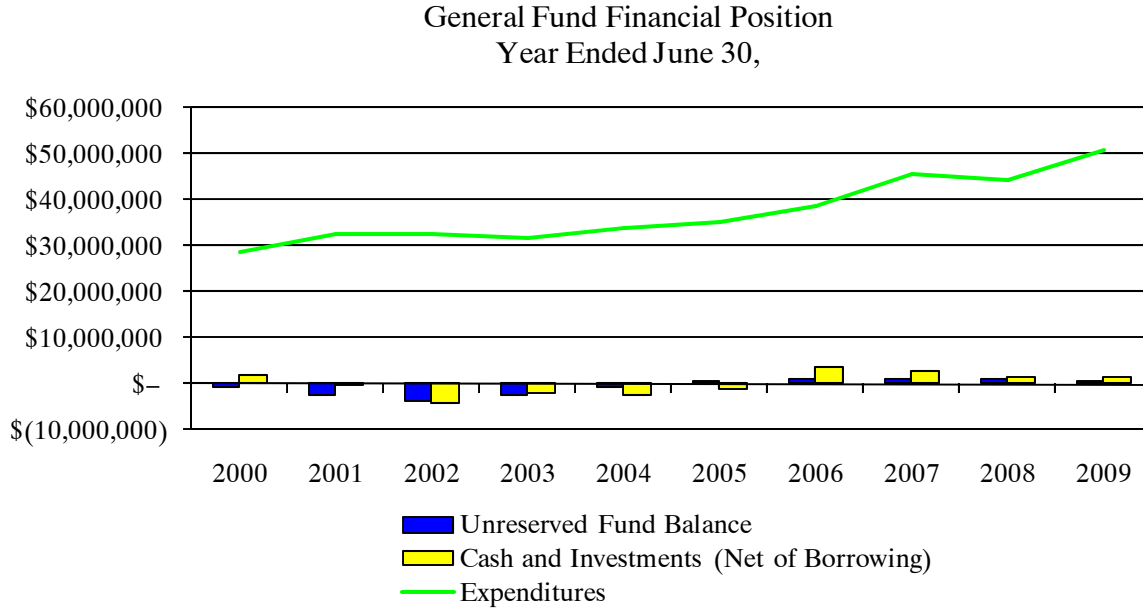
SUMMARY

The funding for and financial position of Minnesota school districts has fluctuated significantly over the past several years due to a number of factors, including those discussed above. This situation has created a challenge for administrators and management of these districts in providing the best education with the limited resources available in a climate of unknown future funding levels.

FINANCIAL TRENDS OF YOUR DISTRICT

GENERAL FUND FINANCIAL POSITION

The following graph displays the District's General Fund trends of financial position and changes in the volume of financial activity. Unreserved fund balance and cash balance are typically used as indicators of financial health or equity, while annual expenditures are often used to measure the size of the operation.



The District ended fiscal year 2009 with a General Fund cash balance of \$1,863,833 (net of borrowing), and an unreserved fund balance of \$697,225.

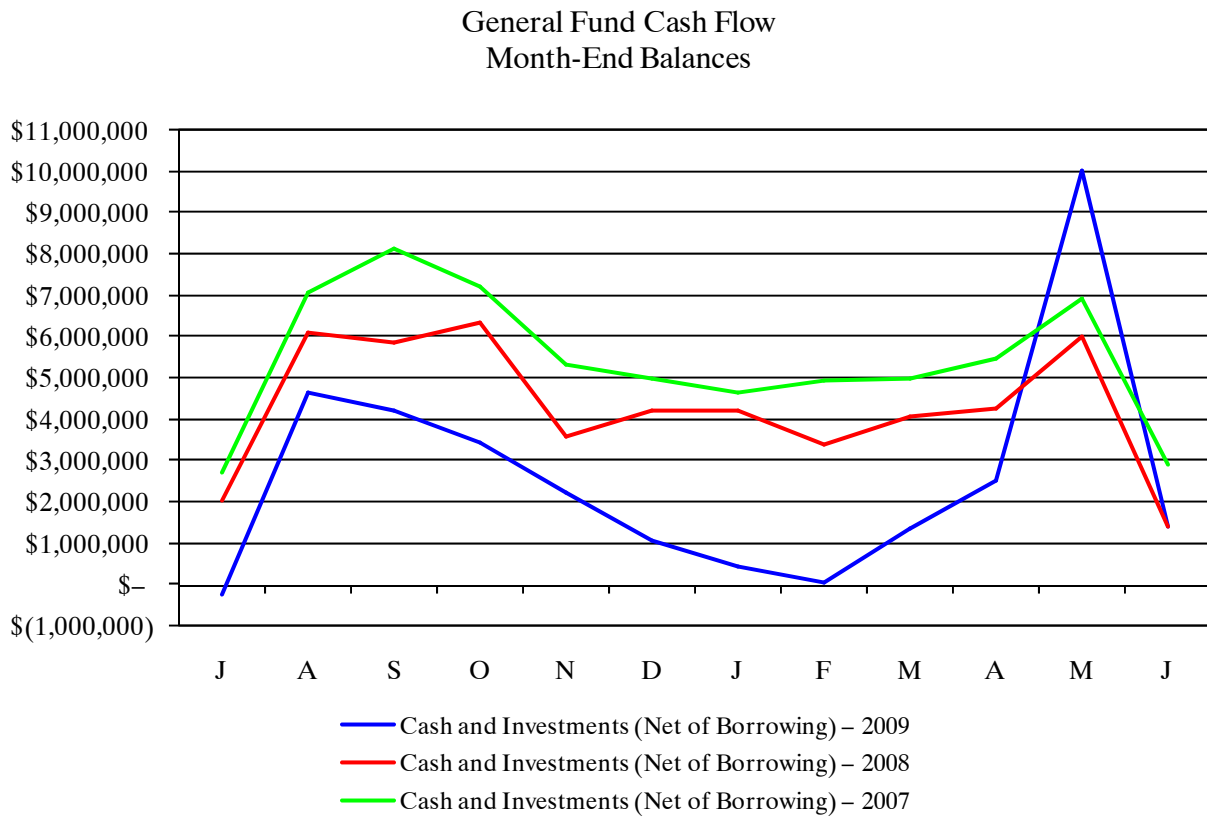
The following table presents the components of the General Fund balance for the past five years:

	Year Ended June 30,				
	2005	2006	2007	2008	2009
Reserved fund balances (1)	\$ 2,347,298	\$ 3,486,387	\$ 1,676,950	\$ 410,860	\$ 453,616
Unreserved fund balances					
Designated	502,521	176,099	99,163	-	87,798
Undesignated	173,771	884,706	996,502	911,490	697,225
Total fund balance	<u>\$ 3,023,590</u>	<u>\$ 4,547,192</u>	<u>\$ 2,772,615</u>	<u>\$ 1,322,350</u>	<u>\$ 1,238,639</u>
Unreserved fund balances as a percentage of total expenditures	<u>1.9%</u>	<u>2.7%</u>	<u>2.4%</u>	<u>2.0%</u>	<u>1.5%</u>
Undesignated fund balances as a percentage of total expenditures	<u>0.5%</u>	<u>2.3%</u>	<u>2.2%</u>	<u>2.0%</u>	<u>1.4%</u>
(1) Includes statutory reserve account deficits.					

The table above reflects the total General Fund unreserved fund balance and percentages, which is different from those used in the previous discussion of state-wide fund balances, which are based on a state formula. The resources represented by this fund balance are critical to a district's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls.

GENERAL FUND CASH FLOW

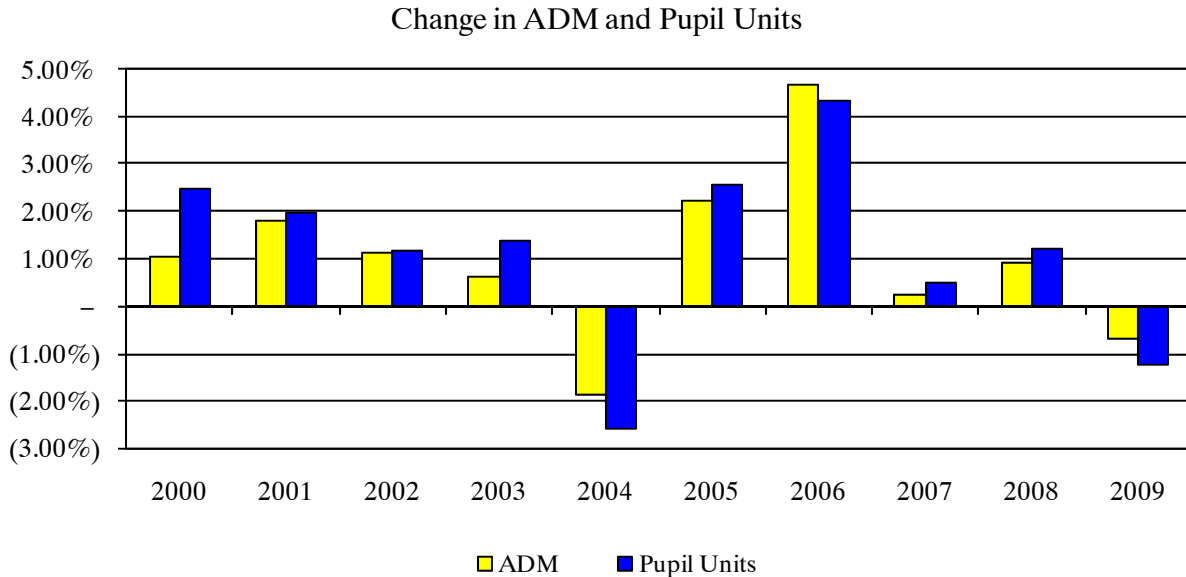
The level of cash and investments varies considerably during the year due to the timing of various revenues and expenditures. The following graph summarizes the level of cash and investments over the past three years:



The graph above shows the peaks and valleys of the General Fund cash and investments balance (net of borrowing and interfund balances) on a monthly basis. The swing between its high and low month-end cash balances is about \$10.2 million. Changes in funding structure and state aid payment schedules significantly affect the cash flow of Minnesota school districts.

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The following graph shows the rate of ADM change from year to year, and the relationship of the resulting pupil units:

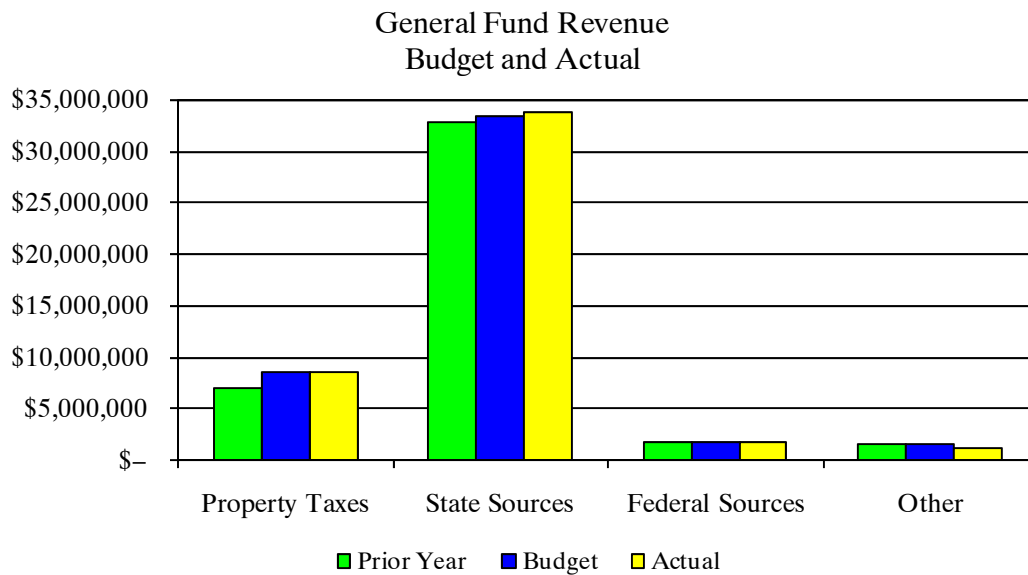


ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes, the impact of the prior year final adjustments which affect this year's revenue, and the final adjustments caused by open enrollment gains and losses.

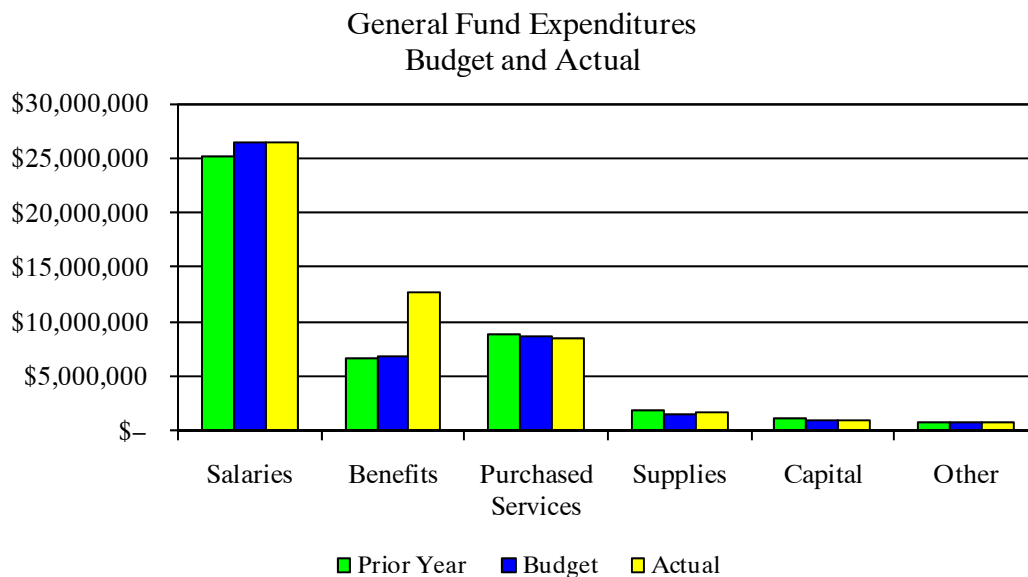
The ADM served by the District for 2009 is estimated to be 4,571, a decrease of 32 ADM or about 0.7 percent from the prior year.

GENERAL FUND REVENUE AND EXPENDITURES

The following graphs summarize the District's General Fund revenue and expenditures for 2009:



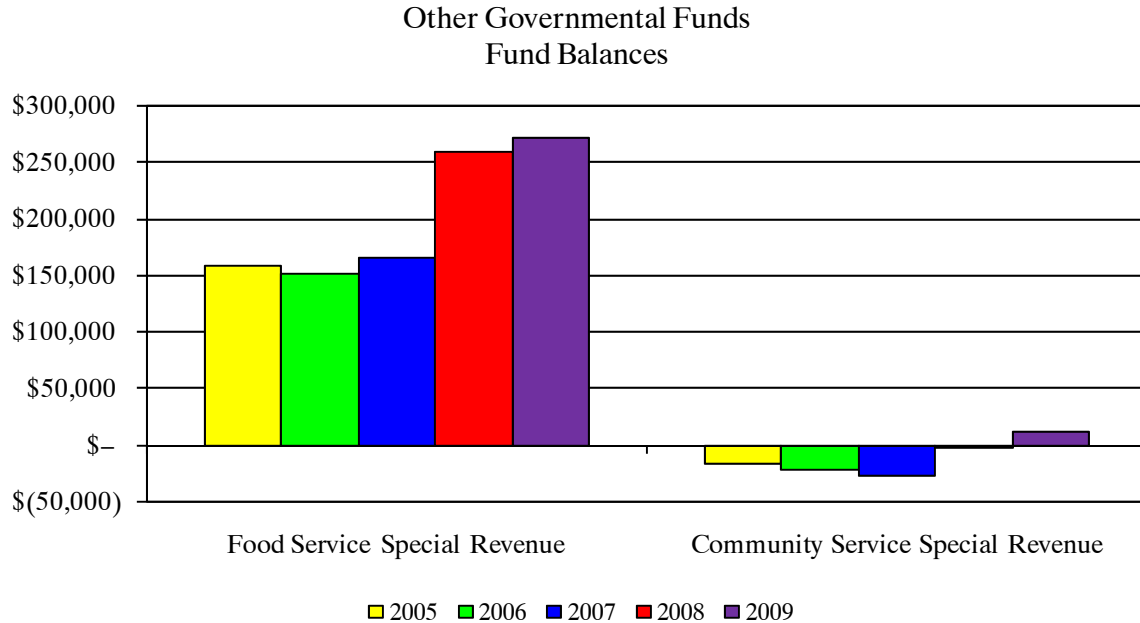
General Fund revenues for 2009 were \$45,037,550, an increase of \$2,097,072 over the prior year, and \$104,829 or 0.2 percent under budget. The increase over prior year includes additional revenue for the 1 percent formula increase, the one-time additional general education aid, and the increase in the tax levy.



General Fund expenditures for 2009 were \$51,058,720, which was \$6,504,235 more than the prior year and \$5,644,415 over budget. The increase from the prior year and amount over budget is due to the OPEB contributions made to the trust discussed earlier and is reflected in benefits in the graph above. Inflationary growth also contributed to the increase over prior year expenditures.

OTHER GOVERNMENTAL FUNDS

The following graph shows what is referred to as the other operating funds. The remaining non-operating funds are only included in narrative form below, since their level of fund balance can fluctuate significantly due to such things as issuing and spending the proceeds of refunding or building bonds and, therefore, the trend of fund balance levels are not necessarily a key indicator of financial health. It does not mean that these funds cannot experience financial trouble or that their fund balances are unimportant.



Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund experienced an increase in fund balance of \$11,977 in 2009, compared to a balanced budget. Revenues fell short of amounts planned in the budget by \$8,308, while expenditures were also short of amounts planned in the budget by \$20,285. The Food Service Special Revenue Fund had a year-end fund balance of \$271,712, representing 14.9 percent of annual expenditures totaling \$1,829,715.

Over the years we have emphasized to our school district clients that food service operations are self-sustaining, and should not become an additional burden on general education funds. This would include the accumulation of fund balance for future capital improvements to food service facilities and to provide a cushion in the event of a negative trend in operations.

Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund experienced a fund balance increase of \$15,408 in 2009, compared to a budgeted increase of \$4,510. Actual revenues and expenditures were short of amounts planned in the budget by \$121,577 and \$132,475, respectively. The Community Service Special Revenue Fund had a year-end fund balance of \$12,520, representing 0.6 percent of annual expenditures totaling \$2,216,015.

The Community Service Special Revenue Fund, like the Food Service Special Revenue Fund, needs to be self-sustaining. In addition to cost controls, financial analysis of the costs of providing programs, including overhead, is important. Fees and tuition charges should be sufficient to cover these costs as well as potential funding shortfalls from state, federal, or property tax sources.

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund (not pictured) has a fund balance of \$4,525,201 at June 30, 2009. These funds are being used for a variety of facility improvement projects. During the year ended June 30, 2009 the District utilized almost \$35 million on these projects.

Debt Service Fund

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. It is important to remember that resources of the Debt Service Fund are dedicated to payment of outstanding debt obligations of the District.

Post-Employment Benefits Trust Fund

In 2009, the District added a new Post-Employment Benefits Trust Fund to account for an irrevocable trust account established to finance the District's liability for post-employment healthcare benefits. The District issued \$6,200,000 of general obligation taxable OPEB bonds, the proceeds of which were contributed into the trust. At year-end, trust net assets of \$5,428,051 are available to pay these benefits.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the District's current assets to finance its current liabilities. The GASB Statement No. 34 reporting model also requires the inclusion of two government-wide financial statements designed to present a clear picture of the District as a single, unified entity. These government-wide statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net assets represent the resources the District has leftover to use for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how some of those resources can be used. Therefore, the statement divides the net assets into three components: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The following table presents a summarized conversion of the District's governmental fund balances (as discussed earlier) to net assets and the separate components for the last three years:

	June 30,		
	2007	2008	2009
Net assets – governmental activities			
Total fund balances – governmental funds	\$ 61,733,358	\$ 40,432,188	\$ 6,485,423
Capital assets, less accumulated depreciation	44,046,747	92,196,639	123,388,471
Long-term liabilities	(103,751,366)	(128,720,052)	(129,033,744)
Other	(4,020,420)	(4,209,771)	1,396,488
Total net assets – governmental activities	<u><u>\$ (1,991,681)</u></u>	<u><u>\$ (300,996)</u></u>	<u><u>\$ 2,236,638</u></u>
Net assets			
Invested in capital assets, net of related debt	\$ 2,956,306	\$ 5,789,045	\$ 6,621,999
Restricted	789,286	613,332	697,641
Unrestricted	(5,737,273)	(6,703,373)	(5,083,002)
Total net assets	<u><u>\$ (1,991,681)</u></u>	<u><u>\$ (300,996)</u></u>	<u><u>\$ 2,236,638</u></u>

Some of the District's fund balances translate into restricted net assets by virtue of external restrictions (statutory reserves) or by the nature of the fund they are in (e.g. unreserved Food Service Special Revenue Fund balance can only be spent for food service program costs). The unrestricted net assets category consists mainly of the General Fund unreserved fund balances, offset against non-capital long-term obligations such as vacation or severance payable. Consequently, many Minnesota school districts have accumulated deficits in this component of net assets.

Total net assets increased by \$2,537,634 during fiscal 2009. This is partially due to the relationship between the rate of depreciation on capital assets and the repayment rate of related debt, as well as the general operating results of the District as a whole. The recording of a change in accounting principal in conjunction with the implementation of GASB Statement No. 45 as detailed in Note 1 of the District's notes to basic financial statements also contributed to the increase in total net assets.

ACCOUNTING AND AUDITING UPDATES

GASB STATEMENT NO. 51 – ACCOUNTING AND FINANCIAL REPORTING FOR INTANGIBLE ASSETS

Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements in this statement improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets. These inconsistencies will be reduced through the clarification that intangible assets subject to the provisions of this statement should be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009.

GASB STATEMENT NO. 53 – ACCOUNTING AND FINANCIAL REPORTING FOR DERIVATIVE INSTRUMENTS

The guidance in this statement improves financial reporting by requiring governments to measure derivative instruments at fair value in their economic resources measurement focus financial statements. These improvements should allow users of those financial statements to more fully understand a government's resources available to provide services. The disclosures provide a summary of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009.

GASB STATEMENT NO. 54 – FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS

The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The definitions of the General Fund, special revenue, capital projects, debt service, and permanent fund types are clarified by the provisions in this statement. The requirements are also intended to enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010.

LEGISLATIVE SUMMARY

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the MDE.

Basic General Education Revenue – The basic general education formula allowance for fiscal year (FY) 2009 increased by \$50 (1 percent) per adjusted marginal cost pupil unit (AMCPU) and will remain at this amount for FY 2010 and FY 2011.

One-Time General Education Revenue Increase – FY 2009 Only – Provided additional general education aid for FY 2009 only equal to \$51 times the school district or charter school's AMCPU. This is equivalent to a 1 percent increase in the general education formula, except that this one-time increase is not linked to other formulas that use the general education formula allowance.

FY 2010 One-Time General Education Aid Reduction Offset by Federal Fiscal Stabilization Funds – Reduces the FY 2010 general education aid entitlement by \$500 million. The reduction is allocated among school districts and charter schools. This one-time reduction is offset on a dollar-for-dollar basis by federal fiscal stabilization funds.

Temporary Suspension of Reserved Revenue for Staff Development – Temporarily suspends the staff development reserve for FY 2010 and FY 2011. The staff development reserve is equal to 2 percent of the district's basic general education revenue.

Federal Recovery Act – The American Recovery and Reinvestment Act (ARRA) of 2009 will provide additional federal funds to districts in the form of stabilization funds and additional grants. The ARRA mandates that there be an unprecedented level of oversight and transparency around the spending of these funds, including added audit and internal control requirements. In addition to increased accountability, districts will also encounter new reporting requirements for ARRA funds.

Compensatory Revenue Payments to Cooperatives – Directs MDE to pay compensatory revenue directly to cooperatives, and to exclude compensatory revenue from the special education tuition adjustment calculations for cooperatives.

Alternative Teacher Compensation Revenue (Q Comp) – Clarification of change made reducing the basic Q Comp aid from 73.1 percent to 65 percent effective for FY 2010 and later. This results in a decrease in the basic aid, with a corresponding increase in the equalized levy revenue.

Operating Capital Reserve Account Transfers – Allows districts to transfer up to \$51 per AMCPU from the operating capital reserved fund balance to its unreserved General Fund balance for FY 2009 and FY 2010. This is in addition to the transfer already allowed for FY 2008.

Repeal of the Endowment Fund Reduction – Beginning in FY 2010, districts will no longer receive a reduction in their general education aid by the amount of endowment payments received. This will have the effect of increasing general education aid by \$36 per resident ADM for FY 2010.

School Technology and Operating Capital Aid – Qualifies all school districts for technology and operating capital aid equal to \$55 per AMCPU for FY 2009. This aid entitlement is no longer available in FY 2010. The aid must be used only for the purposes authorized for operating capital revenue.

State Aid Payment Deferral – For FY 2010 and FY 2011 only, all state aids normally paid on a 90–10 schedule will be changed to a 73–27 schedule.

Final Payment for Districts in SOD – Districts in SOD as of June 30th of the previous year will receive a reduced deferral amount.

Property Tax Revenue Recognition Change – Several changes affecting the recognition of property tax revenue were enacted in FY 2009 legislation including the following:

- Beginning in FY 2011, school districts will encounter a change in how tax revenue is recognized for the May, June, and July tax settlements compared to past practice.
- In the absence of new legislation, this change will be permanent, creating a large increase in the amount of property taxes recognized by school districts as revenue during FY 2011. For FY 2012 and later, the impact of this change will be smaller, but still significant.

One-Time Aid Adjustment for Property Tax Revenue Recognition Change – For FY 2011 only, state aid payments during FY 2011 will be reduced by the difference in revenue recognized under the new tax revenue policy compared to the amount under the old policy.

Truth in Taxation Hearing – Removes the requirement that school districts hold a separate truth in taxation hearing. Instead, the district is required to discuss the levy and budget at a regularly scheduled board meeting and allow the public to speak. This section is effective for taxes payable 2010 and later.

Safe Schools Levy – Beginning for taxes payable in 2008 (revenue in FY 2009), the safe schools levy is increased from \$27 to \$30 per AMCPU. Districts that are members of an intermediate district can levy \$10 per AMCPU, which is then passed on to the intermediate district. Districts are required to set aside \$3 per AMCPU for specific costs and annual certifications on spending are required beginning in FY 2010.

Safe Schools Levy – Maintenance of Effort (MOE) – Beginning in FY 2010, districts are required to maintain effort at FY 2009 levels for licensed school support staff, including guidance counselors, nurses, social workers, and others from all funding sources other than the safe schools levy. This also modifies existing law requiring MOE to be calculated in terms of total spending. This provision adds a second option allowing districts to meet the MOE requirement in terms of number of full-time equivalent staff instead.

Start of School Year Before Labor Day – Cooperating Districts – The change codifies the existing practice of allowing school districts that have entered pairing and sharing agreements to adjust their calendars to accommodate a school construction project in one of the cooperating districts.

Wind Energy Conversion Systems – Authorizes a school board to become a partner, member, or shareholder in a company that is formed for the sole purpose of constructing, acquiring, owning, or financing a wind energy conversion system. Prohibits a school board from selling, transmitting or distributing electrical energy at retail.

Equalization Factors – Directs the commissioner to adjust the equalizing factors in statute for changes enacted by the legislature to the definition of referendum market value. This would neutralize the effect of a tax base change on school district aid and levy revenues.

Telecommunications/Internet Access Equity Aid – Clarifies that intermediate school districts are eligible to receive telecommunications/internet access equity aid. Appropriates \$3.75 million for equity in telecommunications access aid for FY 2010 and for FY 2011 (versus \$8.7 million in FY 2009).

Review and Comment – Several changes enacted affecting review and comment, including an increase in the cap on school construction projects that are subject to review and comment by the commissioner of education from \$500,000 to \$1.4 million for all school districts except those with outstanding capital loans.

Notification of Resident District – Removes language in statute holding nonresident districts liable for tuition for not notifying the district of residence that they are serving a nonresident pupil.

Pay Differential of Reserve on Active Duty – Clarifies payment of a pay differential for school district employees who are ordered into active military service.

Charter Schools – Makes numerous revisions with a focus on increased accountability to state charter school laws (Minnesota Statutes, Sections 124D.10 and 124D.11), including those recommended by the Office of the Legislative Auditor in its 2008 report.

Background Check Required – Allows a school hiring authority to pay the costs of conducting a discretionary criminal history background check on school volunteers, independent contractors, and student employees.

Contracting Threshold Limits – Effective August 1, 2008 the requirement to obtain sealed bids on contracts is increased from \$50,000 to \$100,000. The thresholds for contracts that require a sealed bid or by direct negotiation after receiving two or more quotes is increased from the current law on those estimated between \$10,000 and \$50,000 to \$25,000 and \$100,000. The current law for a contract to be made either upon quotation or in the open market is increased for contracts estimated to be of \$10,000 or less to \$25,000 or less.

Other Post-Employment Benefit (OPEB) Bonding and Levies – New legislation approved in 2009 impacted existing legislation regarding OPEB in the following ways:

- Clarifies that districts may only levy for costs of employees who retired between July 1, 1992, and July 1, 1998, if the district has a sunset clause in their current bargaining agreement.
- Creates a new levy for districts to fund annual costs associated with OPEB expenses conditional on certain requirements, including a sunset clause in effect. Limits the total amount of this new levy to not more the \$9.242 million for taxes payable in 2010, \$29.863 million for taxes payable in 2011, and an amount equal to the previous year's levy plus \$14 million for taxes payable in 2012 and later.
- Amends existing statutes to require voter approval for any bonds to pay OPEB issued after October 1, 2009.

Accounting for Separation and Retirement Benefits – Clarifies accounting requirements for reserved and designated for separation and retirement benefits with the following:

- Designated for separation and retirement benefit account includes compensated absences, termination benefits, pension benefits, and OPEB not accounted for elsewhere.
- Designated account will no longer be limited to 50 percent of the amount necessary to meet obligations for the portion of severance pay that constitutes compensation for accumulated sick leave.
- MDE will eliminate the reserve for severance account beginning with FY 2010 reporting.

Form of Budget Notification – Allows districts to publish a summary of its budget information in the newspaper instead of publishing the full document. The district is required to publish the full document on its website.