Management Report

for

Independent School District No. 280
Richfield, Minnesota
June 30, 2010

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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To the School Board of
Independent School District No. 280
Richfield, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 280, Richfield, Minnesota's (the District) financial statements for the year ended June 30, 2010. 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 of the District, 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.

October 25, 2010

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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 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, 2010. 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 audit engagement letter. 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, 2010:

- We have issued an unqualified opinion on the District's annual financial statements.
- We reported no matters involving the District's internal control over financial reporting that we consider to be 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 one finding based on our testing of the District's compliance with Minnesota laws and regulations. For two of four contracts selected for testing that involved construction services in excess of $75,000, the District did not obtain payment and performance bonds from the contractor as required by Minnesota Statute.

CONDITION OF FINANCIAL RECORDS

We found, as we have in the past, the District's financial records to be in excellent condition. This not only provides for an efficient audit at year-end, but should also provide confidence in interim financial data utilized by your district throughout the year.

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. No new accounting policies were adopted and the application of existing 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 2010 is not finalized until well into fiscal year 2011. 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 2010 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 in the Statement of Net Assets 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 expenditures and assets/liabilities for pension benefits and other post-employment benefits (OPEB). These obligations are calculated using actuarial methodologies described in Governmental Accounting Standards Board (GASB) Statements No. 27 and 45, as applicable. 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 each opinion unit's 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 October 25, 2010.

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.

	Formula Allowance		
Fiscal Year Ended June 30,	Amount	Percent Increase	
2001	$ 3,964	4.2 %	(1)
2002	$ 4,068	2.6 %	
2003	$ 4,601	2.6 %	(1)
2004	$ 4,601	– %	
2005	$ 4,601	– %	
2006	$ 4,783	4.0 %	
2007	$ 4,974	4.0 %	
2008	$ 5,074	2.0 %	
2009	$ 5,124	1.0 %	
2010	$ 5,124	– %	
2011	$ 5,124	– %	

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

As noted in the table above, current legislation has frozen the basic formula allowance at the 2009 fiscal year level for both 2010 and 2011. 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 the one-time reduction to general education aid, totaling $500 million, in fiscal 2010 that was offset dollar-for-dollar by federal fiscal stabilization funds.

STATE GENERAL FUND BUDGET OUTLOOK

The state of Minnesota has experienced a series of major budget shortfalls and a steadily deteriorating financial condition in recent years. Local governments and other entities dependant on the state for funding have, in turn, had to deal with the resulting state aid cuts, holdbacks, and unallotments. For the fiscal year 2010–2011 biennium, the adopted state budget was balanced using several large accounting "shifts," one-time federal stabilization funds, and aid reductions. The accounting shifts, further explained in the Legislative Summary section of this report, include delaying state aid payments to school districts and charter schools, and accelerating the recognition of districts' tax levy revenue with an offsetting reduction in state aid. Both of these types of shifts typically do not reduce district or charter school revenues but significantly reduce their cash flow, forcing an increasing number to use short-term borrowing for daily cash-flow needs. The state intends to pay these shifts back when it has the financial ability.

Current state budget projections for the fiscal year 2012–2013 biennium predict further significant shortfalls that will likely need to be addressed. Realistically, the state has already used up most of the accounting shifts available for this purpose, and additional federal assistance cannot be counted on. The upcoming election, which will result in a new Governor and potentially a number of new legislators, will have a substantial impact on how the state will address its budget predicament and the future direction of education funding. And, of course, the economy, while showing some signs of recovery, is unlikely to turn around quickly enough to solve the state's budget issues in the short-term. All of this adds up to a period of continued financial uncertainty for Minnesota school districts and charter schools.

STATE-WIDE SCHOOL DISTRICT FINANCIAL TRENDS

The table below shows a comparison of total revenue per ADM received by Minnesota school districts and the 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. 280		
	2008	2009	2008	2009	2008	2009	2010
General Fund							
Property taxes	$ 1,160	$ 1,318	$ 1,527	$ 1,833	$ 2,333	$ 2,598	$ 2,804
Other local sources	487	456	417	381	663	502	451
State	7,833	7,943	8,029	7,920	8,560	8,791	7,887
Federal	456	467	492	489	554	582	1,393
Total General Fund	9,936	10,184	10,465	10,623	12,110	12,473	12,535
Special revenue funds							
Food Service	433	449	434	453	362	372	419
Community Service	474	490	570	613	303	297	317
Debt Service Fund	993	994	1,114	1,131	1,020	1,007	1,017
Total revenue	$ 11,836	$ 12,117	$ 12,583	$ 12,820	$ 13,795	$ 14,149	$ 14,288
ADM served and tuition paid					4,083	4,059	4,008

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.

The District's governmental fund revenue for 2010 was $139 per student higher than the prior year. General Fund property tax revenue increased by $206 per student from the prior year, mainly due to inflationary adjustments to the District's referendum levy. General Fund state aid revenue was $904 per student less than last year, while General Fund federal revenue was $811 higher than last year, mainly due to a one-time reduction in general education aid that was replaced by federal fiscal stabilization funds. Revenue from other local sources, including gifts, rent, and investment income, decreased by $51 per student in the General Fund, which reflects the continued difficult economic times. Food service revenue increased by $47 per student, as federal revenue reimbursements for free and reduced price meals were significantly higher than the prior year.

The table below reflects comparative data available from the MDE for all governmental fund expenditures, excluding building construction:

Expenditures per Student (ADM) Served

	State-Wide		Seven-County Metro Area		ISD No. 280		
	2008	2009	2008	2009	2008	2009	2010
Administration	$ 412	$ 463	$ 405	$ 440	$ 525	$ 737	$ 558
District support services	399	424	412	436	374	402	333
Elementary and secondary regular instruction	4,528	5,090	4,730	5,411	5,766	7,689	5,858
Vocational education instruction	142	149	141	152	171	246	196
Special education instruction	1,703	1,794	1,904	2,002	1,983	2,709	2,262
Instructional support services	461	493	536	598	295	394	347
Pupil support services	835	868	914	968	1,034	1,252	1,084
Sites, buildings, and other	811	840	778	824	1,422	1,750	1,668
Total General Fund operating expenditures	9,291	10,121	9,820	10,831	11,570	15,179	12,306
General Fund capital expenditures	505	519	494	443	1,569	599	538
Special revenue funds							
Food Service	437	451	432	453	364	456	399
Community Service	470	505	564	634	305	371	317
Debt Service Fund	1,064	1,196	1,151	1,334	1,094	1,184	1,219
Total expenditures	$ 11,767	$ 12,792	$ 12,461	$ 13,695	$ 14,902	$ 17,789	$ 14,779
ADM served and tuition paid					4,083	4,059	4,008

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. 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 District's expenditures in fiscal 2010 were $3,010 lower per student than the previous year. The decrease was due to the District issuing $15.9 million of OPEB bonds last year, of which $15.1 million flowed through the various governmental funds as employee benefits expenditures as the proceeds were contributed to an irrevocable trust established by the District to finance this liability. Debt Service Fund expenditures increased by $35 per student, as the District made the first debt service payments on the OPEB bonds in fiscal 2010.

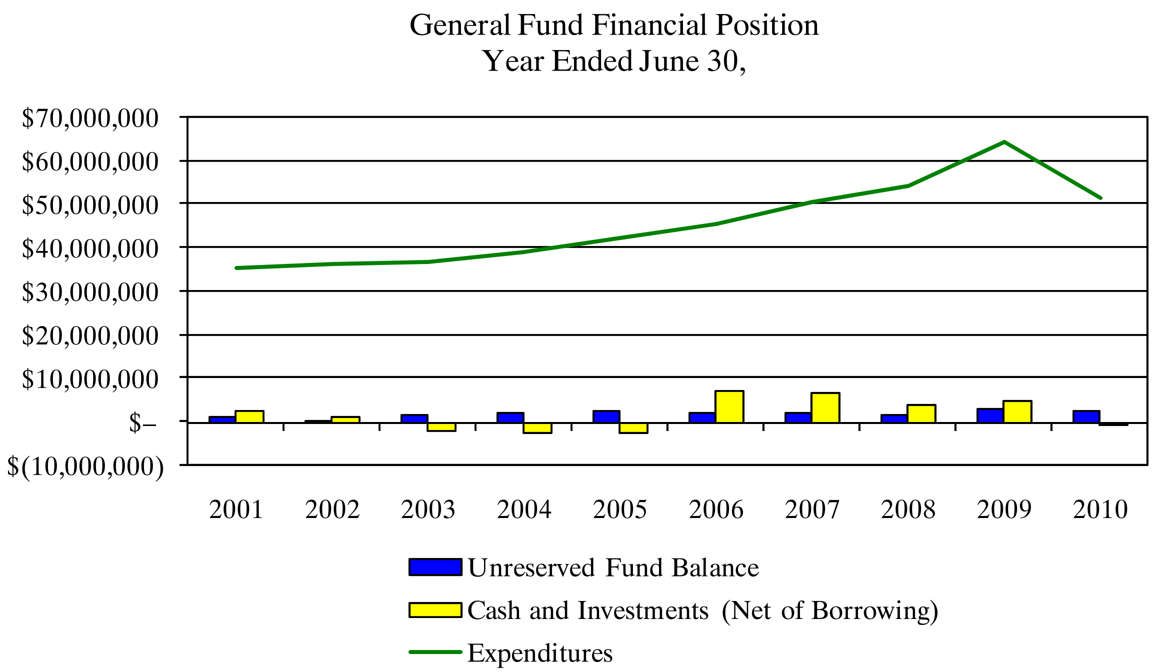
SUMMARY

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 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's General Fund ended fiscal year 2010 with an unreserved fund balance of $2,477,102, a decrease of $561,429 from the prior year. The General Fund cash and investment balance (net of interfund borrowing) at year-end was a deficit of ($339,392), which was $5,274,197 lower than last year due to the change in the metering of state aid payments.

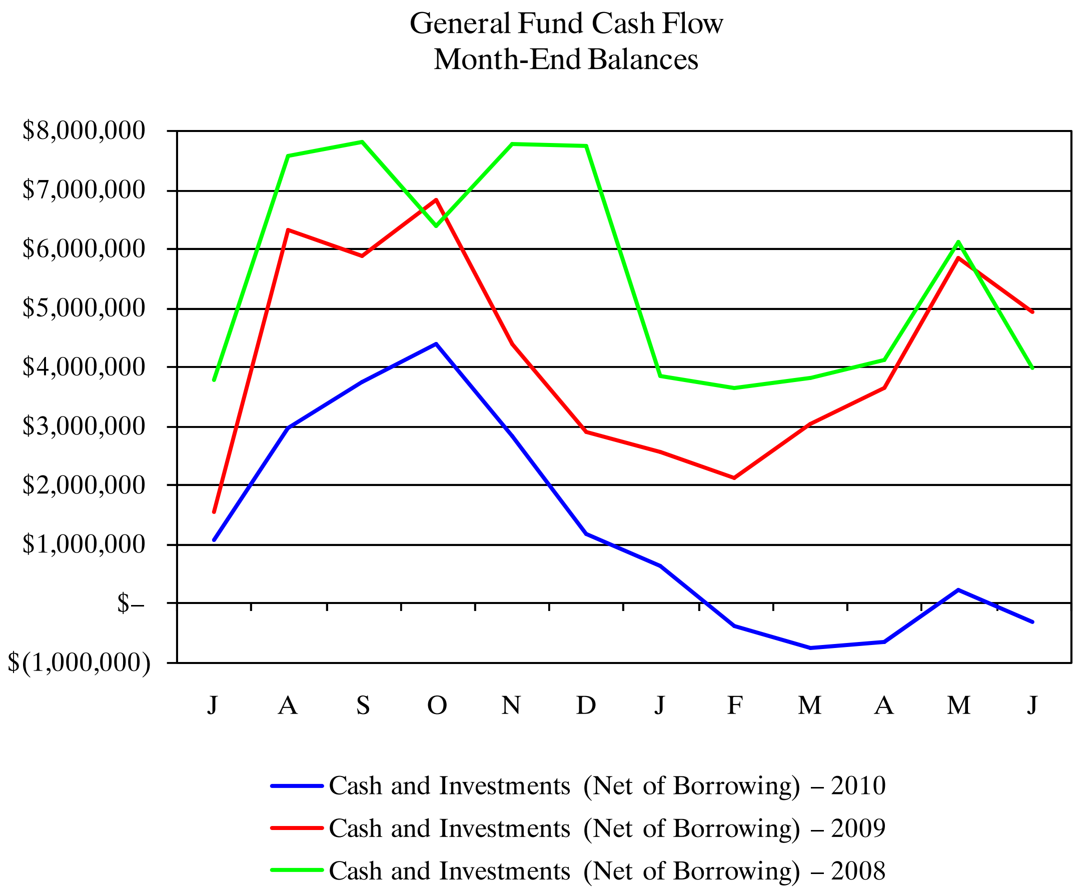
The following table presents the components of the General Fund balance for the past five years:

	Year Ended June 30,				
	2006	2007	2008	2009	2010
Total fund balances	$ 10,154,355	$ 7,905,594	$ 4,398,660	$ 5,385,450	$ 4,536,705
Less reserved fund balances	8,173,973	5,818,591	2,748,059	2,346,919	2,059,603
Unreserved fund balances	$ 1,980,382	$ 2,087,003	$ 1,650,601	$ 3,038,531	$ 2,477,102
Unreserved fund balance as a percentage of expenditures	4.4%	4.1%	3.0%	4.7%	4.8%

Unreserved fund balance as a percentage of expenditures is one key measure of a school district's financial health. 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. At June 30, 2010, the unreserved fund balance in the General Fund represented 4.8 percent of annual expenditures, or about two and a half weeks of operations, assuming level spending throughout the year. The ratio stayed consistent to the previous year, despite the drop in unreserved fund balance in fiscal 2010, because 2009 expenditures were inflated by the effect of the OPEB bond proceeds contributed to the trust.

GENERAL FUND CASH FLOW

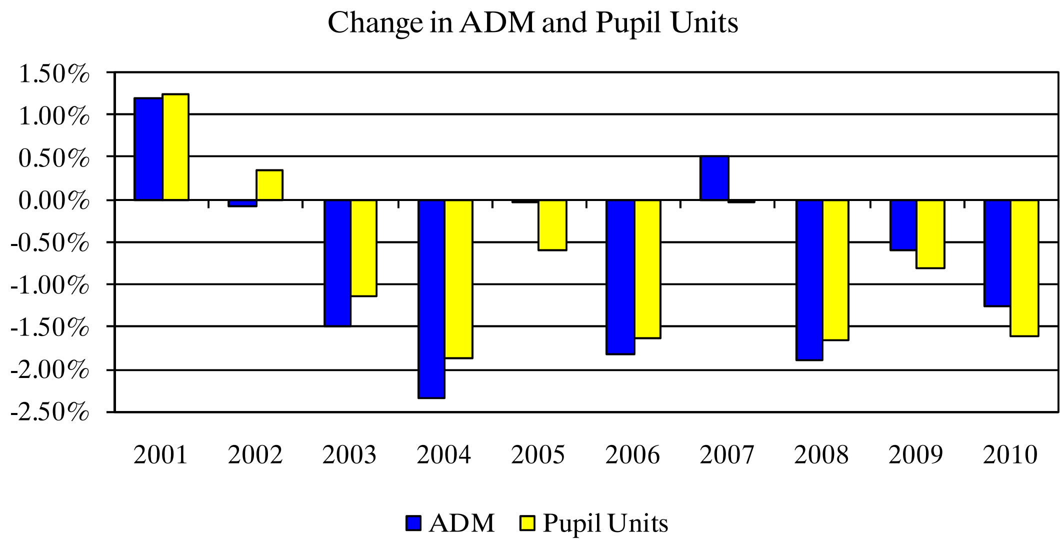
The level of cash and investments varies considerably during the year due to the timing of various revenues and expenditures. The following graph summarizes the level of cash and investments over the past three years:



The graph above shows the peaks and valleys of the General Fund cash and investments balance on a monthly basis. During the fiscal year ended June 30, 2010, the available cash balance in the District's General Fund fluctuated by approximately $3.6 million. The graph illustrates the cash flow impact of change in the metering of state aid payments that reduced the percentage of estimated aid paid to districts by June 30 from 90 percent to 73 percent, and next year that will drop to 70 percent. The District was forced to issue $3.0 million of short-term tax anticipation debt to meet its day-to-day cash flow needs this year.

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.

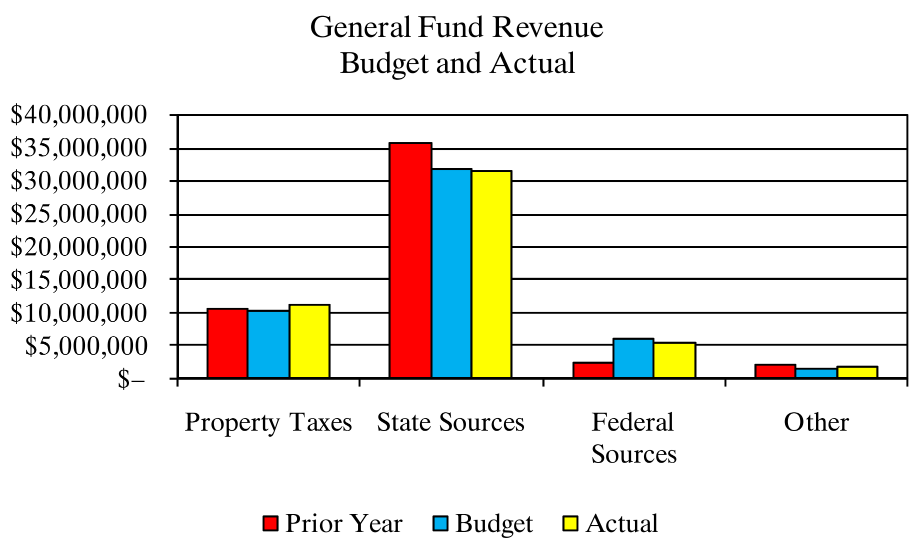


ADM is a measure of students enrolled in the District, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since 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 also the final adjustments caused by open enrollment gains and losses. Beginning with the 2004 fiscal year, changes are presented using current law "basic formula allowance" 1.0 ADM limits. New limits for 2003 were used only as a base in calculating 2004 changes; prior year data was not restated.

The ADM served by the District for 2010 is estimated to be 4,008, a decrease of 51 or about 1.3 percent from the prior year. The pupil units generated from this ADM were approximately 4,630, a decrease of 75 pupil units or 1.6 percent from the prior year. The decline in pupil units was larger than the decline in ADM, because most of the student decrease the District is experiencing is at the secondary level, where the ADM served decreased by 94 from last year.

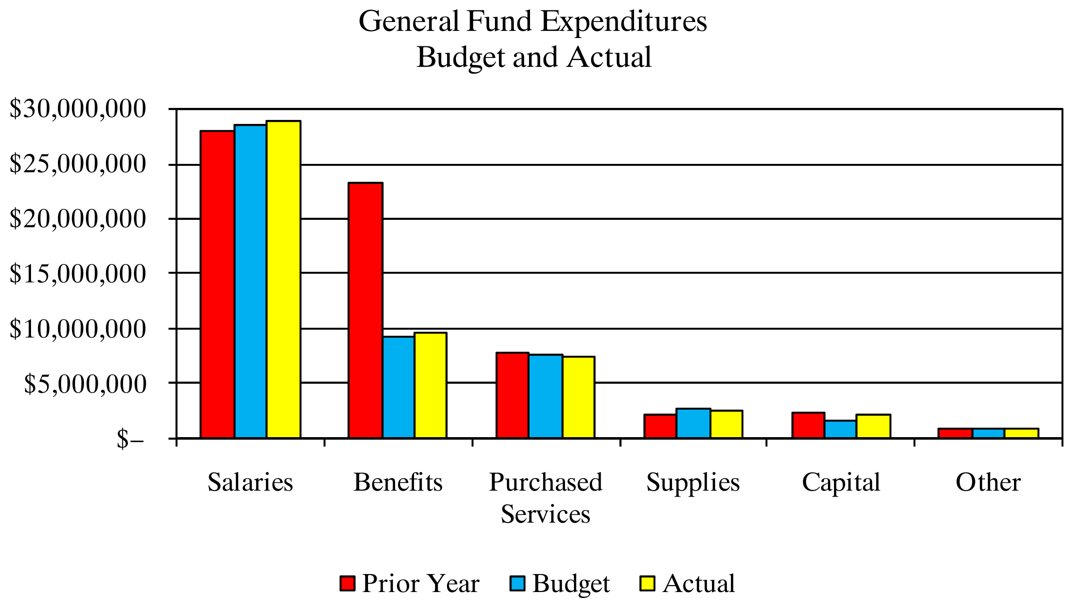
GENERAL FUND REVENUE AND EXPENDITURES

The following graphs summarize the District's General Fund revenues and expenditures for 2010:



Total General Fund revenues for 2010 were $50,238,036, a decrease of $389,360 from the prior year. Property tax revenue increased by about $691,189 from the prior year, primarily due to the referendum levy increase discussed earlier. State aid revenue for 2010 was $4,073,409 less than last year while federal revenue was $3,222,671 more than last year, which primarily reflects the one-time reduction to state general education aid of about $2.7 million that was offset by federal fiscal stabilization funds. General education state aid was further reduced due to the decline in the number of students served by the District; as well as the phase-out of $51 per student of "one-time" additional general education revenue and $55 per student for technology and operating capital available in the previous year. The District's federal revenue also increased due to about $585,000 of additional grant awards through the American Recovery and Reinvestment Act (ARRA) in the current year that were used mainly in the special education and Title I program areas. Revenues from other local sources, including investment earnings, were $229,811 less than last year.

Total revenue exceeded budget by $547,692. Revenue from property taxes exceeded budget by $963,728, as delinquencies and abatements were considerably lower than allowed for in the budget. State aids were under budget by $291,326, primarily due to the District earning less general education aid than anticipated due to the decline in the number of students served. Federal revenues were also under budget by $410,739, mainly due to the District earning less federal special education aid than anticipated. Revenue from investment income and other local sources exceeded budget by $286,029, as the District budgets conservatively in this area due to the unpredictable nature of these revenue sources.

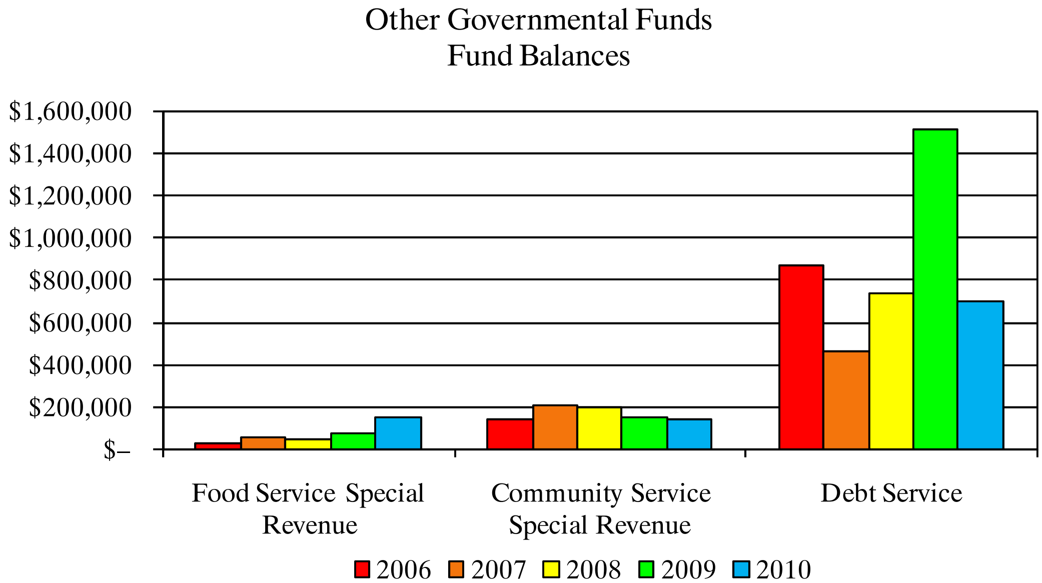


Total General Fund expenditures for 2010 were $51,477,907, a decrease of $13,068,133 from the prior year. Most of the change was in employee benefits, which were $13,735,128 less than last year due to the OPEB bond proceeds contributed to the irrevocable OPEB trust in the previous year. In addition, about $934,000 of post-employment insurance costs for General Fund employees were paid from the Post-Employment Benefits Trust Fund. Salary expenditures increased by $944,687 due to scheduled contractual increases.

General Fund expenditures exceeded budget by $1,003,105 for the year. Salaries and employee benefits exceeded budget by a combined $582,469, a variance of about 1.5 percent. Capital outlay expenditures were $537,186 over budget. Most of this variance was due to capital expenditures for which the District is reimbursed. The District does not budget the expenditures or the related revenues/other financing sources in such cases. This included about $391,000 of equipment purchased through capital lease agreements during the year.

OTHER GOVERNMENTAL FUNDS

The following graph presents fund balances for the District's Food Service Special Revenue, Community Service Special Revenue, and Debt Service Funds for the last five years:



Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund ended the year with an unreserved fund balance of $155,259, an increase of $78,256 from the prior year, as compared to a break-even budget. Revenues were $114,348 over budget, mainly due to federal reimbursements earned for free and reduced price lunches and the school breakfast program. Expenditures were over budget by $36,092, primarily in salaries and benefits.

Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended the year with a total fund balance of $146,018, a decrease of $2,118, as compared to a budgeted increase of $29,735. Community Service Special Revenue Fund program revenues were $10,762 under budget, a variance of 0.8 percent. Community service expenditures were $21,091 (1.7 percent) over budget, mainly in salaries.

It is critical that the Food Service and Community Service Special Revenue Funds be self-sustaining, so as not to place an additional burden on the General Fund. As the graph above indicates, the District has been successful in maintaining the fiscal health of these two funds in recent years.

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund (not pictured) has a fund balance of $492,984 at June 30, 2010, which represents remaining unspent proceeds from the District's alternative facilities bonds, which are being used for a variety of facility improvement projects.

Debt Service Fund

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. At June 30, 2010, the Debt Service Fund had a fund balance of $699,182 available for future debt service, a decrease of $810,606 from last year. The main reason for this change was the District using about $730,000 of capitalized interest to make the first payment on its OPEB bond issue.

Post-Employment Benefits Trust Fund

In 2009, the District established a Post-Employment Benefits Trust Fund (not pictured) to account for an irrevocable trust account established to finance the District's liability for post-employment healthcare benefits. The District issued $15,885,000 of General Obligation Taxable OPEB Bonds, the proceeds of which were contributed into the trust. During the year, this fund paid out $946,567 for benefits that would have otherwise been paid from the District's governmental funds. At year-end, trust net assets of $13,594,497 are available for future OPEB payments.

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 individually discussed earlier) to net assets and separate components over the last three years:

	June 30, 2008	June 30, 2009	June 30, 2010
Total fund balances – governmental funds	$ 5,386,870	$ 7,738,190	$ 6,030,148
Capital assets, less accumulated depreciation	61,923,759	65,888,767	63,874,936
Long-term liabilities	(47,120,413)	(66,774,340)	(64,502,406)
(Negative) net pension/OPEB obligations	(701,468)	12,405,211	10,925,222
Other	(142,841)	(727,004)	(653,756)
Total net assets – governmental activities	$ 19,345,907	$ 18,530,824	$ 15,674,144
Net assets			
Invested in capital assets, net of related debt	$ 18,315,065	$ 19,152,250	$ 19,482,652
Restricted	3,020,637	3,213,164	2,587,007
Unrestricted	(1,989,795)	(3,834,590)	(6,395,515)
Total net assets	$ 19,345,907	$ 18,530,824	$ 15,674,144

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). Unrestricted net assets consists mainly of the General Fund unreserved fund balances, offset against non-capital long-term obligations such as vacation or severance payable.

The District's total net assets were $2,856,680 lower than the previous year. Its net investment in capital assets increased by $330,402, mainly due to the relationship between the depreciation of the District's capital assets and the repayment of the debt issued to build or acquire the assets. Unrestricted net assets decreased by $626,157, as restricted assets were used to construct capital assets or retire debt. Unrestricted net assets declined by $2,560,925, due to the District spending down its General Fund unreserved fund balance by $561,429 to maintain programs, and a decrease of over $1.3 million in the "negative net OPEB obligation" asset reflected on the Statement of Net Assets due to the amortization of the District's long-term OPEB liability.

ACCOUNTING AND AUDITING UPDATES

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 (nonspendable, restricted, committed, assigned, and unassigned) 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. Elimination of the reserved component of fund balance in favor of a restricted classification will 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.

GASB STATEMENT NO. 59 – FINANCIAL INSTRUMENTS OMNIBUS

The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. Applying the reporting provisions of Statement No. 31 for interest-earning investment contracts to unallocated insurance contracts improves consistency of investment measurements that are reported by pension and OPEB plans. Emphasizing the applicability of SEC requirements to 2a7-like external investment pools provides practitioners with improved guidance. Limiting interest rate risk disclosures for investments in mutual funds, external investment pools, and other pooled investments to debt investment pools provides better guidance regarding the applicability of interest rate risk disclosures. Finally, addressing the applicability of Statement No. 53 to certain financial instruments refines which financial instruments are within the scope of that statement. 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 recent 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) 2010 and FY 2011 is $5,124, reflecting no increase from the FY 2009 level.

FY 2010 One-Time General Education Aid Reduction Offset by Federal Fiscal Stabilization Funds – Reduced 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 provided 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 have new reporting requirements for ARRA funds.

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 – Allowed districts to transfer up to $51 per adjusted marginal cost pupil unit (AMCPU) from the operating capital reserved fund balance to its unreserved General Fund balance for FY 2010.

Repeal of the Endowment Fund Reduction – Beginning in FY 2010, districts no longer receive a reduction in their general education aid by the amount of endowment payments received. This increased revenue by about $28 per resident ADM for FY 2010 (based on ADM for FY 2009).

State Aid Payment Deferral – All state aids normally paid on a 90–10 schedule is changed to a 73–27 schedule for FY 2010 and 70–30 for FY 2011. The 90–10 schedule is reinstated for FY 2012.

Final Payment for Districts in SOD – Districts in SOD as of June 30th of the previous year can receive an early final payment on June 20th to bring total general education aid up to 90 percent, but not exceeding the SOD amount.

Additional State Aid Payment Delays – Before the state needs to enter into short-term borrowing, it has the option to make additional payment delays to districts with General Fund balances of $700 or more per resident pupil unit.

Property Tax Revenue Recognition Change (Tax Shift) – Beginning in FY 2011, 48.6 percent of property taxes levied for the next school year, will be recognized as revenue in the current year, and state aids will be reduced by that same amount. This will be repaid (decreased) when the state attains certain specific financial goals, and the aid payment schedule is restored to 90–10.

Safe Schools Levy – 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.

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).

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.
- Required 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 eliminated the reserve for severance account beginning with FY 2010 reporting.

PERA and TRA Rates – Contribution rates for employers and employees of the PERA Coordinated Plan increase by 0.25 percent effective January 1, 2011. Contribution rates for employers and employees for both the TRA Basic and Coordinated Plans increase by 0.5 percent each year through FY 2015. There is no additional aid to help fund these increases.

Minnesota Department of Education Budget – The MDE budget has been reduced by 3.8 percent for FY 2010 and 5.4 percent for FY 2011.