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October 25, 2011

School Board
Independent School District No. 276
Minnetonka Public School
Minnetonka, 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 auditors' 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



Rachel Flanders, CPA
Principal



An independent member of Nexia International

**MINNETONKA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 276**

**EXECUTIVE AUDIT SUMMARY (EAS)
AND MANAGEMENT REPORT**

JUNE 30, 2011

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**MINNETONKA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 276
EXECUTIVE AUDIT SUMMARY
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**EXECUTIVE AUDIT SUMMARY (EAS)
AND MANAGEMENT REPORT
FOR
MINNETONKA PUBLIC 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 statements for the year ended June 30, 2011. We appreciated the time that staff took to work with us to complete the engagement—especially the efforts of Sandy Booth and Melissa Hallman, who were our main contacts on the audit.

Audit Opinion – The financial statements are fairly stated. We issued what is known as a “clean” 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 District.

Internal Controls – No material weaknesses in controls were noted.

Single Audit – We reported one finding related to the preparation of required time reporting documentation, where the District did not complete the appropriate time reporting documentation for salaries charged to two federal grants. Please refer to the federal audit report for details.

Legal Compliance – No compliance issues were reported with respect to Minnesota Statutes.

Time Reporting Documentation for Federal Programs - During our testing of the Special Education program we noted four employees who were included on time certifications stating they worked 100% within the cost objective. Upon further review it was noted that these employees do not in fact work 100% within the cost objective. As these employees were all hourly, they also had detailed time cards to support the allocation of portions of their wages to the federal program, and it was therefore not a single audit finding. However, we recommend that only employees who do work 100% on a single cost objective are included on the time certifications to avoid confusion and ensure that all wages are properly support.

Enrollment – For fiscal 2010-11, Minnetonka Public Schools had an estimated total adjusted average daily membership of 8,623.52 (or 9,940.04 adjusted pupil units). For fiscal 2009-10, the District had an adjusted average daily membership of 8,346.05 (or 9,652.37 adjusted pupil units).

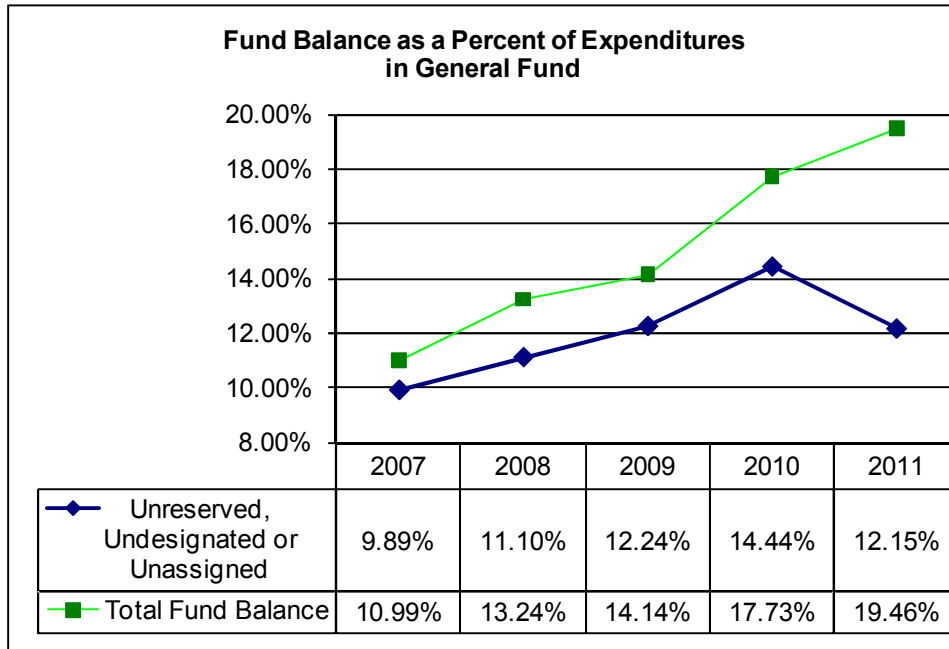
Fund Balance – The District’s General Fund unassigned fund balance decreased by \$1,509,720 during fiscal 10-11, decreasing from \$12,061,670 to \$10,551,950. The reason for the decrease is due to additional restrictions and assignments of fund balance at June 30, 2011 which were offset by the increase in fund balance overall. The District increased its restricted Operating Capital Balance by \$640,360 up to a level of \$1,987,164 at June 30, 2011, in order to retain resources against potential General Fund revenue shortfalls in future years. The District set aside \$1,388,487 in an assigned balance from Operating Capital revenue from prior years that had been transferred to the General Fund under a program authorized by the Minnesota Legislature starting in FY 2008. The District also set aside in an assigned fund balance an additional \$1,421,577 of revenue that was available due to the receipt of Federal Jobs Bill dollars in FY 2011 which allowed a like amount of general revenues to be retained for future use. Total fund balance of the General Fund increased by \$2,088,959 ending at \$16,904,256 as of June 30, 2011. The ending unassigned fund balance represents 12.15% of General Fund expenditures. A District’s fund balance is an important aspect in considering the District’s financial well being since a healthy fund balance represents things such as cashflow, as a cushion against unanticipated expenditures, enrollment declines, funding deficiencies and aid prorations at the state level and similar problems.

Budget to Actual – Total revenues on a net basis in the General Fund were \$631,967 (or .7%) higher than the budgeted amount while total expenditures were \$220,450 (or .3%) lower than had been budgeted. The net effect (when combined with other financing sources) was an increase to total fund balance that was \$852,417 more than had been reflected in the District’s budget. On a budget this large, these variances reflect excellent budgeting, monitoring and outcomes.

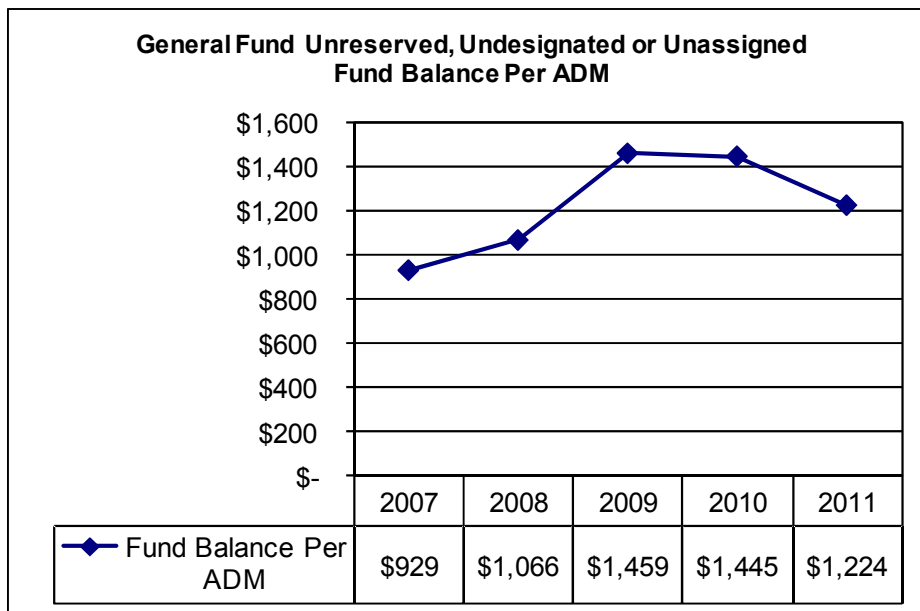
I. FINANCIAL RESULTS

Fund Balances of the General Fund

As a percentage of annual expenditures (Board policy is to maintain 6% in the unassigned fund balance):

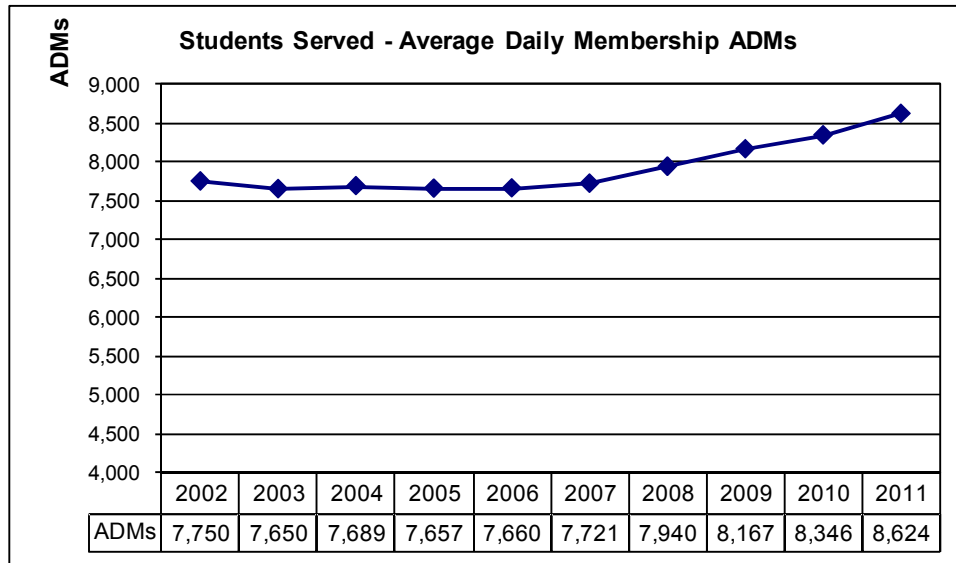


Per student served.



I. FINANCIAL RESULTS (CONTINUED)

Students Served



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	\$ 39,360,930	\$ 34,823,071
Capital Assets, Less Accumulated Depreciation	122,949,718	118,291,501
Long-Term Liabilities	(142,924,991)	(135,008,163)
Other - Net	19,109,184	17,539,503
Total Net Assets - Governmental Activities	<u>\$ 38,494,841</u>	<u>\$ 35,645,912</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ 22,850,325	\$ 22,351,709
Restricted	6,283,759	5,646,136
Unrestricted	9,360,757	7,648,067
Total Net Assets - Governmental Activities	<u>\$ 38,494,841</u>	<u>\$ 35,645,912</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 unreserved fund balances, offset against non-capital long-term obligations such as vacation or severance payable. Consequently, many Minnesota school districts have accumulated deficits in this component of net assets.

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:

	<u>2011</u>	<u>2010</u>
Net Change in Fund Balance-Total Governmental Funds	\$ 4,537,859	\$ (7,463,322)
Capital Asset Purchases	9,482,983	15,855,470
Depreciation	(4,793,330)	(4,306,641)
Debt Proceeds	(17,040,000)	(19,975,000)
Repayment of Debt	6,600,000	4,440,883
Change in Other Long-Term Liabilities	(157,785)	9,208,345
Capital Lease Proceeds	-	(350,000)
Other - Net	4,219,202	647,667
Change in Net Assets - Governmental Activities	<u>\$ 2,848,929</u>	<u>\$ (1,942,598)</u>

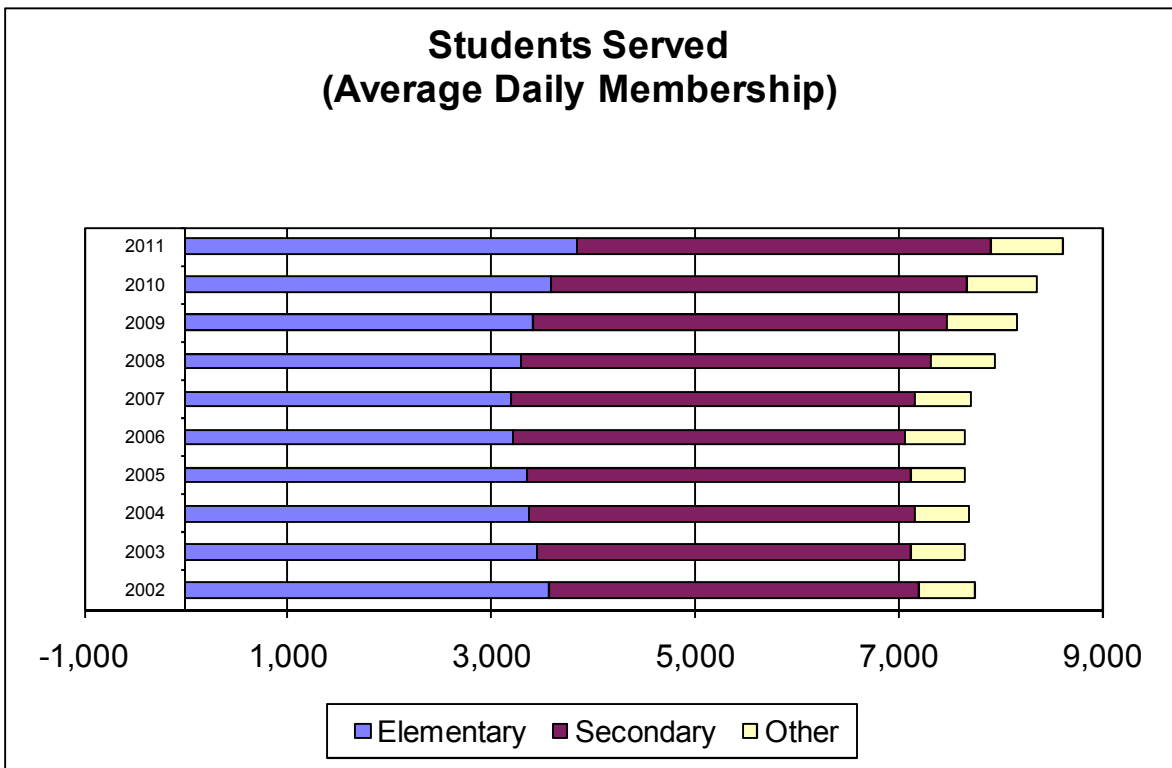
APPENDIX A

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 E) contains an Independent Auditors' Report on Condensed Financial Statements Included Herein that should be considered when reading such condensed information.

Average Daily Membership and Pupil Units

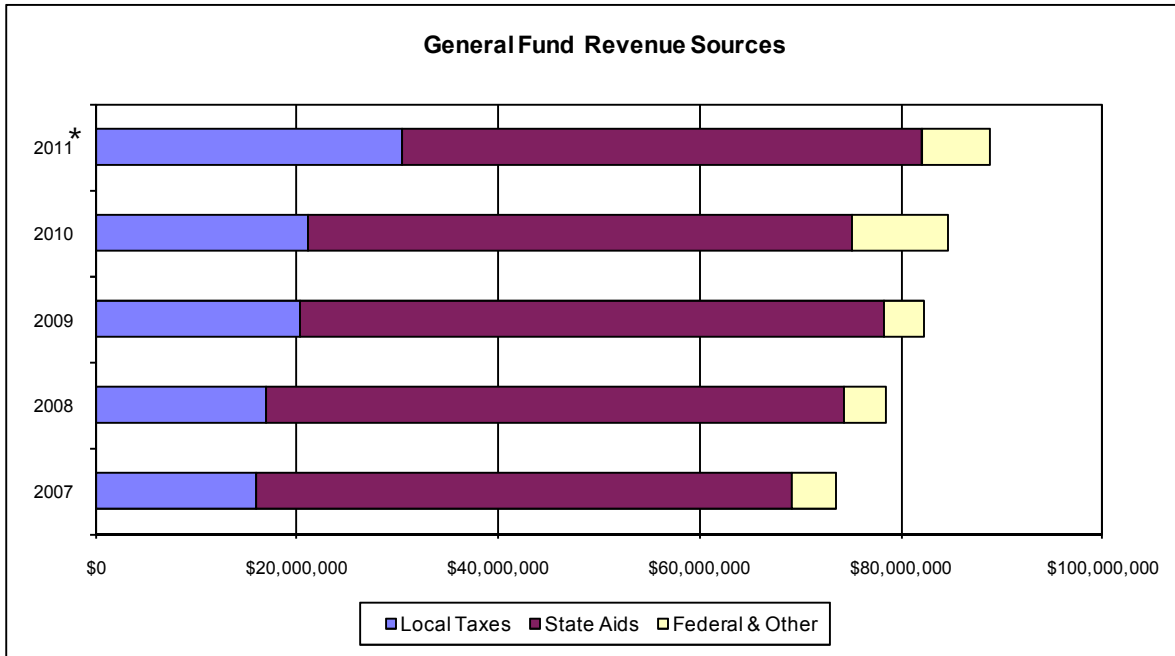
The following graph summarizes average daily membership of Independent School District No. 276 over the past ten years ended June 30:



The District's average daily membership (ADM) for purposes of General Education Aid for fiscal 2011 was 8,624 students, which represents a net change of 278 more students from the prior year. Since fiscal 2002, the District's enrollment has increased by a net 11.3%.

General Fund Revenue

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



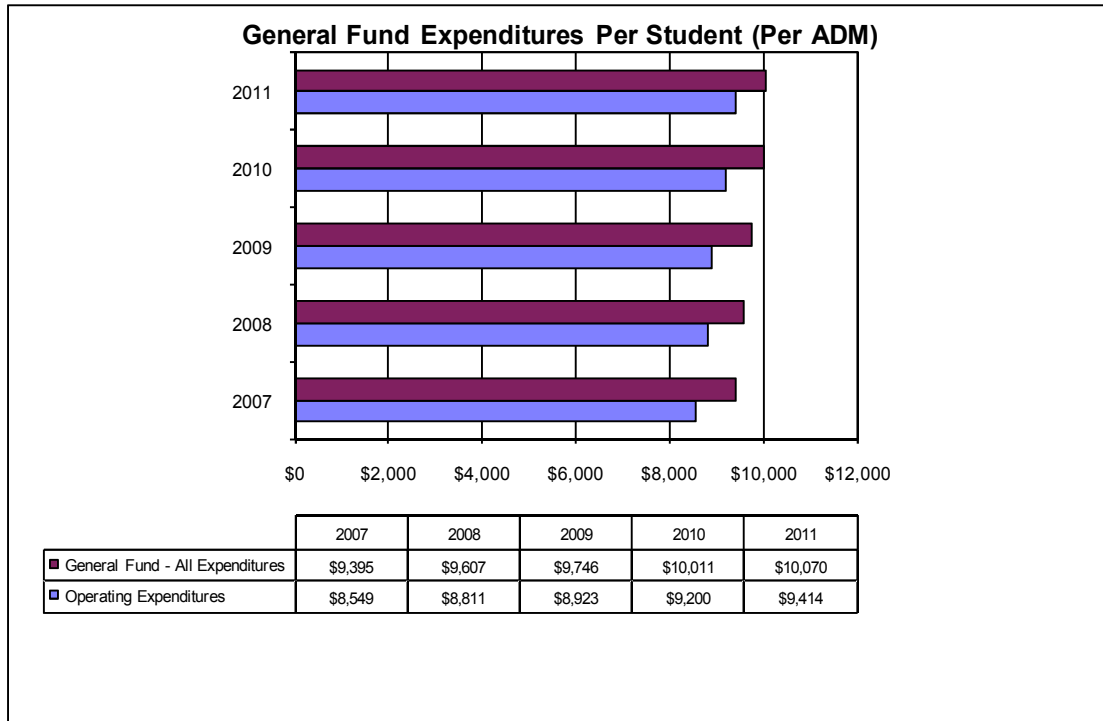
The table below illustrates the fluctuation that occurs between the taxes and state aid categories based on legislative activity. The Legislature determines what portion of the general education funding formula will be paid by local taxpayers. In addition, when the tax shift percentage changes or the state provides property tax relief such as the education homestead market value aid, 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 approximately \$9.0 million of the payable 2011 property tax receipts for the general and community service funds, allowing for these funds to be recognized in fiscal 2011 rather than fiscal 2012, and giving the appearance of a significant increase in taxes for the 2011. For this and other reasons, school finance in Minnesota continues to be a very difficult subject to explain to the general public.

Year	Taxes		State		Federal and Other		Total
	Amount	%	Amount	%	Amount	%	
2007	16,057,886	22%	53,229,824	72%	4,227,237	6%	73,514,947
2008	17,035,751	22%	57,351,329	73%	4,085,093	5%	78,472,173
2009	20,405,661	25%	57,971,801	70%	3,954,582	5%	82,332,044
2010	21,094,360	25%	53,998,264	64%	9,509,589	11%	84,602,213
2011	30,474,532	* 34%	51,735,612	* 58%	6,726,504	8%	88,936,648

*The large increase in taxes in 2011 compared to 2010 is not due to a large levy increase, but rather relates primarily to the tax shift whereby the State withholds state aid payments but instructs school districts to advance recognize tax revenue to offset the aid withheld. In 2011, the District advance recognized \$8,957,760 of tax revenue in the General Fund due to the tax shift prescribed by the State of Minnesota. A corresponding state aid revenue reduction was recognized, resulting in the change in percentage of revenue. Without this advance recognition, tax revenue would have been \$21,516,772, comparable to the prior year and representing 24.1% of total revenue.

Expenditures Per Student

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



General Fund Expenditures for fiscal 2011 were \$86,847,689, which represents an increase of \$3,293,042 or 3.94% from fiscal 2010.

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

	2011				2010
	Budget	Actual	Over (Under) Budget	%	Actual
Salaries	\$ 56,197,442	\$ 56,248,594	\$ 51,152	0.1%	\$ 53,746,747
Employee Benefits	15,614,964	15,465,296	(149,668)	-1.0%	14,520,446
Purchased Services	9,030,851	8,995,845	(35,006)	-0.4%	9,515,489
Supplies and Materials	2,215,718	2,403,378	187,660	8.5%	2,280,347
Capital Expenditures	1,764,802	1,832,335	67,533	3.8%	2,746,649
Other Expenditures	2,244,362	1,902,241	(342,121)	-15.2%	744,969
Total Expenditures	\$ 87,068,139	\$ 86,847,689	\$ (220,450)	-0.3%	\$ 83,554,647

The District has historically done an excellent job of allocating the budget according to the nature of the underlying cost, especially for the most critical areas of salaries and employee benefits. Budgeted expenditures were within \$220,450 of actual or 0.3% for fiscal 2011. For the prior year, this variance was 0.12%.

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	\$ 73,514,947	\$ 78,472,173	\$ 82,332,044	\$ 84,602,213	\$ 88,936,648
Expenditures	72,541,392	76,280,966	97,336,063	83,554,647	86,847,689
Excess (Deficiency) of Revenues Over (Under) Expenditures	973,555	2,191,207	(15,004,019)	1,047,566	2,088,959
Other Financing Sources (Uses)					
Bond Proceeds	-	-	22,889,822	-	-
Insurance Recovery Proceeds	-	-	-	1,803	-
Operating Transfers (Out)	(62,500)	(62,500)	(4,220,874)	-	-
Total Other Financing Sources (Uses)	(62,500)	(62,500)	18,668,948	1,803	-
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	911,055	2,128,707	3,664,929	1,049,369	2,088,959
Fund Balance:					
Beginning of Year	7,061,237	7,972,292	10,100,999	13,765,928	14,815,297
End of Year	\$ 7,972,292	\$ 10,100,999	\$ 13,765,928	\$ 14,815,297	\$ 16,904,256
Reserved/Designated Fund Balance	\$ 799,860	\$ 1,637,169	\$ 1,850,570	\$ -	\$ -
Unreserved/Undesignated Fund Balance	7,172,432	8,463,830	11,915,358	-	-
Nonspendable Fund Balance	-	-	-	924,492	926,215
Restricted Fund Balance	-	-	-	1,353,370	1,987,164
Assigned Fund Balance	-	-	-	475,765	3,438,927
Unassigned Fund Balance	-	-	-	12,061,670	10,551,950
Total Fund Balance	\$ 7,972,292	\$ 10,100,999	\$ 13,765,928	\$ 14,815,297	\$ 16,904,256
Undesignated/Unassigned Fund Balance as a Percentage of Expenditures	9.89%	11.10%	12.24%	14.44%	12.15%
Total Fund Balance as a Percentage of Expenditures	10.99%	13.24%	14.14%	17.73%	19.46%

The District's General Fund had an excess of revenue over expenditures and other financing uses of \$2,088,959 for fiscal 2011, bringing total fund balance to \$16,904,256 at June 30, 2011. Total fund balance includes a net \$926,215 in nonspendable accounts, \$1,987,164 in restricted accounts as prescribed by state statute, and \$3,438,927 in assigned accounts as determined by the school board or finance department. That leaves an unassigned fund balance of \$10,551,950 at year-end, which is 12.15% of General Fund expenditures. The ending fund balance exceeds the board policy amount of 6.0% of expenditures.

Total General Fund revenues were higher than the budgeted amount for fiscal 2011 by \$631,967 (or 0.7%). On an \$88,300,000 revenue budget, this reflects accurate budgeting. The net combined outcome of the budget variances, including transfers out, was to increase the total ending fund balance by approximately \$852,000 more than the planned increase of approximately \$1,200,000.

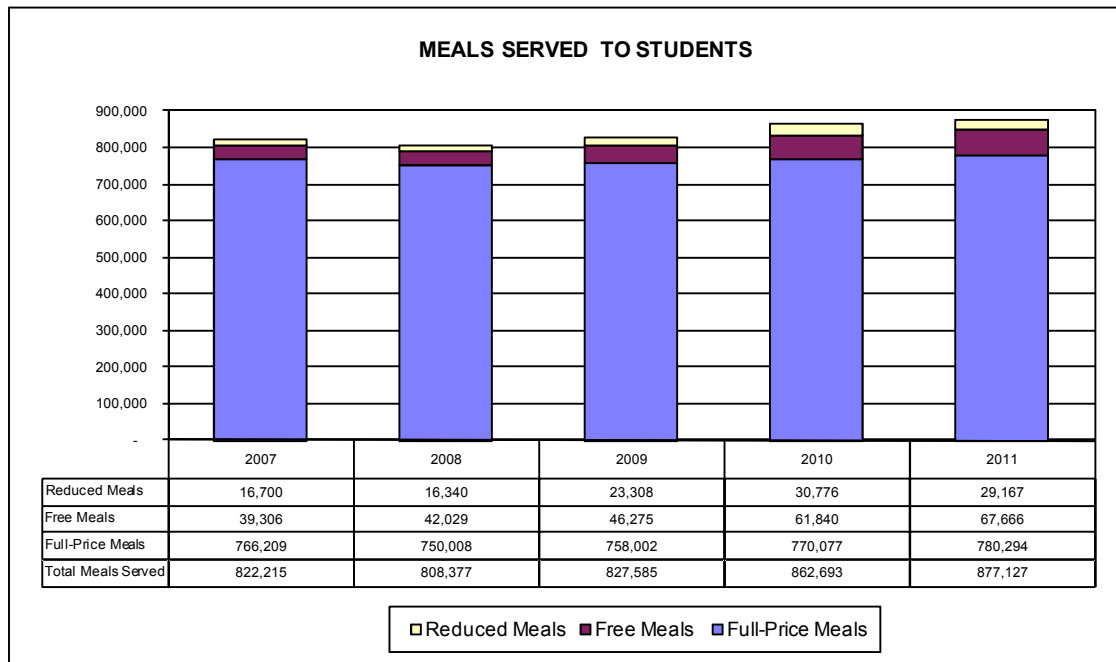
Food Service Fund

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	\$ 3,891,371	\$ 3,915,144	\$ 4,266,626	\$ 4,490,668	\$ 4,730,260
Expenditures	3,721,254	3,773,241	3,979,277	4,424,414	4,230,568
Excess (Deficiency) of Revenues Over (Under) Expenditures	170,117	141,903	287,349	66,254	499,692
Fund Balance:					
Beginning of Year	591,978	762,095	903,998	1,191,347	1,257,601
End of Year	\$ 762,095	\$ 903,998	\$ 1,191,347	\$ 1,257,601	\$ 1,757,293
Lunches Served to Students	822,215	808,377	827,585	862,693	877,127
Revenue per Lunch Served	\$ 4.73	\$ 4.84	\$ 5.16	\$ 5.21	\$ 5.39

Food Service expenditures include both operating funds and equipment replacement. Total revenues exceeded total expenditures by \$499,692 in the District's Food Service Fund for 2011, increasing fund balance to \$1,757,293 at June 30, 2011. Total Food Service Fund revenue on a net basis was approximately \$74,664 higher than had been reflected in the budget, while expenditures on a net basis were approximately \$329,076 less than budgeted; therefore, the impact on ending fund balance was a \$403,740 increase beyond what had been budgeted.

The following chart reflects the activity of the food service program 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	\$ 6,228,047	\$ 6,767,065	\$ 7,562,783	\$ 8,030,194	\$ 8,542,183
Expenditures	6,265,122	6,735,905	7,166,024	7,835,752	8,597,045
Excess of Revenues Over Expenditures	(37,075)	31,160	396,759	194,442	(54,862)
Other Financing Sources					
Capital Lease Proceeds	-	-	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures	(37,075)	31,160	396,759	194,442	(54,862)
Fund Balance:					
Beginning of Year	785,688	748,613	779,773	1,176,532	1,370,974
End of Year	\$ 748,613	\$ 779,773	\$ 1,176,532	\$ 1,370,974	\$ 1,316,112
Fund Balance:					
Nonspendable	\$ -	\$ -	\$ -	\$ 47,133	\$ 48,386
Restricted for ECFE	72,537	33,538	14,891	13,570	-
Restricted for Community Ed	665,099	719,842	1,122,204	1,264,658	1,248,434
Restricted for School Readiness	6,440	13,130	13,772	12,598	12,048
Restricted for Adult Basic Educ	4,537	9,346	17,235	22,726	12,042
Unreserved/Undesignated	-	3,917	8,430	-	-
Restricted for Other Purposes	-	-	-	10,289	-
Unassigned	-	-	-	-	(4,798)
Total Fund Balance	\$ 748,613	\$ 779,773	\$ 1,176,532	\$ 1,370,974	\$ 1,316,112

The District's Community Service Fund had an excess of expenditures over revenues of (\$54,862) for fiscal 2011, bringing the combined fund balance to a positive balance of \$1,316,112 at June 30, 2011.

Total revenues of the District's Community Service Fund for 2011 were \$492,975 higher than the budgeted amount while total expenditures were over budget by \$621,359. As a result, total fund balance decreased by approximately \$55,000, compared to the increase of 73,000 which was projected in the budget.

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 \$17,742,555.

Expenditures Per Student (ADM) Served

	Statewide			ISD No. 276 Minnetonka		
	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	782	765	768
Regular Instruction (including Co- & Extra-Curricular)	4,865	5,069	4,993	4,849	5,139	5,330
Vocational Instruction (Career & Technical)	144	150	150	107	98	84
Special Education Instruction	1,811	1,992	1,998	1,542	1,621	1,605
Instructional Support Services	452	550	539	528	519	531
Pupil Support Services (Excluding Transportation)	275	327	322	273	286	325
Pupil Transportation	579	610	595	485	482	449
Operations & Maintenance and Other	785	755	761	836	929	882
Food Service	455	456	452	477	530	496
Community Service	496	618	601	875	939	1,009
Capital Expenditure	498	414	393	348	171	215
Debt Service	1,081	1,184	1,200	728	1,277	1,136
Total Pre-K - 12 Operating Expenditures	<u>\$ 12,283</u>	<u>\$ 12,905</u>	<u>\$ 12,769</u>	<u>\$ 11,830</u>	<u>\$ 12,754</u>	<u>\$ 12,830</u>
Percent Change from Prior Year					<u>7.81%</u>	<u>0.60%</u>

Source of Statewide Data: School District Profiles published by the Dept 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, etc.)

Transportation - all costs for pupil transportation

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 Fund costs (principal, interest and fiscal agent costs)

As the above table reflects, the Minnetonka School District has typically expended slightly less per student than the seven county metro area average and for schools serving more than 4,450 students.

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 x school's enrollment on October 1 of the previous year x percent of third graders meeting or exceeding proficiency on the third grade reading MCA, averaged across the previous three test administrations (FY 10, 11 & 12 for FY 13 aid).
- Growth aid = \$85 x school's enrollment on October 1 of the previous year x 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 & 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

School Board
Minnetonka Public Schools
Minnetonka, 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. 276 (the District) for the year ended June 30, 2011, and have issued our report thereon dated October 25, 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 Minnesota Legal Compliance.

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 13, 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 Federal through the Minnesota Department of Education
- Estimated useful lives of depreciable capital assets
- Claims incurred but not reported
- Severance and health benefits payable
- Other Postemployment Benefits payable

Management's estimate of the due from Minnesota Department of Education 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 District. 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. Management expects any differences between estimated and actual data will be insignificant.

Qualitative Aspects of Accounting Practices (Continued)

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 the useful lives for depreciable assets is based on guidance recommended by the Minnesota Department of Education and other sources. 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.

Management's estimate of Claims Incurred but Not Reported in its Self-Insurance Fund is based on data reported to the District by the plan administrator.

Management's estimate of Severance Benefits Payable is based on certain assumptions made by the District. As required by GASB Statement No. 16, the District has recorded a long-term 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), the potential use of accumulated sick leave prior to termination, and the age at which such employees are likely to retire.

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.

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.

The disclosures in the financial statements are neutral, consistent, and clear.

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.

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 auditors' 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 October 25, 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 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
October 25, 2011

APPENDIX E

REPORT ON CONDENSED FINANCIAL STATEMENTS INCLUDED HEREIN

School Board
Independent School District No. 276
Minnetonka Public Schools
Minnetonka, Minnesota

We have audited the financial statements of Independent School District No. 276 (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 10, 11 and 12 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.

LarsonAllen LLP
LarsonAllen LLP

Minneapolis, Minnesota
October 25, 2011