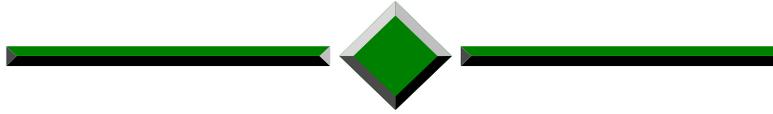


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June 27, 2011

To: The School Board, Citizens, and Employees of Prior Lake-Savage Area Schools

We respectfully submit the 2011-12 Preliminary Budget of Independent School District No. 719, Prior Lake-Savage Area Schools. The report contains all of the funds of the District in conformity with generally accepted accounting principles (GAAP) for defining the reporting entity. The District's annual financial reports are prepared pursuant to School Board policy and Minnesota State Statutes. Budgetary control is maintained by the District's business office.

We are proud to publish and disseminate budget information to the Board of Education, our community, and others. We welcome the opportunity to present and discuss operational plans and related financial impact with all interested parties. Interaction among interested groups consistently leads to operational and educational improvements for Independent School District No. 719. To stimulate and encourage interaction, we continuously evaluate. When possible, we increase and improve information quality. The budget document is the primary tool to present information in addition to our annual audit report.

This Preliminary Budget represents a projection of revenue and expenditures for the 2011-12 fiscal year along with support documentation and analysis. This report is presented in four sections: introductory, organizational, financial, and informational. The introductory section includes an executive summary and members of the School Board. The organizational section includes major goals and objectives for the District, an organizational chart, and financial policies and practices. The financial section includes presentation of the budgets for all Governmental and Proprietary funds of the District. The informational section includes revenue and expenditure budget summary data sorted by a variety of elements, building and program goals and objectives, and detail expenditure reports for programs and building budgets.

In accordance with the School Board approved Strategic Road Map, the District plan is to incrementally move the District fund balance to the Board policy level so that all available resources are used to provide educational opportunities to students. The District will continue to seek all available sources of funding, balance revenue to expenditures, and maintain systems that ensure financial stability.

DESCRIPTION OF DISTRICT

The District is a public educational system serving a 46 square mile area located in the southwestern Twin Cities area. District boundaries encompass geographic portions of Scott County. The cities of Prior Lake and Savage are within the District's boundaries. District facilities for 2011-12 include an early childhood and half day kindergarten center, six elementary schools, two middle schools, a high school, an area learning center and a district service center.

ECONOMIC CONDITION AND OUTLOOK

With the exception of voter approved levy referenda, the District is dependent on the State of Minnesota for its revenue authority. The legislative session for 2011 is not yet complete. The district is budgeting based on the revenue formulas allocated in 2010-11. The 2009 legislature approved a 0% increase for 2009-10 and 2010-11 in the General Education formula. For 2010-

11, the district received 70% of state entitlements in the current year and 30% the following year. This change had a significant impact on the districts cash flow. In 2009-10 the district correspondingly received 73% and 27% and previous to 2009-10 districts received 90% and 10%. The funding formula has been below the current annual rate of inflation for the last twenty years. Experience demonstrates that legislated revenue increases are not sufficient to meet the demands posed by the rate of inflation. As a result of these pressures, the District has had to rely on property tax referenda to support its educational programs. The District request to replace the two levies scheduled to sunset in 2009-10 levies with \$1,051 per pupil unit in operating referendum was successful in November 2008. The increase of \$210 per pupil unit was used for operating costs to open Redtail Ridge Elementary and Twin Oaks pool in 2009-10. The successful levy referenda votes have allowed the District to move forward by putting plans in place to improve the quality of education.

DISTRICT POPULATION

Funding for Minnesota school districts is largely driven by enrollment. The majority of Minnesota school districts are facing declining enrollment. However the last five years, the District has averaged a 2.3 percent increase in students. Enrollment for the 2011-12 school year is estimated to be steady from 2010-11 at 7,020.

ENROLLMENT PROJECTIONS

	08-09	08-09	09-10	09-10	10-11	10-11	11-12	11-12
	ADM	WADM	ADM	WADM	ADM	WADM	ADM	WADM
PRE-K	55	69	52	65	54	68	42	46
K-								
HANDICAPPED	27	27	23	23	23	23	21	21
KINDERGARTEN	452	277	441	270	430	263	412	252
GRADES 1 TO 3	1,590	1,773	1,574	1,754	1,539	1,716	1,501	1,673
GRADES 4 TO 6	1,634	1,732	1,676	1,777	1,649	1,748	1,635	1,733
GRADES 7 TO								
12	3,119	4,055	3,227	4,195	3,327	4,323	3,409	4,431
TOTAL	6,877	7,932	6,993	8,084	7,024	8,142	7,020	8,156

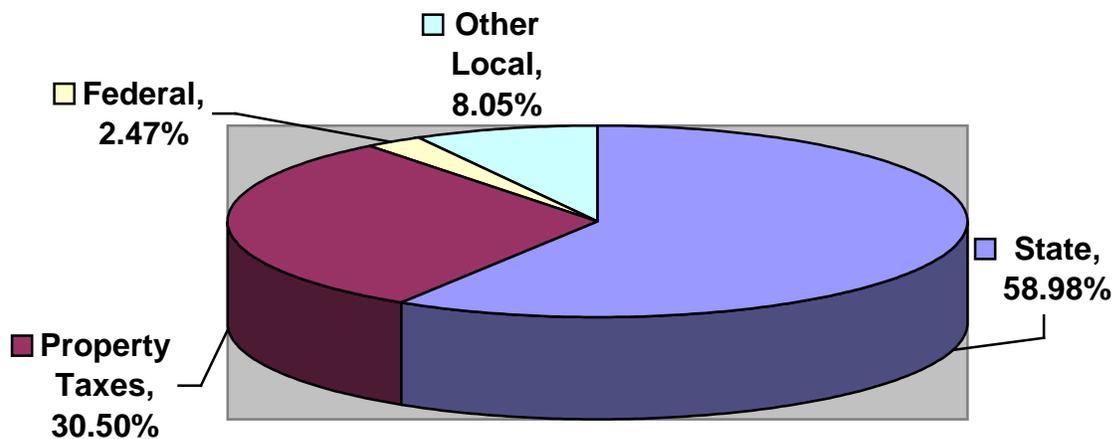
FINANCIAL INFORMATION

District administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District accounting system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgment by management. We believe the District's internal control system is adequate to safeguard assets and provide reasonable assurance that transactions are properly recorded. The District's annual financial reports are prepared pursuant to School Board policy and Minnesota State Statutes. The audited financial reports are required to be filed with both the

Minnesota Department of Education and the State Auditor by November 30, of the subsequent fiscal year. These statements are presented on the same basis as those required by the Department of Education's Uniform Financial Accounting and Reporting System (UFARS). An annual budget is adopted by the School Board for all funds. Budgetary control is maintained by the District's business office. Monthly reports are reviewed by management personnel and the School Board.

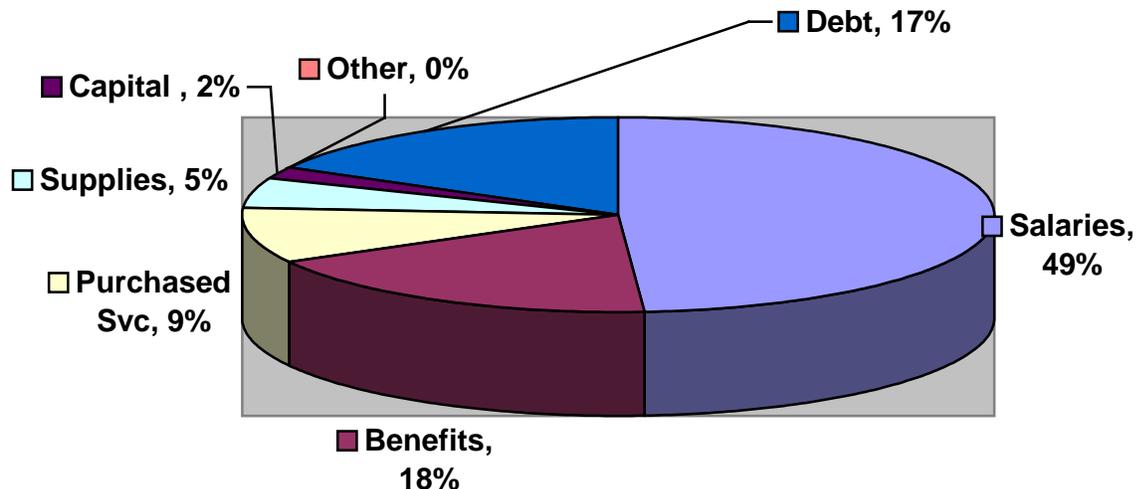
Independent School District No.719's sources of revenue for all funds are property taxes, state aid, federal aid, and other local revenue. The majority of the revenue is received from state aid as seen below.

2010-11 REVENUE BUDGET BY SOURCE



Independent School District No. 719's expenditures are allocated to the following: salaries, benefits, purchased services, supplies and materials, capital expenditures, other expenditures, and debt service. The majority of the expenditures are in salaries and benefits as seen below.

2010-11 EXPENDITURE BUDGET BY OBJECT



FINANCIAL INFORMATION - BY FUND

General Fund

The General Fund is used to account for all revenues and expenditures of the school district not accounted for elsewhere. The General Fund is used to account for: K-12 educational activities, district instructional and student support programs, expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and legal school district expenditures not specifically designated to be accounted for in any other fund.

<u>GENERAL FUND</u>	<u>2011-12 BUDGET</u>	<u>2010-11 EST. ACTUAL</u>	<u>NET CHANGE</u>	<u>%</u>
Total Revenues	\$62,048,450	\$63,210,908	\$(1,162,458)	(1.8)%
Total Expenditures	\$61,016,085	\$62,700,053	\$(1,683,968)	(2.6)%
Total Excess/(Deficiency)	\$ 1,032,365	\$ 510,855		

*Includes both reserved and unreserved revenues and expenditures.

Due to the 2011 legislative session finished without an education bill, the district is budgeting based on the 2010-11 formula allowance of \$5,124 per adjusted marginal cost pupil unit for the 2011-12 year which is a 0% increase from 2010-11. Due to the 2008 legislative session, the district received an additional one time funding of \$51 per adjusted marginal cost pupil unit. The district designated these dollars towards the opening of Redtail Ridge Elementary School to be used over a four year period. Due to the Federal Stimulus dollars, the district received additional dollars towards special education with the authority that some funds may be used to offset the unfunded costs of special education. The district has designated dollars for 2010-11 to assist with district cash flow due to the reduction of the state aid payment schedule from 73%/27% to 70%/30%. Estimated revenues total \$62,048,450, a decrease of \$1,162,458 over fiscal year 2011. The 1.8% estimated revenue decrease is mainly due to two components. The district received one-time Federal Jobs Bill dollars in 2010-11 of \$1,080,000, and also received federal special education stimulus dollars in 2010-11 that discontinue in 2011-12. Estimated expenditures total \$61,016,085, a decrease of \$1,683,968 over the previous year. The 2.6% estimated expenditure decrease includes the School Board budget plan approved in April 2010 which included budget reductions due to the change to the six-period day at the secondary level. In addition, expenditures decreases are due to a reduction in staffing at the elementary level to accommodate the loss of student enrollment. The growth in remaining expenditures is consistent with regional inflationary trends.

The estimated unassigned fund balance is \$2,219,475, the committed fund balance for the opening of Redtail Ridge Elementary School is \$107,380, committed federal special education stimulus dollars are \$301,500, committed fund balance for cash flow is \$1,500,000, and the estimated restricted fund balance for the area learning center, learning and development, gifted

and talented, basic skills, staff development, operating capital, deferred maintenance, safe schools, and health and safety is \$1,045,055. The District's unassigned fund balance trend offers the single best measure of the District's overall financial health. The estimated unassigned fund balance on June 30, 2012 represents 3.6% of annual expenditures or about one week of normal operating expenditures. The District closely monitors the General Fund unreserved fund balance through use of a detailed financial planning model, initiating two budget revisions during the year and with monthly budget analysis. The School Board adopted in 2006-07 a fund balance policy to maintain a five to eight percent fund balance in the Unreserved General Fund by 2011. Due to the current state economy, it will take the district longer to achieve the fund balance as stated in board policy. The District's long-range plan will include a plan to incrementally move the district fund balance to the board policy level.

Special Revenue Funds

The Special Revenue Funds account for the Food Service and Community Service Funds. The Food Service Fund is used to record financial activities of a school district's food service program which includes activities for the purpose of preparation and service of milk, meals, and snacks in connection with school. The Community Service Fund is used to record all financial activities of the Community Service Program. The Community Service Fund is comprised of four components, each with its own fund balance. The four components are Community Service, Community Education, Early Childhood Family Education, and School Readiness.

The June 30, 2012 estimated combined fund balance is \$730,718, a decrease of \$147,395 from fiscal year 2011. The decrease in the fund balance is due to an intentional reduction in Community Service fund balances. The District intends to maintain Food Service and Community Services fund balances below the range of the 25% guideline set by the state.

Food Service Fund

The estimated June 30, 2012 fund balance is \$324,876, an decrease of \$29,570 from fiscal year 2011. Estimated revenues increase by \$18,835 and estimated expenditures increase by \$29,774 from the previous year. The increase in revenues is primarily due to increased lunch participation. The increase in expenditures is primarily attributed increased cost of food, fuel, and supplies and an intentional monitoring of the Food Service fund balance.

Community Service Fund

The estimated June 30, 2012 fund balance is \$405,842, a decrease of \$117,825 from fiscal year 2011. Estimated revenues decrease by \$57,608 and estimated expenditures decrease by \$200,916 from the previous year. The decrease in revenues is primarily a result of an changes in programming for the various community services programs. The decrease in expenditures is due to program expenditure adjustments.

Debt Service Fund

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction or operating capital, and whether for initial or refunding bonds. The estimated June 30, 2012, fund balance is \$2,568,704, an increase of \$564,037 from fiscal year 2011. Estimated revenues decrease by \$800,922 and estimated expenditures decrease by \$1,270,448 from the previous year. Levy revenues increased

based on levying 105% of the principal and interest schedule. The fund balance is monitored through a state formula and systematically reduced according to the state-mandated formula. The expenditure budget is based on the payment schedule of bond principal and interest on the general obligation bonds issued from 2000 through 2007.

Capital Project-Building Construction Fund

The Capital Project-Building Construction Fund is used to record all operations of a district's building construction program that are funded by the sale of bonds, by capital loans, or the Alternative Bonding Program. The District issued \$55 million in General Obligation School Building Bonds to fund building improvements in May of 2005 and an additional \$12.1 million in General Obligation School Building Bonds in January of 2007 to fund Redtail Ridge Elementary School. The estimated June 30, 2012 fund balance is \$425,630 a decrease of \$496,000 from fiscal year 2011. Estimated revenues decrease by \$500 and estimated expenditures decrease by \$639,560 from the previous year. The decrease in fund balance is due to the spending of bond proceeds according to the construction schedule.

Internal Service Fund

The Internal Service Fund is used to account to reserve funds for the Other Post Employment Obligations (OPEB). The estimated June 30, 2012 fund balance is \$2,757,449 an increase of \$902,850 from fiscal year 2011. In June 2011, the School Board approved the district to move to a self-insured model for health insurance. The premiums, claims and expenses are reflected in this fund. Estimated OPEB revenues of \$500,000 results in an increase due to the district levy for OPEB liabilities and estimated expenditures increase by \$44,631 from the previous year. The increase in fund balance is part of the long term plan to fully fund the district's OPEB liability.

CONCLUSION

The 2011-12 Preliminary Budget reflects the board's plan to incrementally move the District towards a fund balance at Board policy level so that all available resources are used to provide educational opportunities to students. The Board will continue efforts to maintain and improve fund balance into the future via increased funding from the legislature, budget reductions, voter approved levies, and a combination of all of these options.

The preparation of this report could not have been accomplished without the efficient and dedicated services of the District's Business Office staff. We would like to express our appreciation to the School Board for their interest and support in planning and conducting the financial operations of the District in a responsible and progressive manner.

Respectfully submitted,

Julie Cink
Director of Business Affairs

INDEPENDENT SCHOOL DISTRICT NO. 719



BOARD OF EDUCATION

Eric Pratt, Chair

Lee Shimek, Vice-Chair

Michael Murray, Clerk/Treasurer

Tom Anderson, Director

Stacy Ruelle, Director

Todd Sorensen, Director

Richard Wolf, Director

CENTRAL ADMINISTRATION

Dr. Sue Ann Gruver, Superintendent

Julie Cink, Director of Business Affairs

See Strategic Road Map – Separate Page

Independent School District 719
Organizational Chart

INDEPENDENT SCHOOL DISTRICT NO. 719

ESTABLISHMENT, ADOPTION, AND MODIFICATION OF DISTRICT BUDGET

It is the policy of Prior Lake-Savage Area Schools to establish its revenue and expenditure budgets in accordance with the applicable provisions of law. Budget planning is an integral part of program planning so that the annual budget will effectively express and implement school board goals and the priorities of the school district.

A. Establishment and Adoption of School District Budget

1. The superintendent or such other school official as designated by the superintendent or the school board shall prepare preliminary revenue and expenditure budgets for review by the school board or its designated committee or committees annually. The budget process shall involve input from stakeholders. The preliminary budgets shall be accompanied by such written commentary with detailed financial information as may be necessary for them to be clearly understood by the members of the school board and the public. The school board shall review the projected revenues and expenditures for the school district for the next fiscal year and make such adjustments in the expenditure budget as necessary to carry out the education program within the revenues projected.
2. Prior to adopting the initial budget for a school year, the school board must inform the principal or other responsible administrative authority at each site the amount of general education and referendum revenue that will be generated by the pupils in attendance at that site. These estimates may be adjusted in accordance with law.
3. The school district must maintain separate accounts to identify revenues and expenditures for each building. Expenditures shall be reported in compliance with Minnesota Statute.
4. Prior to July 1 of each year, the school board shall approve and adopt its initial revenue and expenditure budgets for the following school year. The adopted expenditure budget document shall be considered the school board's expenditure authorization for that school year. No funds may be expended for any purpose in any school year prior to the adoption of the budget document that authorizes that expenditure for that year or prior to adopting an amendment to that budget document by the school board to authorize that expenditure for that year.
5. The school district shall, prior to November 30 or one week after the school board acceptance of the final audit report, publish its adopted revenue and expenditure budgets for the current year, the actual revenues, expenditures and fund balances for the prior year, and the projected fund balances for the current year in a qualified newspaper of general circulation in the school district or on the district web site if the district publishes an announcement in the newspaper that includes the internet address where the information has been posted. The publication shall be made in the form prescribed by the Commissioner. A statement shall be included in the publication that the complete budget in detail may be inspected by any resident of the school district upon request to the superintendent. At the same time as this

publication, the school district shall publish the other information required by Minnesota Statute.

6. At the public hearing on the adoption of the school district's proposed property tax levy, the school board shall review its current budget and the proposed property taxes payable in the following calendar year.

B. Modification of School District Budget.

1. The school district's adopted expenditure budget shall be considered the school board's expenditure authorization for that school year.
2. If the administration determines that revisions or modifications in the adopted expenditure budget are advisable, the superintendent shall recommend the proposed changes to the school board. The proposed changes shall be accompanied by sufficient and appropriate background information on the revenue and policy issues involved to allow the school board to make an informed decision. A school board member may also propose modifications on that board member's own motion, provided the school board member is encouraged to review the proposed modifications with the superintendent prior to the proposal so that the administration may prepare necessary background materials for the school board prior to its consideration of those proposed modifications.
3. If sufficient funds are not included in the expenditure budget in a particular fund to allow the proposed expenditure, the school board must adopt an expenditure budget amendment to authorize that expenditure for that school year before funds may be expended from that fund. An amended expenditure shall not exceed the projected revenues available for that purpose in that fund.
4. The school district's revenue budget shall be amended from time to time during a fiscal year to reflect updated or revised revenue estimates. The superintendent shall make recommendations to the school board for appropriate revisions. If necessary, the school board shall also make necessary revisions in the expenditure budget if it appears that expenditures would otherwise exceed revenues and fund balances in a fund.

C. Implementation

1. The school board places the responsibility for administering the adopted budget with the superintendent. The superintendent may delegate duties related thereto to other school officials, but maintains the ultimate responsibility for this function.
2. The program-oriented budgeting system will be supported by a program-oriented accounting structure organized and operated on a fund basis as provided for in Minnesota statutes through UFARS.

3. The superintendent or the superintendent's designee is authorized to make payments of claims or salaries authorized by the adopted or amended budget prior to school board approval.
4. Supplies and capital equipment can be ordered prior to budget adoption only by authority of the school board. If additional personnel are provided in the proposed budget, actual hiring may not occur until the budget is adopted unless otherwise approved by the school board. Other funds to be expended in a subsequent school year may not be encumbered prior to budget adoption unless specifically approved by the school board.
5. The school district shall make such reports to the Commissioner as required relating to initial allocations of revenue, reallocations of revenue and expenditures of funds.

2010-11 BUDGET CALENDAR

<u>Month</u>	<u>Date</u>	<u>Item</u>	<u>Responsibility</u>
July 2010	July/Oct	2009-10 Audit Commences	Auditor/Director of Business Affairs
August 2010	Aug 15th	Levy Reports for the 2010 Payable 2011 Levy Due to the MDE	Director of Business Affairs
	Aug 23rd	Approve Budget Calendar	School Board
September 2010	Sept 27th	Adopt the Preliminary 2010 Payable 2011 Levy Certification	School Board
October 2010	Oct 25th	Presentation of the 2009-10 Audit	Auditor/Director of Business Affairs
	Oct	Building Site Visits - Budget Education	Superintendent/Directors of Bus. Affairs & Curr/Tech Administration
	Oct	Site Budget Committees Developed	
	Oct/Nov	2010-11 Final Budget Update in Finance System	Director of Business Affairs/ Business Office
November 2010	Nov 22nd	Review 5 year Capital Facilities Plan	School Board/Administration
	Nov 30th	Publish the 2009-10 Audit and the 2010-11 Budget on the District Website	Director of Business Affairs
	Nov	Building Site Review of Budget	Principals/Program Directors
December 2010	Dec 13th	Adopt the Final 2010 payable 2011 Levy Certification	School Board
	Dec 13th	Approve the 2010-11 Final Budget	School Board
	Dec 13th	Long Range Plan Update	Director of Business Affairs
	Dec 13th	Budget Reduction Plan (if necessary)	Finance Comm, Admin, Board
	Dec 13th	Budget Reinstatement Plan (if necessary)	Finance Comm, Admin, Board
January 2011	Jan 24th	Approve 2011-12 Budget Parameters and Budget Priorities	School Board Work Session
	Jan 24th	Approve Budget Reduction Resolution (if necessary)	School Board
	Jan 24th	New Program Recommendations Due from Principals & Dir. Of Curriculum, Instruction & Assessment	Director of Curriculum, Instruction & Assessment
	Jan 31st	2011-12 Initial Building FTE, Equipment & Materials Allocations	Director of Business Affairs
February 2011	Jan/Feb	All Administrators Work on Budget Additions/Reductions	Administration
	Feb 21st	Present 2011-12 Budget Plan	Administration
	Feb 21st	Adopt Staff Reduction Resolution, (if necessary)	School Board
March 2011	Feb/Mar	All Administrators Work on Instructional, Capital, and FTE Budgets including Food Service & Comm Service	Administration
	Mar 14th	Public Hearing on 2011-12 Budget Reduction Plan (if necessary)	School Board
	Mar 14th	Approve Proposed ULOA's	School Board
	Mar 14th	Textbook Adoption Finalized	Director of Curriculum, Instruction & Assessment
	Mar 31st	All Budgets for All Funds Completed by Principals and Program Directors Due at the District Office	Principals & Program Directors
	Mar 31st	FTE Budget by Department due at the District Office	Principals & Program Directors
	Mar 31st		
April 2011	Apr 4th	Cut Off Date for Issuance of PO's for the 2010-11 Budget	Administration
	Apr 11th	Approve 2011-12 Budget Plan for All Funds	School Board
	Apr/May	2011-12 Preliminary Budget in Finance System	Director of Business Affairs/ Business Office
May 2011	May 19th	Approve Issuance of 2011-12 Purchase Order Requests	School Board
	May 23rd	Final Board Action on ULOA	School Board/Director of Human Resources
June 2011	Jun 27th	Approve the 2011-12 Preliminary Budget	School Board