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November 23, 2011

School Board
Independent School District No. 623
Roseville Area Schools
Roseville, Minnesota

This Executive Audit Summary and Management Report presents information which we believe is important to you as members of the school board. We encourage you to review the sections of this report, the audited financial statements and the auditor's reports.

We would be pleased to furnish additional information with respect to these suggestions and discuss this memorandum with you at your convenience. We wish to express our appreciation to the District for the courtesies, cooperation and assistance extended to us during the course of our work.

LarsonAllen LLP



Dennis Hoogeveen, CPA
Principal



An independent member of Nexia International

**ROSEVILLE AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 623**

EXECUTIVE AUDIT SUMMARY (EAS)

JUNE 30, 2011

**ROSEVILLE AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 623
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JUNE 30, 2011**

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**EXECUTIVE AUDIT SUMMARY (EAS)
FOR
ROSEVILLE AREA SCHOOLS
YEAR ENDED JUNE 30, 2011**

We prepared this Executive Audit Summary and Management Report in conjunction with our audit of the District's financial records for the year ended June 30, 2011.

Audit Opinion – The financial statements are fairly stated. We issued what is known as an “unqualified” audit report.

Yellow Book Opinion – No compliance issues were noted in our review of laws, regulations, contracts and grants that could have significant financial implications to the School.

Internal Controls – No “control deficiencies” in internal controls were noted.

Single Audit – The District complied with requirements of major federal programs (Special Education Cluster, Title I Cluster, Safe Schools/Healthy Students, and Child Nutrition Cluster).

Legal Compliance – One compliance issue was noted with respect to Minnesota Statutes.

Fund Balance – The District's General Fund unassigned fund balance increased by \$205,024 during fiscal 2010-2011, improving from a balance of \$3,902,969 to a balance of \$4,107,993 at June 30, 2011. Total fund balance of the General Fund decreased by \$104,711, ending at \$5,246,016 as of June 30, 2011. The ending unassigned fund balance represents a balance of 5.44% of General Fund expenditures. A District's fund balance is an important aspect in considering the School's financial well being since a healthy fund balance represents things such as cashflow, as a cushion against unanticipated expenditures, enrollment declines, funding deficiencies, state aid metering changes and aid prorations at the state level and similar problems.

Enrollment – For fiscal 2010-2011, Roseville Area Schools had an estimated total adjusted average daily membership of 6,724.27 (or 7,801.25 adjusted pupil units). For fiscal 2009-2010, Roseville Area Schools had total adjusted average daily membership of 6,630.25 (or 7,673.94 adjusted pupil units).

Budget to Actual – Total revenues on a net basis in the General Fund were \$4,468,557 (or 6.3%) higher than the budgeted amount while total expenditures on a net basis were \$2,207,245 (or 3.0%) higher than had been budgeted. Including other financing sources, the net effect was an increase to total fund balance that was approximately \$2.3 million more than had been reflected in the District's budget. The District is the fiscal host for the East Metro Integration District (EMID) for students attending from non-member schools and the District received nearly \$1.8 million for the two years 2009-10 and 2010-11. The District only retains a small amount of these funds and remits the balances to EMID. Since the financial impact wasn't available from the state until very late, these amounts were not included in the District's revised budget.

Statement of Net Assets

The Statement of Net Assets essentially tells you what your District owns and owes at a given point in time, the last day of the fiscal year. 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 components of the District's net assets at year-end, along with a simplified reconciliation of the difference between the governmental fund balances and total net assets:

	As of June 30,	
	2011	2010
Total Fund Balance for Governmental Funds	\$ 7,552,766	\$ 7,435,025
Other Postemployment Benefits	13,610,869	14,082,615
Capital Assets, Less Accumulated Depreciation	56,002,657	57,630,922
Long-Term Liabilities	(50,922,173)	(52,602,464)
Other - Net	(183,168)	(801,800)
Total Net Assets - Governmental Activities	<u>\$ 26,060,951</u>	<u>\$ 25,744,298</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ 25,211,164	\$ 24,511,189
Restricted	2,870,959	1,574,960
Unrestricted	(2,021,172)	(341,851)
Total Net Assets - Governmental Activities	<u>\$ 26,060,951</u>	<u>\$ 25,744,298</u>

Most 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 fund balance can only be spent for food service program costs). The unrestricted net assets category consists mainly of the General Fund unassigned fund balance, offset against non-capital long-term obligations such as vacation or severance payable.

Statement of Activities

The Statement of Activities tracks the District's yearly revenues and expenses, as well as any other transactions that increase or reduce total net assets. These amounts represent the full cost of providing education. This statement provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses. The following table presents a simplified reconciliation of the change in the District's governmental fund balances to the change in total net assets for fiscal year 2011 and 2010:

	Year Ended June 30,	
	2011	2010
Net Change in Fund Balance - Total Governmental Funds	\$ 117,741	\$ (1,598,627)
Other Postemployment Benefits	(471,746)	(735,010)
Capital Asset Purchases	887,518	1,971,683
Depreciation	(2,512,070)	(2,467,812)
Debt Proceeds	(23,123,247)	-
Repayment of Debt	24,730,000	1,585,000
Other - Net	688,457	14,984
Change in Net Assets - Governmental Activities	<u>\$ 316,653</u>	<u>\$ (1,229,782)</u>

FINANCIAL RESULTS

Fund Balances

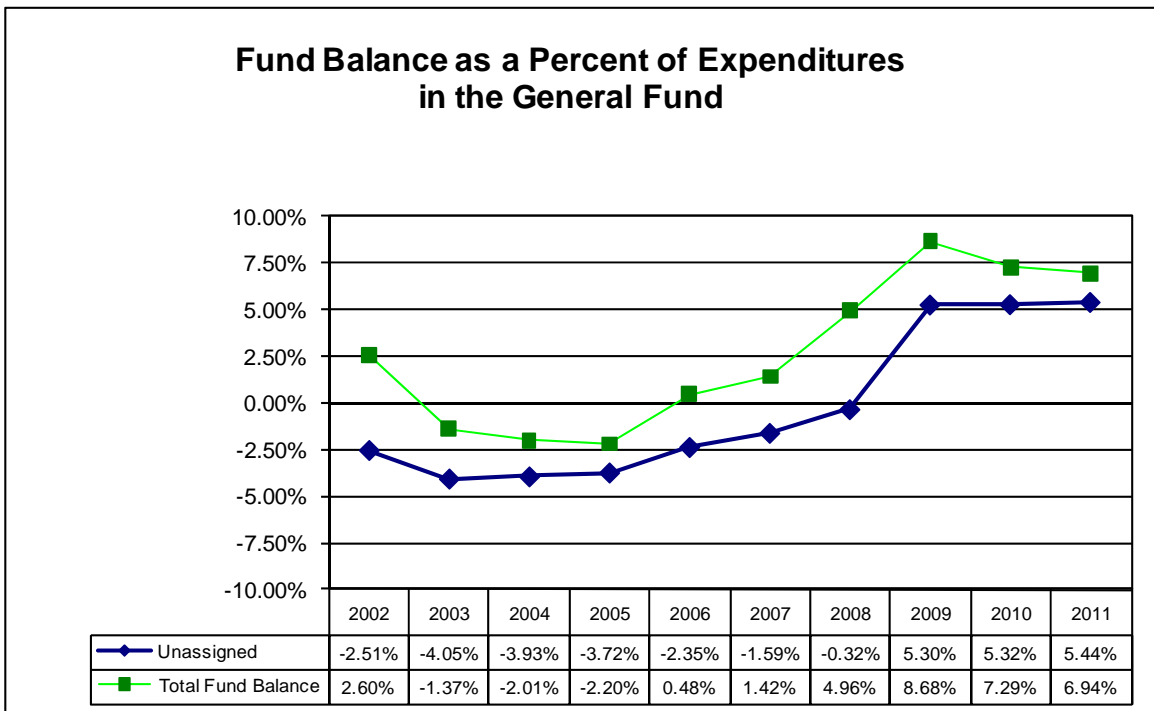
ROSEVILLE AREA SCHOOLS AUDITED FUND BALANCES THROUGH JUNE 30, 2011

FUND DESCRIPTION	6/30/2010 AUDITED BALANCE	2010-11 AUDITED REVENUES	2010-11 AUDITED EXPENDITURES	2010-11 APPROVED TRANSFER	6/30/2011 AUDITED BALANCE
GENERAL FUND					
A. UNASSIGNED	\$3,902,969	\$67,865,765	\$65,339,673	(\$2,321,068)	\$4,107,993
B. NONSPENDABLE FOR					
INVENTORY	\$54,198	\$0	\$15,394		\$38,804
PREPAIDS	\$216,288	\$0	\$5,420		\$210,868
B. NONSPENDABLE TOTAL	\$270,486	\$0	\$20,814	\$0	\$249,672
C. RESTRICTED FOR					
GIFTED AND TALENTED	\$0	\$96,046	\$249,507	\$153,461	\$0
CAREER AND TECH PROGRAM	\$0	\$133,649	\$607,330	\$473,681	\$0
LEARNING AND DEVELOPMENT	\$0	\$1,505,594	\$1,527,129	\$21,535	\$0
BASIC SKILLS	\$0	\$3,643,807	\$4,798,084	\$1,154,277	\$0
STAFF DEVELOPMENT	\$0	\$0	\$518,114	\$518,114	\$0
OPERATING CAPITAL	\$819,024	\$1,991,640	\$2,101,320		\$709,344
HEALTH & SAFETY	\$358,248	\$213,090	\$392,331		\$179,007
C. RESTRICTED TOTAL	\$1,177,272	\$7,583,826	\$10,193,815	\$2,321,068	\$888,351
BUDGET		\$70,970,314	\$73,347,057	\$0	\$2,973,984
TOTAL GENERAL FUND	\$5,350,727	\$75,449,591	\$75,554,302	\$0	\$5,246,016
DIFFERENCE		\$4,479,277	\$2,207,245		\$2,272,032
% VARIANCE		6.31%	3.01%		
FOOD SERVICE					
NONSPENDABLE FOR INVENTORY	\$39,380	\$0	\$13,227		\$26,153
NONSPENDABLE FOR PREPAIDS	\$6,579	\$0	\$4,918		\$1,661
RESTRICTED FOR FOOD SERVICE PROG	\$405,626	\$3,416,848	\$3,337,540		\$484,934
BUDGET		\$3,567,900	\$3,314,647		\$704,838
TOTAL FOOD SERVICE	\$451,585	\$3,416,848	\$3,355,685		\$512,748
DIFFERENCE		(\$151,052)	\$41,038		(\$192,090)
% VARIANCE		-4.23%	1.24%		
COMMUNITY EDUCATION					
NONSPENDABLE FOR PREPAIDS	\$3,330	\$649	\$0		\$3,979
RESTRICTED FOR REGULAR COMMUNITY ED	\$488,088	\$3,670,908	\$3,489,665		\$669,331
RESTRICTED FOR EARLY CHILDHOOD FAMILY ED	\$64,115	\$368,624	\$371,920		\$60,819
RESTRICTED FOR SCHOOL READINESS	\$14,584	\$89,204	\$85,501		\$18,287
RESTRICTED FOR ADULT BASIC EDUCATION	\$16,792	\$807,274	\$804,139		\$19,927
RESTRICTED FOR OTHER PURPOSES	\$178,218	\$2,941,039	\$2,931,834		\$187,423
BUDGET		\$8,624,909	\$8,533,550		\$856,486
TOTAL COMMUNITY EDUCATION	\$765,127	\$7,877,698	\$7,683,059		\$959,766
DIFFERENCE		(\$747,211)	(\$850,491)		\$103,280
% VARIANCE		-8.66%	-9.97%		
BUDGET		\$389,000	\$388,289		\$100,978
TOTAL CAPITAL PROJECTS	\$100,267	\$389,000	\$387,696		\$101,571
DIFFERENCE		\$0	(\$593)		\$593
% VARIANCE		0.00%	-0.15%		
DEBT SERVICE					
RESTRICTED FOR DEBT SERVICE - OPERATING	\$761,913	\$26,286,364	\$26,373,639		\$674,638
RESTRICTED FOR OPEB BOND DEBT SERVICE	\$5,406	\$1,282,741	\$1,230,120		\$58,027
BUDGET		\$25,900,696	\$26,015,577		\$652,438
TOTAL DEBT SERVICE	\$767,319	\$27,569,105	\$27,603,759		\$732,665
DIFFERENCE		\$1,668,409	\$1,588,182		\$80,227
% VARIANCE		6.44%	6.10%		
FIDUCIARY FUNDS					
SCHOLARSHIP TRUST FUND	\$10,758	\$12,552	\$9,405		\$13,905
OPEB TRUST	\$15,031,814	\$694,795	\$1,774,650		\$13,951,959
TOTAL TRUST FUNDS	\$15,042,572	\$707,347	\$1,784,055		\$13,965,864

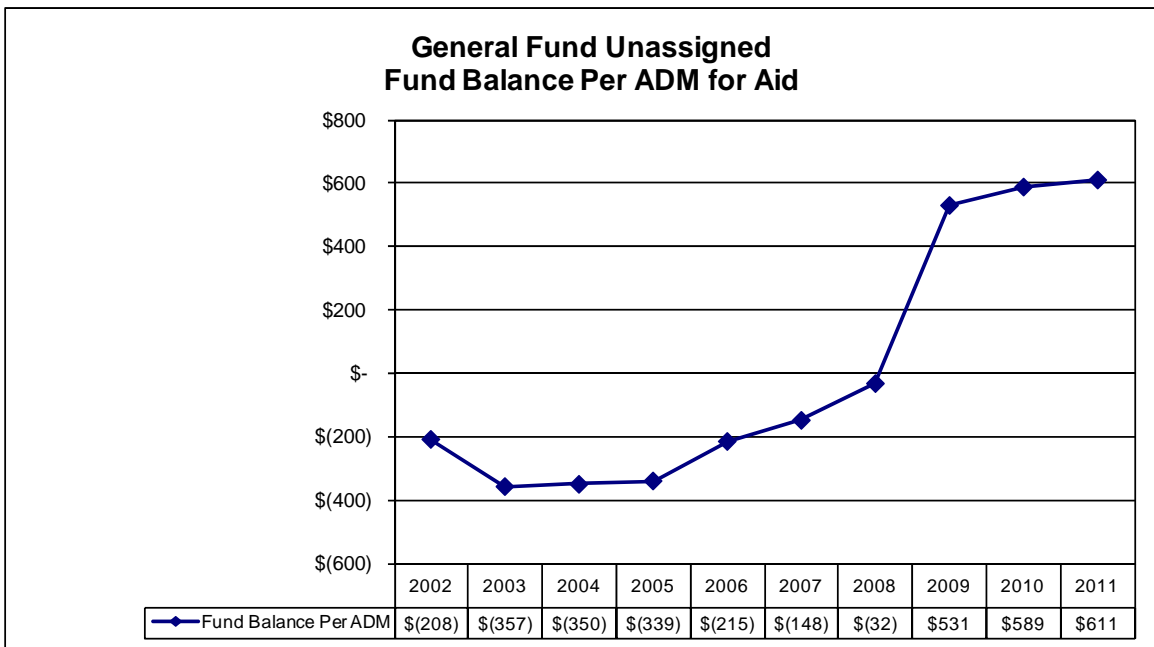
FINANCIAL RESULTS (CONTINUED)

Fund Balances (Continued)

As a percentage of annual expenditures:



Per student served for aid.

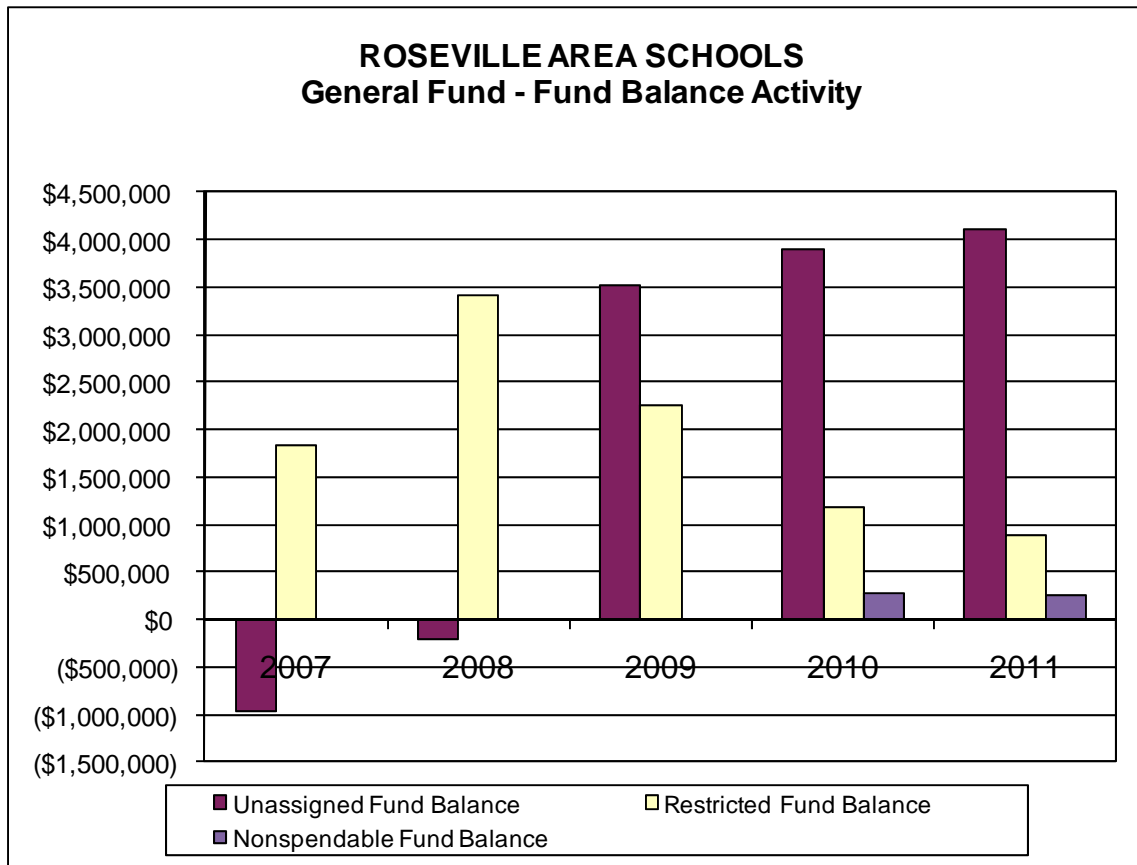


FINANCIAL RESULTS (CONTINUED)

Fund Balances of the General Fund

Unless otherwise noted, all graphs and charts reflect the combined activity of the District's General Fund, including the pupil transportation and capital expenditure sub-funds.

<u>UFARS Basis</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Nondisposable Fund Balance	\$ -	\$ -	\$ -	\$ 270,486	\$ 249,672
Restricted Fund Balance	1,830,521	3,423,954	2,253,543	1,177,272	888,351
Unassigned Fund Balance	(967,595)	(208,828)	3,529,666	3,902,970	4,107,993
Total Fund Balance	\$ 862,926	\$ 3,215,126	\$ 5,783,209	\$ 5,350,728	\$ 5,246,016
Total Expenditures	\$ 60,691,008	\$ 64,870,108	\$ 66,638,441	\$ 73,406,351	\$ 75,554,302
Unassigned Fund Balance as a % of Total Expenditures	<u>-1.59%</u>	<u>-0.32%</u>	<u>5.30%</u>	<u>5.32%</u>	<u>5.44%</u>



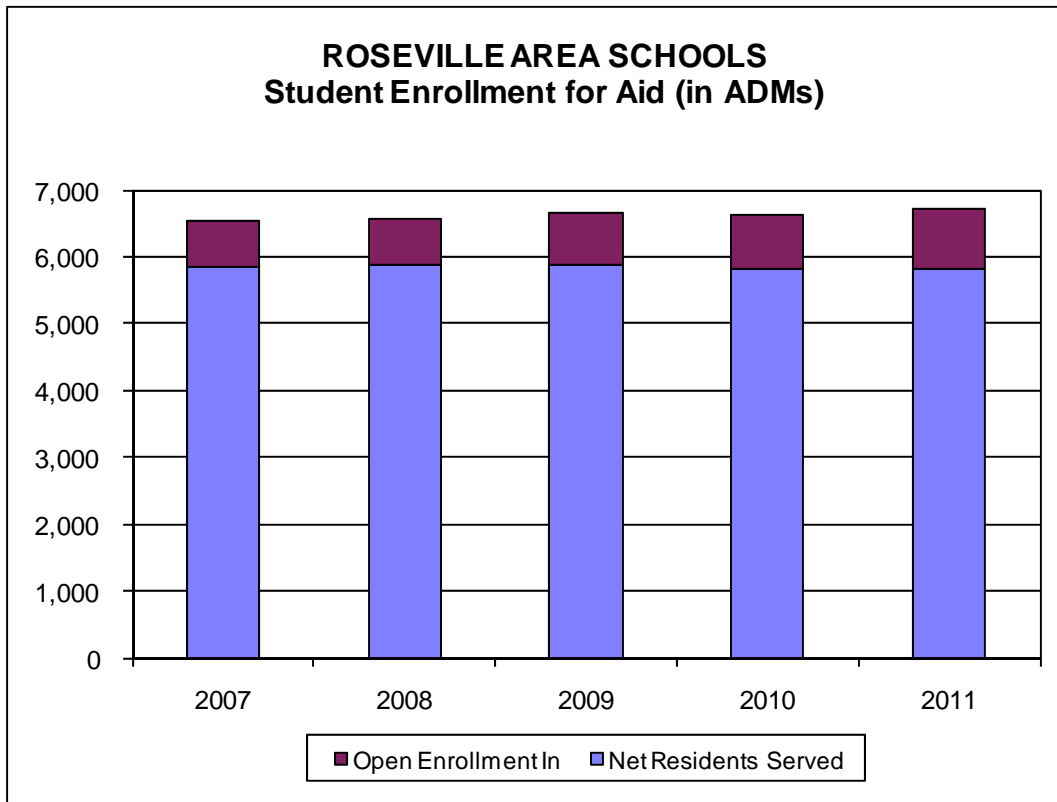
As reflected in the graph above, the District has made very good progress in reducing the deficit unassigned fund balance of the General Fund over the past five years.

FINANCIAL RESULTS (CONTINUED)

Students Served for Aid

	2007	2008	2009	2010	2011
Total Residents	6,280.48	6,360.04	6,459.72	6,522.89	6,555.37
Charter Enrollment Out	(145.05)	(189.68)	(216.20)	(277.96)	(303.91)
Open Enrollment Out	(275.93)	(286.91)	(363.94)	(438.93)	(434.86)
Net Residents Served	5,859.50	5,883.45	5,879.58	5,806.00	5,816.60
Open Enrollment In *	679.14	694.88	771.15	824.25	907.67
Net ADM Served	6,538.64	6,578.33	6,650.73	6,630.25	6,724.27
Net Pupil Units Served	7,573.05	7,652.49	7,723.89	7,673.94	7,801.25

* - excluding cooperative fiscal host pass-through



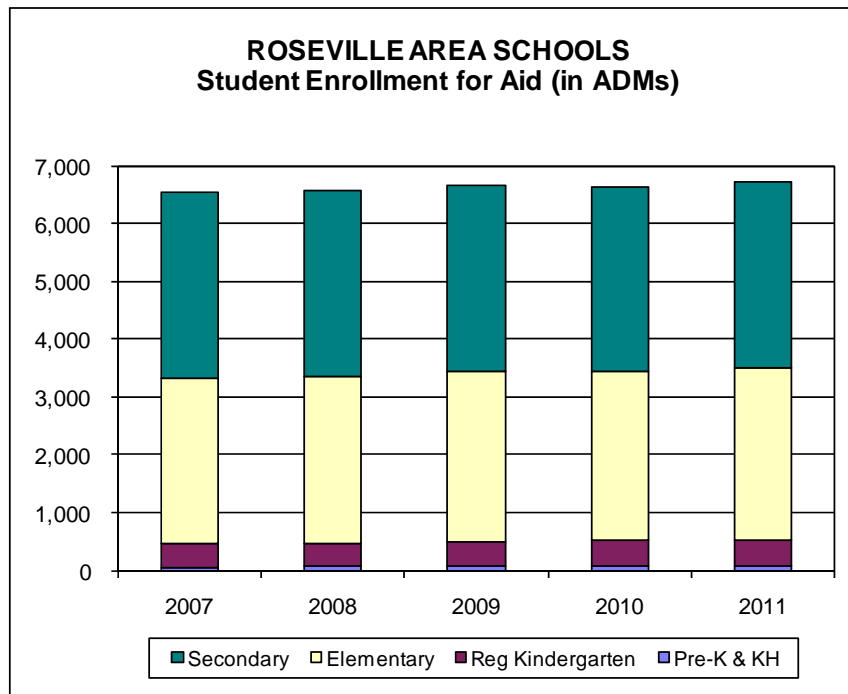
As reflected in the above chart and graph, the District continues to attract more students through open enrollment than resident students choosing to attend elsewhere.

APPENDIX A

FINANCIAL TRENDS OF YOUR DISTRICT

Within this report there are a number of areas where condensed financial statement data has been presented. The last page of this document (Appendix F) contains an Independent Auditors' Report on Condensed Financial Statements Included Herein that should be considered when reading such condensed information. Also, the District adopted the provisions of Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, as of and for the year ended June 30, 2011. The prior year fund balance information has been presented using these new fund balance categories for comparative analysis only.

Student Enrollment

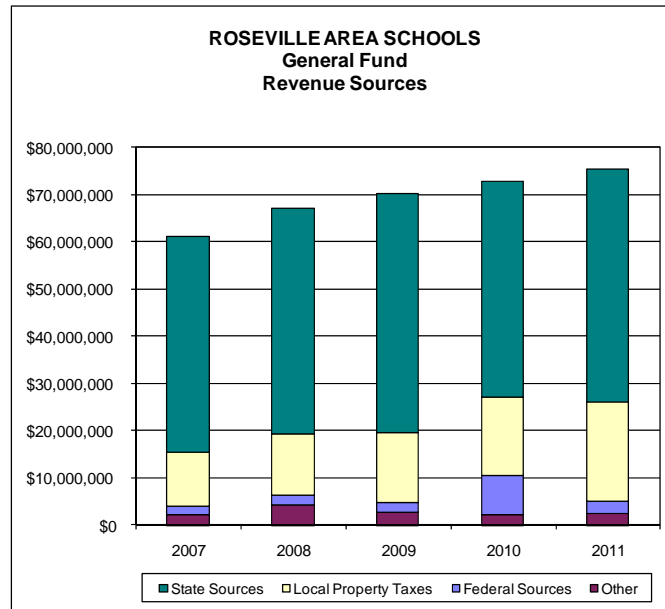


	2007	2008	2009	2010	2011
Pre-K & KH	55.41	67.44	66.27	68.78	85.10
Reg Kindergarten	419.41	401.79	417.84	461.66	428.60
Elementary	2,859.74	2,889.85	2,949.75	2,919.41	2,978.93
Secondary	3,204.08	3,219.25	3,216.87	3,180.40	3,231.64
Net ADM Served	<u>6,538.64</u>	<u>6,578.33</u>	<u>6,650.73</u>	<u>6,630.25</u>	<u>6,724.27</u>
Percent Change		1.26%	0.61%	1.10%	-0.31%
					1.42%

As noted in the above chart, the District's student count for fiscal 2010-2011 was 94 students (or 1.42%) higher than for the prior year, the majority of which can be attributed to non-resident students attending the District through open enrollment.

General Fund Revenue

The following table and graph summarizes the District's General Fund Revenue sources for the last five years.



The table below illustrates the fluctuation that occurs between the taxes and state aid categories based on legislative activity. The Legislature determines what portion of the general education funding formula will be paid by local taxpayers. In addition, when the tax shift percentage changes or the state provides property tax relief, this only impacts the mix between state aids and taxes and does not change total revenue. For example, in fiscal 2011, the MDE shifted a total of \$4,925,184 of the payable 2011 property tax receipts for the General Fund, allowing such amounts to be recognized as taxes in fiscal 2011 rather than fiscal 2012, and giving the appearance of a significant increase in taxes for 2011. The increase in taxes was not due to a levy increase, but the advance recognition of tax revenue as a result of the tax shift. The net change in state aids of approximately \$3.5 million is the result of the tax shift (reduction of approximately \$5 million) and an offsetting increase from the reinstatement of state aids funded by federal stabilization dollars in fiscal 2010 (approximately \$5.6 million) as well as the two year impact of cooperative general ed aid that was passed through the District by MDE (approximately \$1.8 million). For this and other reasons, school finance in Minnesota continues to be a very difficult subject to explain to the general public.

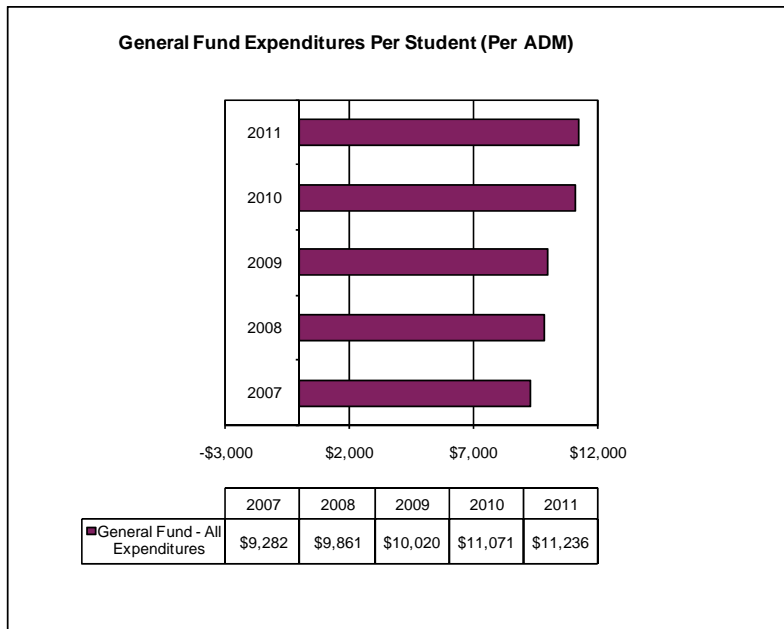
	2007	2008	2009	2010	2011
Local Property Taxes	\$ 11,411,155	\$ 13,182,128	\$ 14,849,282	\$ 16,645,559	\$ 21,113,593
State Sources	45,729,859	47,720,162	50,478,492	45,732,451	49,205,958
Federal Sources	1,896,906	1,863,347	2,245,686	8,236,359	2,545,701
Other	2,236,285	4,456,671	2,686,328 *	2,351,786	2,573,619
Total Revenues	<u>\$ 61,274,205</u>	<u>\$ 67,222,308</u>	<u>\$ 70,259,788</u>	<u>\$ 72,966,155</u>	<u>\$ 75,438,871</u>

* - The 2009 revenues exclude approximately \$16.56 million of one-time OPEB bond proceeds

	2007	2008	2009	2010	2011
Local Property Taxes	18%	19%	21%	23%	28%
State Sources	75%	71%	72%	63%	65%
Federal Sources	3%	3%	3%	11%	3%
Other	4%	7%	4%	3%	3%
Total Revenues	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

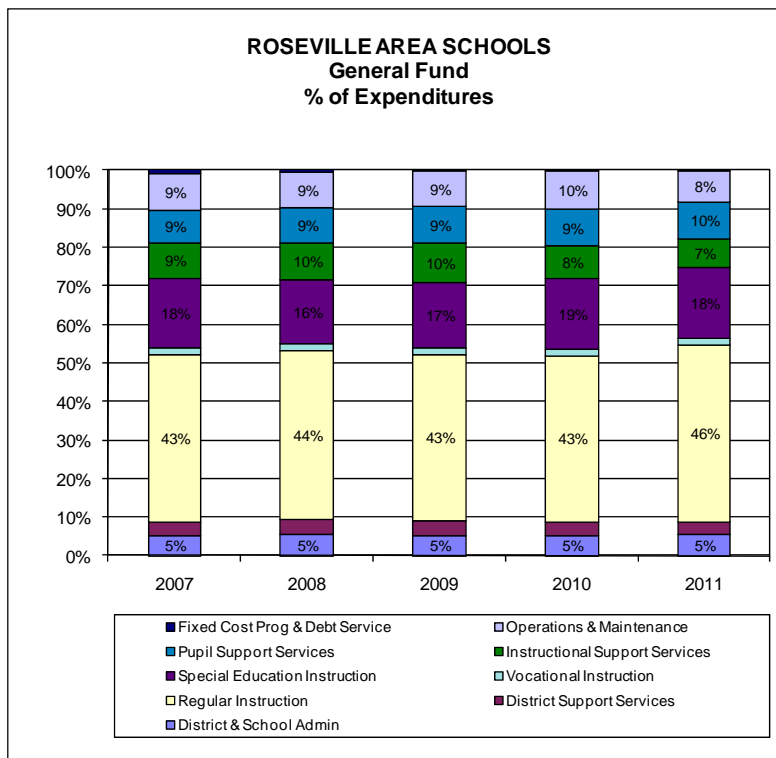
Expenditures Per Student

Expenditures per Student (average daily membership) are summarized in the following graph.

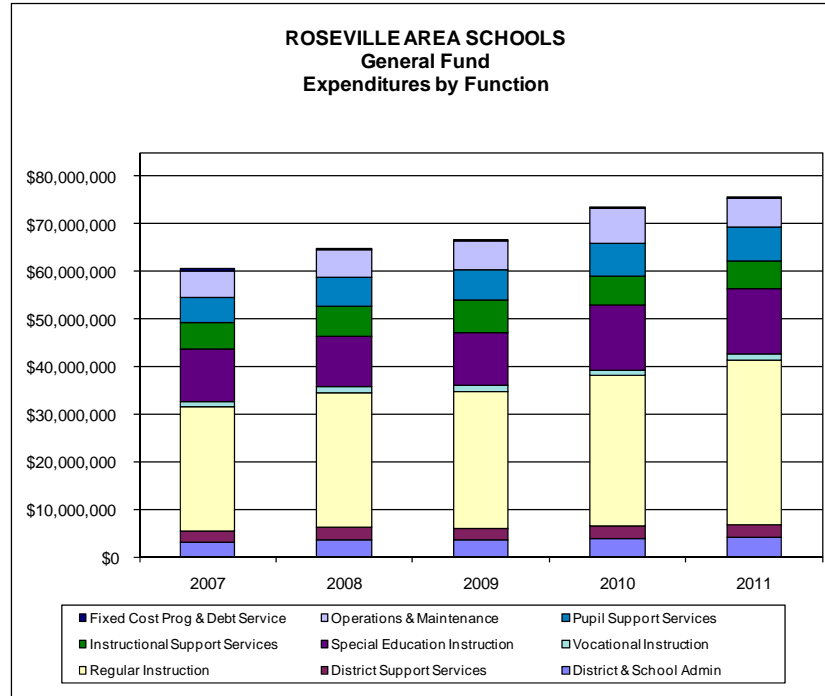


General Fund expenditures for fiscal 2011 were \$75,554,302, which represents an increase of \$2,147,951 or 2.9% from fiscal 2010.

The following schedule shows total expenditures of the General Fund by program type:



Expenditures Per Student (Continued)



	2007	2008	2009	2010	2011
District and School Admin	\$ 3,127,457	\$ 3,566,006	\$ 3,439,765	\$ 3,857,010	\$ 4,027,508
District Support Services	2,185,474	2,533,801	2,603,397	2,624,729	2,643,559
Regular Instruction	26,351,405	28,468,641	28,684,786	31,595,364	34,696,745
Vocational Instruction	1,059,806	1,180,491	1,207,571	1,203,461	1,205,978
Special Education Instruction	10,981,724	10,589,844	11,176,878	13,591,049	13,900,646
Instructional Support Services	5,479,220	6,295,162	6,877,446	6,168,017	5,589,329
Pupil Support Services	5,268,064	5,974,331	6,305,394	6,872,817	7,266,967
Operations and Maintenance	5,710,038	5,889,039	6,127,537	7,302,834	6,125,043
Fixed Cost Prog and Debt Service	527,820	372,793	215,667	191,070	98,527
Total Expenditures	\$ 60,691,008	\$ 64,870,108	\$ 66,638,441	\$ 73,406,351	\$ 75,554,302

* - 2009 expenditures exclude \$16.3 million of OPEB bond proceeds that were transferred to the OPEB trust

The following chart summarizes District General Fund Expenditures by object type.

	2011				2010	2009
	Budget	Actual	Over (Under) Budget	%	Actual	Actual
Salaries	\$ 42,672,973	\$ 42,614,275	\$ (58,698)	-0.1%	\$ 41,892,400	\$ 39,429,950
Employee Benefits	15,560,944	15,833,081	272,137	1.7%	14,557,047 *	12,229,994
Purchased Services	9,991,939	12,501,052	2,509,113	25.1%	10,932,224	9,623,542
Supplies and Materials	3,196,707	3,026,942	(169,765)	-5.3%	3,137,710	3,151,317
Capital Expenditures	1,552,505	1,346,217	(206,288)	-13.3%	2,597,740	1,843,203
Other Expenditures	371,989	232,735	(139,254)	-37.4%	289,230	360,435
Total Expenditures	\$ 73,347,057	\$ 75,554,302	\$ 2,207,245	3.0%	\$ 73,406,351	\$ 66,638,441

* - 2009 employee benefits excludes \$16.3 million of OPEB bond proceeds that were transferred to the OPEB trust

As reflected above, total expenditures of the General Fund on a net basis were 3.0% over the budgeted amount. The significant budget overage for Purchased Services relates to the pass-through of aid payments for students in the cooperative which corresponds to an offsetting increase in state aid revenue.

General Fund Operations and Financial Position

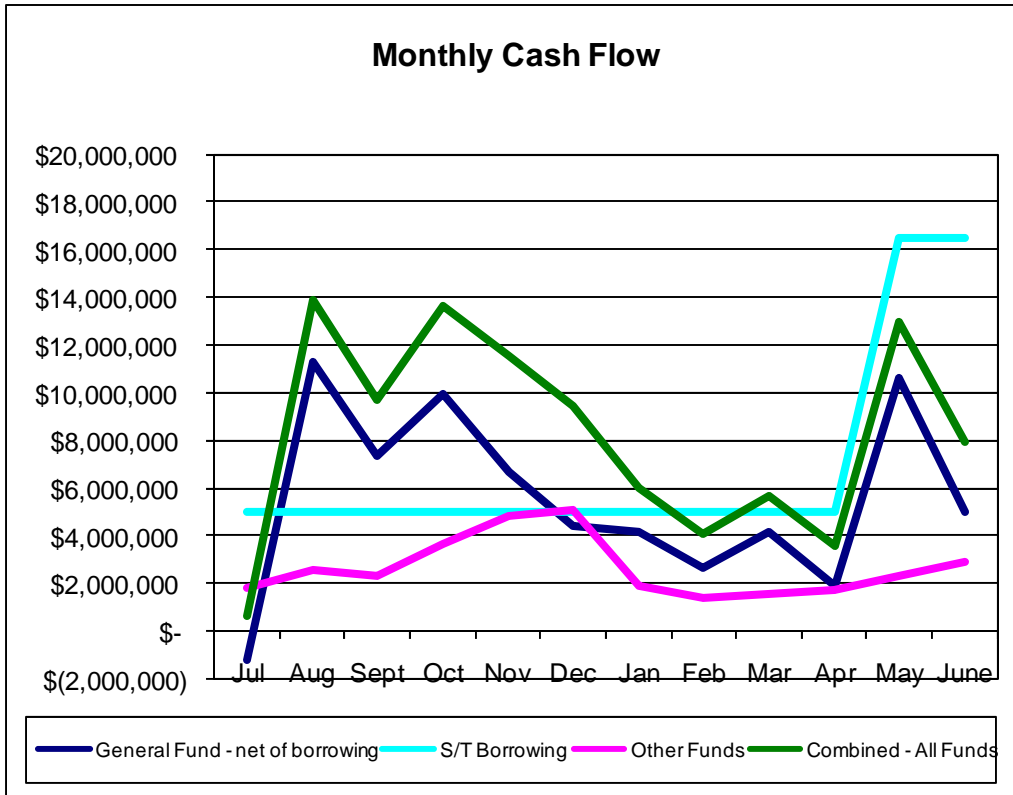
The following table presents five years of comparative operating results for the District's General Fund.

	Year Ended June 30,				
	2007	2008	2009	2010	2011
Revenues and Other Financing Sources	\$ 61,274,205	\$ 65,422,324	\$ 53,697,043	\$ 72,966,155	\$ 75,438,871
Expenditures	60,691,008	64,870,108	66,638,441	73,406,351	75,554,302
Excess (Deficiency) of Revenues Over (Under) Expenditures	583,197	552,216	(12,941,398)	(440,196)	(115,431)
Other Financing Sources (Uses):					
Proceeds from Sale of Equipment	-	2,997	-	-	-
Proceeds from Sale of Real Property	-	1,791,575	-	-	-
Proceeds from Insurance Recovery	-	5,412	500	7,714	10,720
Proceeds from Sale of Bonds	-	-	16,720,796	-	-
Bond Discount	-	-	(158,551)	-	-
Operating Transfers (Out)	-	-	(1,316,563)	-	-
Total Other Financing Sources (Uses)	-	1,799,984	15,246,182	7,714	10,720
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	583,197	2,352,200	2,304,784	(432,482)	(104,711)
Fund Balance:					
Beginning of Year	279,729	862,926	3,215,126	5,519,910	5,087,428
End of Year	\$ 862,926	\$ 3,215,126	\$ 5,519,910	\$ 5,087,428	\$ 4,982,717
Nonspendable Fund Balance	\$ -	\$ -	\$ -	\$ 270,486	\$ 249,672
Assigned Fund Balance	-	-	-	-	-
Restricted Fund Balance	1,830,521	3,423,954	2,253,543	1,177,272	888,351
Unassigned Fund Balance	(967,595)	(208,828)	3,529,666	3,902,969	4,107,993
Total Fund Balance	\$ 862,926	\$ 3,215,126	\$ 5,783,209	\$ 5,350,727	\$ 5,246,016
Unassigned Fund Balance as a Percentage of Expenditures	-1.59%	-0.32%	5.30%	5.32%	5.44%
Total Fund Balance as a Percentage of Expenditures	1.42%	4.96%	8.68%	7.29%	6.94%

The District's General Fund unassigned fund balance improved by \$205,024 during fiscal 2010-2011, increasing from a balance of \$3,902,969 to a balance of \$4,107,993 at June 30, 2011. Total fund balance of the General Fund decreased by \$104,711, ending at \$5,246,016 as of June 30, 2011. The ending unassigned fund balance as defined by UFARS represents 5.44% of General Fund expenditures.

General Fund Operations and Financial Position (Continued)

Some of the primary reasons it is essential for a district to maintain an adequate fund balance in the General Fund are to provide cash flow and to provide some cushion against unanticipated variances such as in enrollment estimates, special education tuition costs, and other similar variables. Due to the timing in which the District receives its tax settlements and state aid payments, there are times during the year when the District must depend on its cash reserves to finance operations. The following graph summarizes the monthly level of cash and investments during fiscal year 2011:



The graph above shows the peaks and valleys of the District's cash and investment balances over the course of the past fiscal year. In comparison to prior years, the District used significantly more short-term borrowing and will want to continue to closely monitor its cash flow needs to ensure an adequate supply of cash to meet payroll commitments at times where cash flow bottoms out.

Food Service Fund

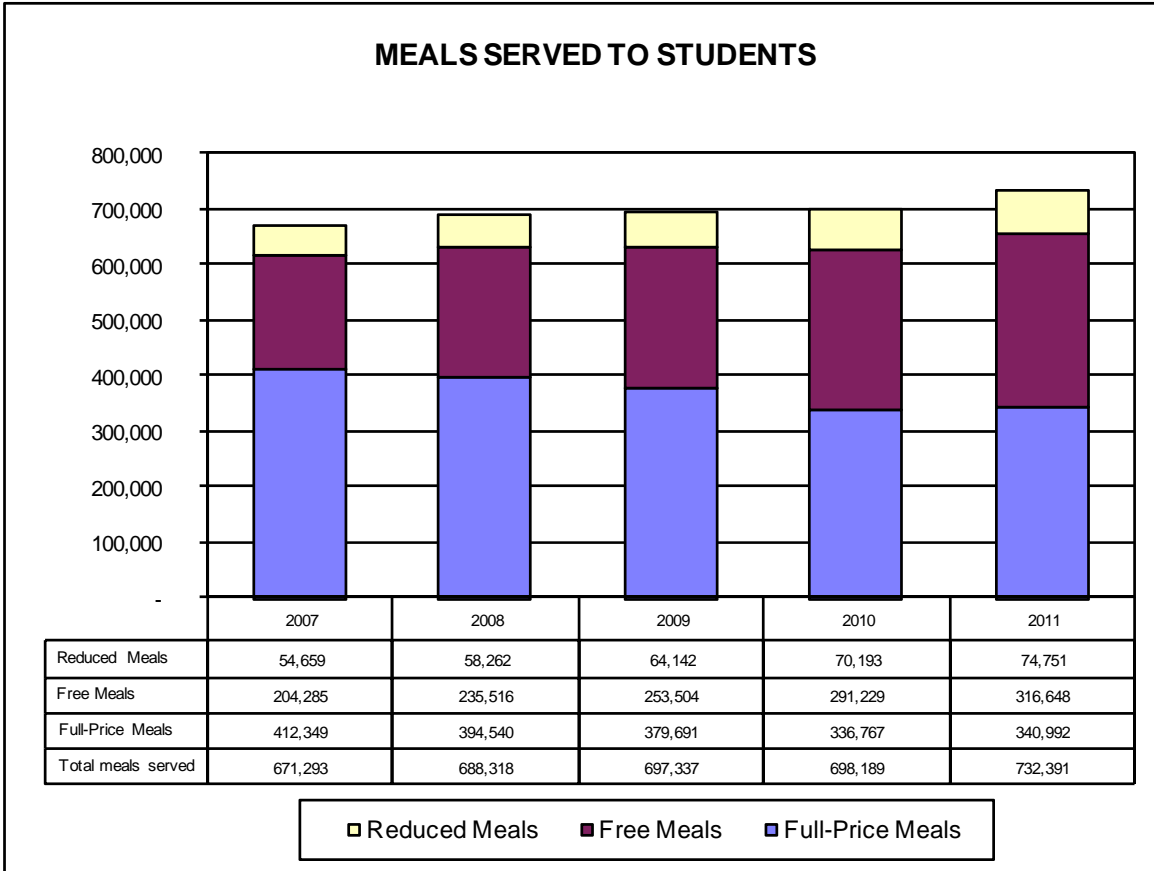
The following chart reflects the growth of the Food Service Program over the past five years:

	Year Ended June 30,				
	2007	2008	2009	2010	2011
Revenues	\$ 2,831,625	\$ 3,055,094	\$ 3,095,718	\$ 3,298,268	\$ 3,416,848
Expenditures	2,776,381	2,936,393	3,516,775	3,262,508	3,355,685
Excess (Deficiency) of Revenues Over (Under) Expenditures	55,244	118,701	(421,057)	35,760	61,163
Other Financing Sources (Uses)					
Proceeds from Sale of Equipment	-	-	700	-	-
Proceeds from Sale of Bonds	-	-	684,698	-	-
Total Other Financing Sources (Uses)	-	-	685,398	-	-
Excess of Revenues and Other Financing Sources Over Expenditures	55,244	118,701	264,341	35,760	61,163
Fund Balance (Deficit):					
Beginning of Year	(22,461)	32,783	151,484	415,825	451,585
End of Year	\$ 32,783	\$ 151,484	\$ 415,825	\$ 451,585	\$ 512,748
Percentage of Total Meals Served by Type:					
Full Price Meals	61.4%	57.3%	54.4%	48.2%	46.6%
Reduced Price Meals	8.2%	8.5%	9.2%	10.1%	10.2%
Free Meals	30.4%	34.2%	36.4%	41.7%	43.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Total revenues exceeded total expenditures by \$61,163 in the District's Food Service Fund for 2011, resulting in a fund balance of \$512,748 at June 30, 2011. Note that total expenditures in fiscal 2009 were grossed up on a one-time basis for the approximate \$685,000 of OPEB bond proceeds which were required to be recorded in the operating funds before being transferred to the trust fund that was been set up to pay employee postemployment benefits. Fiscal year 2011 represented the seventh consecutive year of revenues and other financing sources in excess of expenditures.

Total actual revenues were lower than the budgeted amount by \$151,052. Total expenditures were higher than the budgeted amount by \$41,038. The net impact of these variances was an increase to fund balance that was \$192,090 less than had been reflected in the budget. As part of any budget update initiated for fiscal 2011-2012, the food service department will want to take these variances into consideration in order to limit budget variances to every extent possible.

The following chart reflects the number and type of meals served to students over the past five years:



Community Service Fund

The following table presents five years of comparative operating results for the District's Community Service Fund:

	Year Ended June 30,				
	2007	2008	2009	2010	2011
Revenues	\$ 5,710,208	\$ 5,499,464	\$ 7,459,079	\$ 7,808,640	\$ 7,874,908
Expenditures	5,766,979	5,572,640	7,598,725	7,604,417	7,683,059
Excess (Deficiency) of Revenues Over (Under) Expenditures	(56,771)	(73,176)	(139,646)	204,223	191,849
Other Financing Sources (Uses):					
Proceeds from Sale of Equipment	-	-	-	-	2,790
Proceeds from Sale of Bonds	-	-	419,506	-	-
Total Other Financing Sources (Uses)	-	-	419,506	-	2,790
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures	(56,771)	(73,176)	279,860	204,223	194,639
Fund Balance:					
Beginning of Year	410,991	354,220	281,044	560,904	765,127
End of Year	\$ 354,220	\$ 281,044	\$ 560,904	\$ 765,127	\$ 959,766
Fund Balance (Deficit)					
Nonspendable Fund Balance	\$ -	\$ -	\$ -	\$ 3,330	\$ 3,979
Restricted for Community Ed	48,369	49,727	291,104	488,088	669,331
Restricted for ECFE	64,459	81,770	76,283	64,115	60,819
Restricted for School Readiness	5,796	13,165	24,667	14,584	18,287
Restricted for Adult Basic Ed	100,613	25,301	15,875	16,792	19,927
Restricted for Severance	67,289	57,007	-	-	-
Unassigned	67,694	54,074	152,975	178,218	187,423
Total Fund Balance	\$ 354,220	\$ 281,044	\$ 560,904	\$ 765,127	\$ 959,766

The District's Community Service Fund had an excess of revenues over expenditures of \$194,639 for fiscal 2011, increasing the combined fund balance to \$959,766 at June 30, 2011. The fund balance reserves for Community Ed, ECFE and school readiness are limited by statute to an average of 25% of related program expenditures so it important to monitor those balances carefully to ensure that no funding is lost for those programs.

Total revenues of the District's Community Service Fund for 2011 were \$747,211 lower than the budgeted amount while total expenditures were \$850,491 lower than the budgeted amount. The net impact of these variances was to increase total fund balance by \$103,280 more than had been reflected in the budget. As part of any budget update initiated for fiscal 2011-2012, the community services department will want to take these variances into consideration in order to limit budget variances to every extent possible.

APPENDIX B

The table below reflects the comparative data available from the Minnesota Department of Education for all expenditures incurred for the benefit of pre-elementary through secondary education, except building construction. Note that 2009 expenditures per student exclude the OPEB transfer to the revocable trust fund in the amount of \$16,302,711.

Expenditures Per Student (ADM) Served

	Statewide			ISD No. 623 Roseville		
	All Districts	Seven County Metro Area	Enrollment > than 4,450			
	2010	2010	2010	2009	2010	2011
District and School Admin and Support Services	\$ 842	\$ 781	\$ 765	\$ 845	\$ 906	\$ 917
Regular Instruction (including Co- & Extra-Curricular)	4,865	5,069	4,993	4,154	4,599	4,861
Vocational Instruction (Career & Technical)	144	150	150	176	175	169
Special Education Instruction	1,811	1,992	1,998	1,632	1,974	1,946
Instructional Support Services	452	550	539	964	873	745
Pupil Support Services (Including Transportation)	854	937	917	915	996	1,019
Operations and Maintenance and Other	785	755	761	805	846	802
Food Service	455	456	452	415	452	459
Community Service	496	618	601	1,048	1,110	1,077
Capital Expenditure	498	414	393	275	411	210
Debt Service	1,081	1,184	1,200	490	672	640
Total Pre-K - 12 Expenditures	\$ 12,283	\$ 12,906	\$ 12,769	\$ 11,718	\$ 13,013	\$ 12,844
 Percent Change from Prior Year				3.10%	11.06%	-1.30%

Source of Statewide Data: School District Profiles published by the Minnesota Department of Education

District and school admin and support services - all costs related to providing administration to the District (school board, superintendent, principals, assistant superintendents, directors of instructional areas, etc.) and all central office administration (business services, human resources, legal, data processing, other district-wide support activities)

Regular instruction - includes all activities dealing directly with the teaching of pupils including co-curricular and extra-curricular activities and the interaction between teachers and pupils in the classroom (excluding exceptional, vocational and community education instruction) and includes activities of aides or assistants of any type (paraprofessionals, clerks, graders, etc.) who assist in the educational process, except spec ed aides

Vocational instruction - consists of costs related to courses and activities which develop knowledge, skills, attitudes and behavioral characteristics for students seeking career exploration and employability

Special education instruction - consists of activities providing learning experiences for pupils of any age, who because of certain atypical characteristics or conditions, have been identified as requiring, or who would benefit by, educational programs differentiated from those provided pupils in regular or vocational instruction

Instructional support services - activities for assisting instructional staff with content and process of providing learning experiences for pupils in K-12 (curriculum, staff dev, educ media, libraries and media centers, etc.)

Pupil support services - all services to pupils not classified as instructional (counseling & guidance, health services, psychological services, social work, pupil transportation and safety, etc.)

Operations and maintenance - activities related to the operation, maintenance, repair and remodeling of all physical plant, facilities and grounds of the District

Food service - all costs of the Food Service Fund

Community service - all costs of the Community Service Fund

Capital expenditures - all capital expenditures charged to operating funds

Debt service - all debt service costs (principal, interest and fiscal agent costs)

APPENDIX C

LEGISLATIVE ACTIVITY

What follows are some education-related highlights of recent legislative sessions as summarized from information made available by the Minnesota Department of Education, the Minnesota School Boards Association, Office of the Legislative Auditor, and the Minnesota House of Representatives.

General Education Revenue - Formula Allowance

The 2011 Legislature modified the basic formula allowance beginning in fiscal year 2012. The basic formula allowance remained at \$5,124 per pupil unit for fiscal year 2011 and then will increase \$50 (1%) for fiscal years 2012 and 2013 (\$5,174 and \$5,224, respectively).

No changes were made in the calculation of adjusted marginal cost pupil units--grade level pupil unit weightings and the 77% current year / 23% prior year marginal cost pupil unit calculations for declining enrollment schools remain unchanged.

Staff Development Reserve

The staff development reserve that had already been temporarily suspended for fiscal years 2010 and 2011 was also suspended for fiscal years 2012 and 2013. The staff development reserve is equal to 2% of the district's basic general education revenue.

Aid Payment Shifts and Property Tax Shifts

The State of Minnesota once again increased the withholding of state aid payments to school districts and charter schools as a mechanism for balancing their budget. The holdback was increased from 30% to 40% for fiscal year 2012.

In addition to increasing the holdback, the State also changed the metering of payments to charter schools for fiscal year 2012. Charter schools will now receive their 60% payments over 16 payments from July through February. There will be no payments made for the period March through June. The charter schools will then receive 75% of the remaining 40% holdback on July 15th and the final 25% of the holdback on October 30.

Length of School Year

The required number of instructional days was changed to instructional hours, not including summer school as follows:

- K – without disability – 425 hours
- Grades 1-6 – 935 hours
- Grades 7-12 – 1020 hours

Endowment / Permanent School Fund

Effective with the March 2012 payment, charter schools are now eligible for payments from the Endowment/Permanent School Fund. Charter schools will receive about \$12/ADM in fiscal year 2012 and about \$25/ADM in fiscal year 2013.

Employment of Unlicensed Teachers

State statute was clarified that state aid may be reduced, but not withheld, when a district employs unlicensed teachers.

Payment of Creditors

It was codified in statute that state education payments can only be made to the school district, charter school or other educational organization earning state aid revenue as a result of providing education services. In order to deal with cash flow issues related to the holdback of state aids some charter schools have been “selling” their future state aid payments and there was a push to have MDE remit such state aid payments directly to the organization “buying” such receivables but this makes it clear that aid payments can only be remitted to a public organization that is providing education to students.

Literacy Incentive Aid

Beginning in fiscal year 2013, school districts and charter schools will begin to receive literacy incentive aid which includes a proficiency and growth aid component. To qualify for this aid, the schools must have had students in 3rd or 4th grade and have MCA test results for the prior year. While the literacy incentive aid is determined at the school level, there is no requirement for the money to be spent at the school generating the revenue. It may be used for any General Fund purpose. The calculation of the aid is as follows:

- Proficiency aid = $\$85 \times \text{school's enrollment on October 1 of the previous year} \times \text{percent of third graders meeting or exceeding proficiency on the third grade reading MCA, averaged across the previous three test administrations (FY 10, 11 and 12 for FY 13 aid)}$.
- Growth aid = $\$85 \times \text{school's enrollment on October 1 of the previous year} \times \text{percent of fourth graders making medium or high growth on the reading MCA, averaged across the previous three test administrations}$.

For fiscal year 2013 only, the state total aid is capped at \$48,585,000. Currently, no proration is anticipated, but that will depend on the 2011 and 2012 test results.

School Board Meetings

The Open Meeting Law was changed to allow school boards to conduct meetings using interactive technology with audio and visual links but must otherwise comply with all other provisions of the Open Meeting Law.

Textbook Definition

The definition of textbook was changed to include “electronic books as well as other printed materials delivered electronically.”

PSEO (Post-Secondary Enrollment Options)

PSEO is now open to students in grades 9 and 10 in addition to those in grades 11 and 12. Districts are also required to disseminate information about PSEO to 8th and 9th graders.

Students Without a Disability from Other States

It was established that school districts are not required to provide education services to a student who is not a resident of Minnesota, does not have an IEP, and does not have a tuition agreement or arrangement to pay the cost of education from the placing authority.

APPENDIX D

FORMAL REQUIRED COMMUNICATIONS

Board of Education
Independent School District No. 623
Roseville Area Schools
Roseville, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 623 (the District) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 23, 2011. Professional standards require that we provide you with the following information related to our audit.

Our responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated May 16, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

1. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

2. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.
3. We are also responsible for communicating matters regarding the provisions of the Minnesota Legal Compliance Audit Guide for Local Government, promulgated by the State Auditor pursuant to Minnesota Statute §6.65.

Other information in documents containing audited financial statements

Our audit opinion, the audited financial statements, and the notes to basic financial statements should only be used in their entirety. Inclusion of the audited financial statements in a client prepared document, such as an annual report, should be done only with our prior approval and review of the document. Our responsibility for other information in documents containing the School's financial statements and report does not extend beyond the financial information identified in the report. We do not have an obligation to perform any procedures to corroborate other information contained in such documents.

Planned scope and timing of the audit

We performed the audit according to the planned scope and timing previously communicated to you in our email about planning matters on July 6, 2011.

Significant audit findings

Qualitative aspects of accounting practices

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 to the financial statements. As discussed in Note 1 of the financial statements, the District adopted GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Aside from the implementation of this standard, no other new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2011.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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:

- Due from Minnesota Department of Education
- Due from the Federal Government through the Minnesota Department of Education
- Retirement Pay and Other Compensated Absences Payable

- Other Postemployment Benefits Payable
- Estimated Useful Lives of Depreciable Capital Assets

Management's estimate of Due from Minnesota Department of Education (MDE) is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2010-11. The most significant of these is the aid portion of General education revenue. General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the School. Student attendance is accumulated in a statewide 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 2011 is not finalized until well into fiscal year 2012. MDE calculates amounts owed to the School for special education excess cost tuition billing and adds the amount to the School's special education aid. Because the tuition amounts are based on estimated information, final entitlements are not expected to be known until well into the following fiscal year. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of due from Federal through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2010-11. Many federal entitlements require that supporting financial reporting information be provided both in the UFARS accounting system and also the SERVS reporting system. To the extent that these two separate systems are not in agreement and reported in a timely manner, the estimated aid entitlement may be adversely affected. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of Retirement Pay and Other Compensated Absences Payable is based on certain assumptions made by the District. As required by GASB Statement No. 16, the District has recorded a liability for accumulated sick leave convertible to early retirement pay for which it is probable the 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), and the potential use of accumulated sick leave prior to termination.

Management's estimate of other postemployment benefits payable is based on an actuarially determined calculation, less actual payments incurred on behalf of retirees and an actuarially determined estimate of implicit rate subsidy, which is the estimated increased cost of premiums due to inclusion of retirees in the same plan as the District's active employees.

Management's estimate of useful lives for depreciable assets is based on guidance recommended by the Minnesota Department of Education. The useful life of a depreciable asset determines the amount of depreciation that will be recorded in any given reporting period as well as the amount of accumulated depreciation that is reported at the end of a reporting period.

We reviewed and tested management's procedures and underlying supporting documentation in the areas discussed above and evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole. We concluded that the accounting estimates and management judgments appeared to consider all significant factors and resulted in appropriate accounting recognition.

Difficulties encountered in performing the audit

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

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. Management did not identify and we did not notify them of any uncorrected financial statement misstatements. We recognize that for management purposes, the District maintains its accounting records primarily using the cash basis during the year. There may be adjustments which we propose while assisting your finance staff in the closing of the year-end accounting records. These types of adjustments, if any, are not considered to be "audit adjustments" for purposes of this communication.

Disagreements with management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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 representations

We have requested certain representations from management that are included in the management representation letter dated November 23, 2011.

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 auditors' 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.

This information is intended solely for the use of the Board of Education and management of the District and is not intended to be and should not be used by anyone other than these specified parties.


LarsonAllen LLP

APPENDIX E

INDEPENDENT AUDITORS' REPORT ON CONDENSED FINANCIAL STATEMENTS INCLUDED HEREIN

Board of Education
Independent School District No. 623
Roseville Area Schools
Roseville, Minnesota

We have audited the financial statements of Independent School District No. 623 (the District) as of and for the years ended June 30, 2011, 2010, 2009, 2008, and 2007 (not presented herein). These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 misstatement. 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 audits provide a reasonable basis for our opinion.

The condensed Statements of Revenues, Expenditures and Changes in Fund Balance for the years presented on pages 11, 13 and 15 are presented as a summary and, therefore, do not include all of the disclosures required by U.S. generally accepted accounting principles.

In our opinion, because of the significance of the omission of the information referred to in the preceding paragraph, the condensed financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the results of its operations for the years then ended.

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

Larson Allen LLP
LarsonAllen LLP

Minneapolis, Minnesota
November 23, 2011