

**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA**

**AUDITED FINANCIAL STATEMENTS  
Year Ended JUNE 30, 2011**

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**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
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**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA**

**RIDGEWAY COMMUNITY SCHOOL  
BOARD OF DIRECTORS**

Jennifer Krings	Chairperson
Rhonda Anderson	Vice- Chairperson
Anne Vande Berg	Secretary
Erik Lawson	Treasurer
Sarah Meyer	Member
Samantha Conway	Member
Holly Bergler	Member- Community
Jodi Dansingburg	School Coordinator
Mary Feathergill	Business Manager

**RIDGEWAY COMMUNITY ASSOCIATION  
BOARD OF DIRECTORS**

Jim Morcomb	President
Terry Stinson	Treasurer
Steve Groth	Secretary/Clerk

# Pamela Ristau, CPA

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Preston, MN 55965  
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Member of Minnesota Association of Public Accountants  
Member of Minnesota Society of Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Ridgeway Community School  
Houston, MN 55943

We have audited the accompanying financial statements of the governmental activities and each major fund of Ridgeway Community School, Houston, Minnesota, as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Ridgeway Community School, Houston, Minnesota. Our responsibility is to express opinions on these basic financial statements based on our audit. The prior year (partial or summarized) comparative information has been derived from the School's 2010 financial statements.

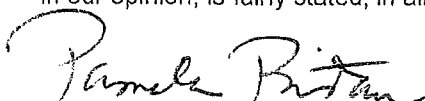
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, Ridgeway Community School, Houston, Minnesota as of June 30, 2011 and the respective changes in financial position thereof, and the respective budgetary comparison of the General Fund, Food Service Fund, and Community Service Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2011 on our consideration of the internal control over financial reporting of Ridgeway Community School, Houston, Minnesota, and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 4 through 11 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

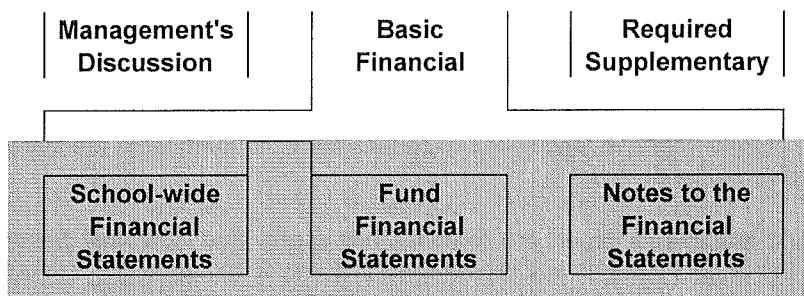
Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Ridgeway Community School, Houston, Minnesota's, basic financial statements. The schedules as listed in the table of contents as supplementary information are presented for the purposes of additional analysis and are not a required part of the basic financial statements of Ridgeway Community School, Houston, Minnesota. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
Pamela Ristau CPA  
October 20, 2011

## REQUIRED SUPPLEMENTARY INFORMATION

**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2011**

The diagram below shows how the various parts of this annual report are arranged and related to one another.



The major features of the School's financial statements, including the portion of the School's activities they cover, and the types of information they contain, are summarized below. The remainder of the overview section of the MD & A highlights the structure and content of each of the statements.

	School-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire School (except fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the School administers resources on behalf of someone else, such as scholarship programs and student activities.
Required Financial statements	<ul style="list-style-type: none"> <li>- Statement of net Assets</li> <li>- Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>- Balance sheet</li> <li>- Statement of Revenues, expenditures, and Changes in fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>- Statement of fiduciary net assets</li> <li>- Statement of changes in fiduciary net assets</li> </ul>
Accounting Basis and measurement Focus	Accrual accounting and economic resources Focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources Focus
Type of assets/liability information	All assets and liabilities, Both financial and capital, short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both short-term and long-term funds do not currently contain capital assets, although they can.
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or Paid	Revenues for which cash is received during or soon after the end of the year; Expenditures when goods or services have been received and the related liability is due and Payable	All additions and deductions during the year, regardless of when cash is received or paid.

**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2011**

**FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

**Net Assets**

The School's combined net assets were \$725,645 on June 30, 2011. This was a decrease of \$24,818 from the prior year.

	<b>Governmental Activities</b>		<b>Percent of</b>
	<b>2011</b>	<b>2010</b>	<b>Change</b>
Current and other assets	\$ 367,324	\$ 332,978	10.3%
Capital and Non- Current Assets	1,535,560	1,573,395	-2.4%
<b>Total assets</b>	<b>1,902,884</b>	<b>1,906,373</b>	<b>-.2%</b>
Current liabilities	120,460	97,688	23.3%
Long-term liabilities	1,056,779	1,058,222	-.1%
<b>Total liabilities</b>	<b>1,177,239</b>	<b>1,155,910</b>	<b>1.8%</b>
Net assets			
Invested in capital assets, net of related debt	477,463	515,016	-7.3%
Restricted	12,951	6,024	115.0%
Unassigned	235,231	229,423	2.5%
<b>Total net assets</b>	<b>\$ 725,645</b>	<b>\$ 750,463</b>	<b>-3.3%</b>

The goal of the School has been to establish an unassigned fund balance above the state suggested 20-23 percent so that when specific large expenditure items are required in the areas of technology, transportation, equipment replacement, class size reduction, and curriculum replacement funds are available.

**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2011**

**FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (continued)**

**Changes in Net Assets (continued)**

The cost of all governmental activities this year was \$824,961.

- The Operating Grants and Contributions from the Federal and State Government and private grant funds subsidized certain programs with grants and contributions \$264,395.
- Some of the cost was paid by the users of the School's programs \$82,771.
- The School's cost paid for by state aid and other general revenues were \$717,205.

All governmental funds include not only funds received for the general operation of the School, which are used for classroom instruction, but also includes resources from the entrepreneurial-type funds of Food Service and Community Education. Funding for the general operation of the School is controlled by the state and the School does not have the latitude to allocate money received in Food Service or Community Education to enhance classroom instruction resources. The School cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction.

**Change in Net Assets**

	Total Cost of Services		Percent of Change	Net Cost of Services		Percent of Change
	2011	2010		2011	2010	
Administration	\$ 62,541	\$ 50,365	24.2%	\$(43,846)	\$(35,871)	22.2%
District Support Services	77,717	60,565	28.3%	(77,717)	(60,565)	28.3%
Regular Instruction	316,476	288,212	9.8%	(233,779)	(201,595)	16.0%
Special Education	89,081	86,272	3.3%	(15,832)	(5,866)	169.9%
Instructional Support						
Services	18,753	11,868	58.0%	(18,753)	(11,868)	58.0%
Pupil Support Services	30,258	22,858	32.4%	(30,258)	(22,858)	32.4%
Sites and Buildings	64,934	166,161	-60.9%	(64,934)	224,115	-126.7%
Fiscal and Other Fixed						
Cost Programs	7,890	5,485	43.8%	(7,890)	(5,485)	43.8%
Food Service	49,538	46,749	6.0%	897	626	43.3%
Community Service	34,854	24,994	39.4%	(64)	73	-187.7%
Interest and Fiscal Charges						
On Long-Term Liabilities	72,919	74,261	-1.8%	14,381	14,386	0%
<b>Total</b>	<b>\$824,961</b>	<b>\$837,790</b>	<b>.3%</b>	<b>\$(477,795)</b>	<b>\$(104,908)</b>	<b>355.4%</b>

**FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

The financial performance of the School as a whole is reflected in its governmental funds. As the School completed the year, its governmental funds reported a combined fund balance of \$256,417, \$68,190 above last year's ending fund balance of \$188,227. This includes reserved and unreserved fund balances.

**GENERAL FUND**

The General Fund is used to account for all revenues and expenditures of the School not accounted for elsewhere. This fund is used to account for K-5 educational activities, School instructional and student support programs, expenditures for both School and School administration, normal operations and maintenance, pupil transportation, capital expenditures, and all other legal expenditures not specifically designated to be accounted for in any other fund.



**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2011**

**FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS (continued)**

**GENERAL FUND (continued)**

The General Fund Expenditures decreased \$307,374 from the previous year. This decrease can be attributed to the expensing of the Federal Charter School Facilities Improvement Grant in 2010.

In 2010-2011, General Fund Revenue was more than expenditures by \$45,932. Therefore, the fund balance increased from \$203,715 at June 30, 2010 to \$249,646 at June 30, 2011.

The single best measurement of the School's overall financial health in the General Fund is the unassigned fund balance. The unassigned fund balance of \$243,552 at June 30, 2011 represents 35% of annual expenditures.

The goal of the School is to retain an unassigned fund balance of over 25 percent.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Following approval of the budget prior to the beginning of the fiscal year, the School revises the annual operating budget in mid-year. These budget amendments fall into two categories:

- Changes in revenue due to increase or decrease in student population, special education student needs and assessments; and unanticipated grants obtained during the year.
- Changes in expenditures due to unexpected rates increasing, employment wage changes based on student population needs, and restricted expensing of grants obtained during the year.

The School's final revised budget for the General Fund anticipated approximately an \$18,434 increase in fund balance. The actual results for the year show an improvement in fund balance of \$45,932. This is due to conservative budgeting as several areas of revenue came over budget: increase in student population in the spring and increase in special education funding. The actual expenditures were \$64 under budget. Revenues exceeded expenditures in the General Fund by \$45,932.

**COMMUNITY EDUCATION FUND**

The School's Preschool program expanded from a 3-day a week program to a 5-day a week program in the spring therefore budget to actual varied in both revenue and expenditures. Expenditures exceeded revenues in the Community Education fund by \$64.

**FOOD SERVICE FUND**

The Food Service Fund revenues exceeded expenditures by \$897, which is better than budgeted expectations.

**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2011**

**FACTORS BEARING ON THE SCHOOL'S FUTURE**

The School is dependent on the State of Minnesota for its revenue authority. State legislated revenue increases will not be continuing with sufficient increases to cover cost increases due to inflation. Therefore the School will continue to plan conservatively on budget projections and working on increasing promotion and recruitment for additional students.

The School projects the ability to retain an unassigned fund balance over 25 percent in subsequent years.

The School will continue its commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our constituents, state the School's citizens, taxpayers, customers, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or would like additional information, contact the Business Office, Ridgeway Community School, 35564 County Road 12, Houston, Minnesota 55943.

## **BASIC FINANCIAL STATEMENTS**

**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	2011 Governmental Activities	2010 Governmental Activities
<b>Governmental Activities</b>						
Administration	\$ 62,541	\$ 18,695	\$ -	\$ -	\$ (43,846)	\$ (35,871)
School Support Services	77,717	-	-	-	(77,717)	(60,565)
Regular Instruction	316,476	-	82,697	-	(233,779)	(201,595)
Special Education Instructions	89,081	-	73,249	-	(15,832)	(5,866)
Instructional Support Services	18,753	-	-	-	(18,753)	(11,868)
Pupil Support Services	30,258	-	-	-	(30,258)	(22,858)
Site, Buildings, and Equipment	64,934	-	-	-	(64,934)	224,115
Fiscal and Other Fixed Cost Programs	7,890	-	-	-	(7,890)	(5,485)
Food Service	49,538	32,564	17,871	-	897	626
Community Service	34,854	31,512	3,278	-	(64)	73
Interest and Other Fiscal Charges on Long-Term Debt	72,919	-	87,300	-	14,381	14,386
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 824,961</u>	<u>\$ 82,771</u>	<u>\$ 264,395</u>	<u>\$ 0</u>	<u>(477,795)</u>	<u>(104,908)</u>
General Revenues:						
State Aid - Not Restricted					447,079	372,877
Other General Revenues					5,731	24,872
Investment Earnings					167	550
<b>TOTAL GENERAL REVENUES</b>					<u>452,977</u>	<u>398,299</u>
<b>CHANGE IN NET ASSETS</b>					<u>(24,818)</u>	<u>293,391</u>
<b>NET ASSETS - BEGINNING OF YEAR</b>					<u>750,463</u>	<u>457,072</u>
<b>NET ASSETS - END OF YEAR</b>					<u>\$ 725,645</u>	<u>\$ 750,463</u>

See accompanying Notes to Basic Financial Statements.

**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS**

June 30, 2011

	<u>2011</u>	<u>2010</u>
TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 256,417	\$ 188,227
Amounts reported for the governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Land	48,000	48,000
Buildings and Improvements, Net of Accumulated Depreciation	1,328,736	1,377,280
Equipment, Net of Accumulated Depreciation	158,824	148,115
Bond issuance costs are reported as expenditures in the governmental funds.	18,891	19,790
Some of the School's pledges receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.	-	51,083
Long Term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long Term liabilities at year-end consist of:		
Obligations under Capital Leases	-	(1,416)
Van Loan	(21,163)	-
Building Loan Payable	(1,036,933)	(1,056,963)
Compensated Absences Payable	(27,127)	(23,653)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 725,645</u>	<u>\$ 750,463</u>

See accompanying Notes to Basic Financial Statements.

**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS**

June 30, 2011

	2011	2010
TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 68,190	\$ 56,491

Amounts reported for the governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.

Capital Outlays	6,000	303,718
Depreciation Expense	(66,722)	(55,738)
Loss on Fixed Assets Disposed	-	(533)

Some capital asset additions are financed through notes payable and capital leases. In governmental funds, a loan payable or capital lease is considered a source of financing, but in the statements of net asset, the loan payable and capital lease are reported as liabilities.

Repayment of loan principal and the principal paid on capital lease are expenditures in the governmental funds, but the repayment reduces the loan payable and capital lease payable in the statement of net assets.

Loan Advance	(22,886)	-
Repayment of Loan Principal	1,723	-
Repayment of Building Loan	20,029	18,687
Principal Payments - Capital Leases	-	1,863
Amortization of Bond Issuance Costs	(899)	(899)

Change in Deferred Revenues	(26,779)	(24,825)
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In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amount actually paid).

	(3,474)	(5,373)
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CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES	\$ <u>(24,818)</u>	\$ <u>293,391</u>
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See accompanying Notes to Basic Financial Statements.

**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET & ACTUAL  
FOOD SERVICE FUND**

For the Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>2011</u>	<u>2011</u>	<u>2010</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual</u>
REVENUE					
Local Sources					
Primarily Meal Sales	\$ 27,690	\$ 31,749	\$ 32,564	\$ (815)	\$ 32,543
Revenue from State Sources	1,899	2,200	2,327	(127)	2,210
Revenue from Federal Sources	10,542	13,925	15,544	(1,619)	12,622
TOTAL REVENUES	<u>40,131</u>	<u>47,874</u>	<u>50,435</u>	<u>(2,561)</u>	<u>47,375</u>
EXPENDITURES					
Food Service	<u>40,059</u>	<u>47,534</u>	<u>49,538</u>	<u>(2,004)</u>	<u>46,749</u>
TOTAL EXPENDITURES	<u>40,059</u>	<u>47,534</u>	<u>49,538</u>	<u>(2,004)</u>	<u>46,749</u>
Excess of Revenues Over (Under) Expenditures	72	340	897	(557)	626
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET CHANGE IN FUND BALANCE	\$ <u>72</u>	\$ <u>340</u>	897	\$ <u>(557)</u>	\$ 626
FUND BALANCE - JULY 1, 2010			626		0
FUND BALANCE - JUNE 30, 2011			<u>\$ 1,523</u>		<u>\$ 0</u>

See accompanying Notes to Basic Financial Statements.

**RIDGEWAY COMMUNITY SCHOOL**  
**HOUSTON, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 1. – Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The financial statements of Ridgeway Community School have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB has issued codification of governmental accounting and financial reporting standards dated June 30, 2000. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local government.

**B. Reporting Entity**

Ridgeway Community School, Houston, Minnesota ("School") is a Charter School, and was formed August 29, 2001 through an agreement with Winona Area Public Schools District No. 861 in accordance with Minnesota Statutes and began operating September 17, 2001 pursuant to applicable Minnesota laws and statutes. The primary objective of the School is to prepare individuals for responsible, self-directed, lifelong learning, with an emphasis on traditional rural values of cooperation, respect, community service, and stewardship of the natural environment.

Accounting Principles Generally Accepted in the United States of America (GAAP) require that the School's financial statements include all funds, account groups, departments, agencies, boards, commissions, and other organizations which are not legally separate from the School. In addition, the School's financial statements are to include all component units-entities for which the School is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds and account groups of the School.

Based on these criteria, there is one organization that is considered to be a component unit of the School. Ridgeway Community Association is a Minnesota non-profit corporation holding IRS classification as a 501 (C)(3) tax exempt organization which owns the real estate and building that is leased by the School for its operations. Ridgeway Community Association is governed by a separate board appointed by the board of the School. Although it is legally separate from the School, Ridgeway Community Association is reported as if it were part of the School (as a blended component unit) because its sole purpose is to acquire, construct, and own an educational site, which is leased to the School. No separate financial statements for Ridgeway Community Association are issued. All long-term debt related to the purchase of the building and property and all fixed assets related to the school site will be the responsibility of and will be under the ownership of Ridgeway Community Association.

**C. Basic Financial Statement Presentation**

The School-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the School.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services; or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported as general revenues.



**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 1. – Summary of Significant Accounting Policies (continued)**

**D. Measurement Focus and Basis of Accounting (continued)**

**Description of Funds**

The existence of various School funds has been established by the State of Minnesota, Department of Education. The accounts of the School are organized on the basis of funds, each of which is considered a separate accounting entity. The funds included in this report are described as follows:

***Governmental Funds***

General Fund - Accounts for all financial resources and transactions except those required to be accounted for in other funds including general operation, special education programs, pupil transportation, and capital expenditures.

Food Service Special Revenue Fund - Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches and snacks in connection with school activities.

Community Service Special Revenue Fund - Accounts for the resources designated for preschool and after school care programs.

Building Corporation Special Revenue Fund - Accounts for all activities of the Ridgeway Community Association. This includes accounting for the proceeds and uses of resources borrowed for the purpose of purchasing and building the school site, the receipt of lease payments from Ridgeway Community School, as well as the debt service payments required under the terms of the building loan.

**E. Budgets**

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the Board of Directors adopts an annual budget for funds of the School on a basis consistent with the United States generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted or as revised by the Board of Directors. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the School Coordinator submits to the Board of Directors prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by the Board of Directors actions. Revisions to budgeted amounts must be approved by the Board of Directors.

Total fund expenditures in excess of the budget require approval of the Board of Directors. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 1. – Summary of Significant Accounting Policies (continued)**

**F. Specific Account Information (continued)**

Risk Management

The School is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employee; natural disasters and workers compensation. The School purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the School's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Fund Balance

Fund balances of governmental fund types are classified in two separate categories. The general meaning is as follows:

- Restricted/Reserved - Indicates that a portion of fund equity has been legally segregated for specific purposes.
- Unassigned Fund Balance – Indicates that portion of fund equity which is available for general expenditures in future periods.

Net Assets

Net assets represent the difference between assets and liabilities in the School-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the School-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

Compensated Absences

Full-time 12-month employees of the School earn 12 days of personal leave each year, and student service-day employees earn 9 days of personal leave each year. This benefit vests to employees. At June 30, 2011, compensated absences totaling \$ 27,127 are recorded in the financial statements.

Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the School's financial position and operations.

**NOTE 2. – Stewardship and Accountability**

Deficit Fund Balance

The Building Corporation had a deficit fund balance of \$86 at June 30, 2011. The School plans to eliminate this deficit with future donations to the building project.

Inter-fund Receivables

The School had the following inter-fund receivables and payables at June 30, 2011:

	Due from Other Fund	Due to Other Fund
General Fund	\$ 10,000	\$ -
Building Corporation	-	10,000
	<u>\$ 10,000</u>	<u>\$ 10,000</u>

**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 5. – Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Government Activities</b>				
Capital Assets				
<b>Ridgeway Community School</b>				
Land Improvements	\$ 1,743	\$ -	\$ -	\$ 1,743
Equipment	193,452	28,887	(9,137)	213,202
<b>Ridgeway Community Association</b>				
Land	48,000	-	-	48,000
Buildings and Improvements	1,487,092	-	-	1,487,092
Total Capital Assets, Being Depreciated	1,730,287	28,887	(9,137)	1,750,037
 Accumulated depreciation activity for				
<b>Ridgeway Community School</b>				
Land Improvements	(131)	(87)	-	(218)
Equipment	(45,337)	(18,178)	9,137	(54,378)
<b>Ridgeway Community Association</b>				
Buildings and Improvements	(111,424)	(48,457)	-	(159,881)
Total Accumulated Depreciation	(156,892)	(66,722)	9,137	(214,477)
 Governmental Activities Capital Assets, Net	\$ 1,573,395	\$ (37,835)	\$ 0	\$ 1,535,560

Depreciation expense was charged to functions of the School as follows:

<b>Governmental Activities</b>	
District Support Services	\$ 123
Regular Instruction	39,161
Instructional Support	219
Pupil Support services	4,305
Sites and Buildings	22,914
Total Depreciation Expense, Governmental Activities	<u>\$66,722</u>

**NOTE 6. – Long-Term Liabilities**

A. Components of Long-Term Liabilities

	Principal Outstanding	
	Due Within	
	One Year	Total
Van Loan Payable	\$ 4,265	\$ 21,163
Building Loan Payable	21,466	1,036,933
Compensated Absences Payable	2,713	27,127
	<u>\$ 28,444</u>	<u>\$ 1,085,223</u>

**RIDGEWAY COMMUNITY SCHOOL**  
**HOUSTON, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 7. – Inter-fund Transfers**

Ridgeway Community School did not have any inter-fund transfers during the June 30, 2011 year.

**NOTE 8. – Operating Lease**

Ridgeway Community School incurs expenses under an operating lease for rent of facilities. This lease agreement is cancelable and has a term of twenty-five years. The following is a schedule of future minimum lease payments required under the operating lease:

Year-Ending June 30,	
2013	\$ 97,000
2014	97,000
2015	97,000
2016-2018	388,000
2019-2023	485,000
2024-2028	485,000
2029-2032	485,000
Total Minimum Lease Payments	<u>\$2,134,000</u>

The School's lease expense for the year ended June 30, 2011 was \$97,000.

**NOTE 9. – Pension Plans**

Substantially all employees of the School are required by State law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis.

Disclosures relating to these plans follow:

**A. TEACHERS RETIREMENT ASSOCIATION (TRA)**

Plan Description

All teachers employed by the School are covered by defined benefit plans administered by the State of Minnesota Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Fund or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota statute, and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and years of credit at termination of service.

**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 9. – Pension Plans (continued)**

**A. TEACHERS RETIREMENT ASSOCIATION (TRA) (continued)**

Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. As of July 1, 2006 Coordinated and Basic Plan members are required to contribute 6.75 percent and 9.0 percent, respectively, of their annual covered salary as employee contributions. As of July 1, 2007, the employer contribution rate for Coordinated members is 6.75 percent and 9.5 percent for Basic members. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2008 was approximately 3.645 billion.

The School contributions for the years ending June 30, 2011, 2010, and 2009, were \$13,519, \$13,123, and \$12,512, respectively, equal to the required contributions for each year as set by state statute.

**B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)**

Plan Description

Employees, other than teachers, are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), which is a cost-sharing multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. For a Coordinated member, the annuity accrual rate is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic members and 1.7 percent for Coordinated members for each year of service. For all PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1 a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced social security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single life annuity is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

**RIDGEWAY COMMUNITY SCHOOL  
HOUSTON, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 11. – Commitments and Contingencies (continued)**

**Lease Commitment and Terms – School Site - Ridgeway Association (continued)**

The total amount of rent paid by the School to Ridgeway Community Association under the terms of the lease agreement was \$97,000 for fiscal 2011. Future amounts to be requested for state lease aid from the Minnesota Department of Education may vary due to financing arrangements, which are subject to change.

The School's ability to make payment under this lease agreement is dependent on its revenues which are in turn, largely dependent on sufficient enrollments being served at the School and on sufficient state aids per student being authorized and received from the State of Minnesota. The School believes that its enrollments and aid entitlements will be sufficient to meet the lease obligations as they become due.

**NOTE 12. – Student Activity Accounts**

The School has no student activity accounts as of June 30, 2011. If the School does have any student activity accounts established, they will be under school board control.

## **SUPPLEMENTAL INFORMATION**

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Member of Minnesota Association of Public Accountants  
Member of Minnesota Society of Certified Public Accountants

## REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Directors  
Ridgeway Community School  
Houston, MN 55943

We have audited the financial statements of Ridgeway Community School, as of and for the year ended June 30, 2011 and have issued our report thereon dated October 20, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minnesota Legal Compliance Audit Guide for Local Government promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

The Minnesota Legal Compliance Audit Guide for Local Government covers two main categories of compliance to be tested: charter schools and uniform financial accounting and reporting standards for school districts. Our study included both of the listed categories.

The results of our tests indicated that for the items tested the Ridgeway Community School complied with the material terms and conditions of applicable legal provisions.

A handwritten signature in cursive script that reads "Pamela Ristau".

Pamela Ristau CPA  
October 20, 2011



11/09/11

## UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS

COM01040830711

## COMPLIANCE REPORT

DATA AS OF 11/01/11

AUDITED UFARS DATA SUBMITTED

DISTRICT: 4083-07 RIDGEWAY COMMUNITY SCHOOL 06/30/11

## 01 GENERAL FUND

-----  
 TOTAL REVENUE 744,802  
 TOTAL EXPENDITURES 698,870  
 NON SPENDABLE:  
 460 NON SPENDABLE FUND BALANCE  
 RESTRICTED/RESERVE:  
 403 STAFF DEVELOPMENT  
 405 DEFERRED MAINTENANCE  
 406 HEALTH & SAFETY  
 407 CAPITAL PROJECTS LEVY  
 408 COOPERATIVE REVENUE  
 414 OPERATING DEBT  
 416 LEVY REDUCTION  
 417 TACONITE BUILDING MAINT  
 423 CERTAIN TEACHER PROGRAMS  
 424 OPERATING CAPITAL  
 426 \$25 TACONITE  
 427 DISABLED ACCESSIBILITY  
 428 LEARNING & DEVELOPMENT  
 434 AREA LEARNING CENTER  
 435 CONTRACTED ALT. PROGRAMS  
 436 ST. APPROVED ALT. PROGRAM  
 438 GIFTED & TALENT  
 441 BASIC SKILLS PROGRAMS  
 445 CAREER & TECH PROGRAMS  
 449 SAFE SCHOOLS LEVY  
 450 PREKINDERGARTEN  
 451 QZAB PAYMENTS  
 452 OPEB LIAB NOT IN TRUST  
 453 UNFNDED SEV & RETIREMT LEVY  
 RESTRICTED:  
 464 RESTRICTED FUND BALANCE  
 COMMITTED:  
 418 COMMITTED FOR SEPARATION  
 461 COMMITTED FUND BALANCE  
 ASSIGNED:  
 462 ASSIGNED FUND BALANCE 6,094  
 UNASSIGNED:  
 422 UNASSIGNED FUND BALANCE 243,553

## 02 FOOD SERVICE

-----  
 TOTAL REVENUE 50,435  
 TOTAL EXPENDITURES 49,538  
 NON SPENDABLE:  
 460 NON SPENDABLE FUND BALANCE  
 RESTRICTED/RESERVE:  
 452 OPEB LIAB NOT IN TRUST  
 RESERVE:  
 464 RESTRICTED FUND BALANCE 1,523  
 UNASSIGNED:  
 463 UNASSIGNED FUND BALANCE

## 04 COMMUNITY SERVICE

-----  
 TOTAL REVENUE 34,790  
 TOTAL EXPENDITURES 34,854  
 NON SPENDABLE:  
 460 NON SPENDABLE FUND BALANCE  
 RESTRICTED/RESERVE:  
 426 \$25 TACONITE  
 431 COMMUNITY EDUCATION  
 432 E.C.F.E  
 444 SCHOOL READINESS  
 447 ADULT BASIC EDUCATION  
 452 OPEB LIAB NOT IN TRUST  
 RESTRICTED:  
 464 RESTRICTED FUND BALANCE 5,334  
 UNASSIGNED:  
 463 UNASSIGNED FUND BALANCE

## 06 BUILDING CONSTRUCTION

-----  
 TOTAL REVENUE  
 TOTAL EXPENDITURES  
 NON SPENDABLE  
 460 NON SPENDABLE FUND BALANCE  
 RESTRICTED/RESERVE:  
 407 CAPITAL PROJECTS LEVY  
 409 ALTERNATIVE FAC. PROGRAM  
 413 PROJECTS FUNDED BY COP  
 RESTRICTED:  
 464 RESTRICTED FUND BALANCE  
 UNASSIGNED:  
 463 UNASSIGNED FUND BALANCE

## 07 DEBT SERVICE

-----  
 TOTAL REVENUE  
 TOTAL EXPENDITURES  
 NON SPENDABLE  
 460 NON SPENDABLE FUND BALANCE  
 RESTRICTED/RESERVE:  
 425 BOND REFUNDINGS  
 451 QZAB PAYMENTS  
 RESTRICTED:  
 464 RESTRICTED FUND BALANCE  
 UNASSIGNED:  
 463 UNASSIGNED FUND BALANCE

## 08 TRUST

-----  
 TOTAL REVENUE  
 TOTAL EXPENDITURES  
 422 NET ASSETS

## 20 INTERNAL SERVICE

-----  
 TOTAL REVENUE  
 TOTAL EXPENDITURES  
 422 NET ASSETS

## 25 OPEB REVOCABLE TRUST FUND

-----  
 TOTAL REVENUE  
 TOTAL EXPENDITURES  
 422 NET ASSETS

## 45 OPEB IRREVOCABLE TRUST FUND

-----  
 TOTAL REVENUE  
 TOTAL EXPENDITURES  
 422 NET ASSETS

## 47 OPEB DEBT SERVICE FUND

-----  
 TOTAL REVENUE  
 TOTAL EXPENDITURES  
 NON SPENDABLE:  
 460 NON SPENDABLE FUND BALANCE  
 RESTRICTED:  
 425 BOND REFUNDINGS  
 464 RESTRICTED FUND BALANCE  
 UNASSIGNED:  
 463 UNASSIGNED FUND BALANCE

## 1) FUND BALANCE

249,646