FINAL OFFICIAL STATEMENT DATED MAY 23, 2011

NEW ISSUE	**STANDARD & POOR'S CORPORATION CREDIT ENHANCEMENT PROGRAM RATING: AAA**
NOT BANK QUALIFIED	**[MINNESOTA SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM]**
BOOK-ENTRY ONLY	

With respect to the $2,810,000 Taxable General Obligation School Building Bonds, Series 2011A (Qualified Energy Conservation Bonds – Direct Pay), dated June 15, 2011, (the "Bonds"), in the opinion of Fryberger, Buchanan, Smith & Frederick, P.A., Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of their issuance and delivery to the original purchaser, interest on the Bonds is TAXABLE and included in gross income for purposes of United States income tax and is included, to the same extent, in computing both gross and taxable net income for purposes of State of Minnesota income tax. See "Taxability of Interest" herein for additional information.

INDEPENDENT SCHOOL DISTRICT NO. 696, ELY, MINNESOTA

$2,810,000

Taxable General Obligation School Building Bonds, Series 2011A (Qualified Energy Conservation Bonds – Direct Pay)

Dated Date: June 15, 2011	**Interest Due: Each June 15 and December 15** **Commencing December 15, 2011**

Amount	*Rate*	*Maturity*	*Yield*	*Price*
$2,810,000	4.85%	06/15/26	4.85%	100.00

Bonds maturing on June 15, 2026 are subject to redemption and prepayment at the option of the District on June 15, 2020, and any date thereafter, at a price of par plus accrued interest.

The Bonds are also subject to extraordinary optional redemption in the event of a Determination of Ineligibility. If the Bonds are designated and issued as taxable "Qualified Energy Conservation Bonds" under Section 54D and 6431(f) of the Code, at the option of the District, the Bonds are subject to extraordinary redemption in whole, but not in part, at a redemption price equal to par plus accrued interest to the redemption date, upon or on any date after the occurrence of a Determination of Ineligibility. A "Determination of Ineligibility" means (i) the enactment of legislation or the adoption of final regulations or a final decision, ruling or technical advice by any federal judicial or administrative authority which would have the effect of rendering the Bonds as not qualifying for treatment as Qualified Energy Conservation Bonds under Section 54D and 6431(f) of the Code; (ii) the federal government discontinues the Qualified Energy Conservation Bonds Direct Payment program with retroactive applicability to obligations issued prior to the date of such discontinuance (including the Bonds); (iii) the U.S. Treasury Department determines that the Bonds are not Qualified Energy Conservation Bonds under Section 54D and 6431(f) of the Code; or (iv) the receipt by the District of a written opinion of nationally recognized bond counsel selected by the District to the effect that the Bonds are not Qualified Energy Conservation Bonds under Section 54D and 6431(f) of the Code. See *Extraordinary Optional Redemption* herein.

The Bonds are being issued pursuant to an election held March 29, 2011 and Minnesota Statutes, Chapter 475 and Section 126C.55, as amended. The Bonds are being issued as "Qualified Energy Conservation Bonds" pursuant to Section 54D and Section 6431(f) of the Internal Revenue Code of 1986 (the "Code"). The District has received an allocation of $2,810,000 from the State of Minnesota for the issuance of the Bonds. Proceeds will be used, along with other available District funds, to finance the acquisition and improvement of District facilities, including heating plant improvements. See *Authority and Purpose* herein for additional information.

The Bonds are valid and binding general obligations of Independent School District No. 696, Ely (the "District") and are payable solely from the full faith and credit of the District and the power to levy direct general ad valorem taxes. In addition, the District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Chapter 126C.55 (Minnesota School District Credit Enhancement Program), which provides for payment by the State of Minnesota, in the event of a potential default of a school district debt obligation, of the principal and interest on the Bonds when due. See *Security/Sources and Uses of Funds* herein for additional information.

Principal due with respect to the Bonds is payable June 15, 2026 and interest due with respect to the Bonds is payable semiannually June 15 and December 15, commencing December 15, 2011. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in book-entry form only, in the principal amount of $5,000 or any whole multiple thereof. Purchasers <u>will not receive</u> physical delivery of Bonds. See "Book-Entry System" in *Description of Bonds* herein for additional information. Paying Agent/Registrar will be Northland Trust Services, Inc., Minneapolis, Minnesota.

NORTHLAND SECURITIES

ISD No. 696, Ely, Minnesota

$2,810,000

Taxable General Obligation School Building Bonds, Series 2011A

(Qualified Energy Conservation Bonds - Direct Pay)

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total	CUSIP Base 290551
06/15/2011						
12/15/2011			$68,142.50	$68,142.50		
06/15/2012			68,142.50	68,142.50	$136,285.00	
12/15/2012			68,142.50	68,142.50		
06/15/2013			68,142.50	68,142.50	136,285.00	
12/15/2013			68,142.50	68,142.50		
06/15/2014			68,142.50	68,142.50	136,285.00	
12/15/2014			68,142.50	68,142.50		
06/15/2015			68,142.50	68,142.50	136,285.00	
12/15/2015			68,142.50	68,142.50		
06/15/2016			68,142.50	68,142.50	136,285.00	
12/15/2016			68,142.50	68,142.50		
06/15/2017			68,142.50	68,142.50	136,285.00	
12/15/2017			68,142.50	68,142.50		
06/15/2018			68,142.50	68,142.50	136,285.00	
12/15/2018			68,142.50	68,142.50		
06/15/2019			68,142.50	68,142.50	136,285.00	
12/15/2019			68,142.50	68,142.50		
06/15/2020			68,142.50	68,142.50	136,285.00	
12/15/2020			68,142.50	68,142.50		
06/15/2021			68,142.50	68,142.50	136,285.00	
12/15/2021			68,142.50	68,142.50		
06/15/2022			68,142.50	68,142.50	136,285.00	
12/15/2022			68,142.50	68,142.50		
06/15/2023			68,142.50	68,142.50	136,285.00	
12/15/2023			68,142.50	68,142.50		
06/15/2024			68,142.50	68,142.50	136,285.00	
12/15/2024			68,142.50	68,142.50		
06/15/2025			68,142.50	68,142.50	136,285.00	
12/15/2025			68,142.50	68,142.50		
06/15/2026	$2,810,000	4.850%	68,142.50	2,878,142.50	2,946,285.00	CD0
Total	**$2,810,000**		**$2,044,275.00**	**$4,854,275.00**		

Dated	6/15/2011
Delivery Date	6/15/2011
First Coupon Date	12/15/2011
First available call date	6/15/2020
Call Price	100.00%

Average Life	15.000 Years
Average Coupon	4.8500000%

Net Interest Cost (NIC)	4.9633333%
True Interest Cost (TIC)	5.0125802%

Northland Securities Inc.
Public Finance

NORTHLAND NS SECURITIES

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THE BONDS ARE OFFERED, SUBJECT TO PRIOR SALE, WHEN, AS AND IF ACCEPTED BY THE UNDERWRITER(S) NAMED ON THE FRONT COVER OF THIS OFFICIAL STATEMENT AND SUBJECT TO AN OPINION AS TO VALIDITY OF THE BONDS BY BOND COUNSEL. SUBJECT TO APPLICABLE SECURITIES LAWS AND PREVAILING MARKET CONDITIONS, THE UNDERWRITER(S) INTENDS BUT IS NOT OBLIGATED, TO AFFECT SECONDARY MARKET TRADING FOR THE BONDS. FINAL CLOSING DATE IS JUNE 15, 2011.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERS MADE HEREBY, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE DISTRICT OR THE UNDERWRITER(S). NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE DISTRICT SINCE THE DATE HEREOF. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM THE DISTRICT AND OTHER SOURCES WHICH ARE BELIEVED TO BE RELIABLE, BUT IT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS BY, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION BY, THE UNDERWRITER(S).

SUMMARY OF OFFERING

$2,810,000
Taxable General Obligation School Building Bonds, Series 2011A
(Qualified Energy Conservation Bonds – Direct Pay)
(Book-Entry Only)

AMOUNT -	$2,810,000.
ISSUER -	Independent School District No. 696, Ely, Minnesota (the "District").
PURCHASE DATE -	Thursday, May 19, 2011.
UNDERWRITER -	Northland Securities, Inc., 45 South 7th Street, Suite 2000, Minneapolis, Minnesota 55402, telephone: 612-851-5900 or 800-851-2920.
TYPE OF ISSUE -	Taxable General Obligation School Building Bonds, Series 2011A (Qualified Energy Conservation Bonds – Direct Pay) (the "Bonds"). See *Authority and Purpose* as well as *Security/Sources and Uses of Funds* herein for additional information.
AUTHORITY & PURPOSE/ SECURITY -	The Bonds are being issued pursuant to an election held March 29, 2011 and Minnesota Statutes, Chapter 475 and Section 126C.55, as amended. The Bonds are being issued as "Qualified Energy Conservation Bonds" pursuant to Section 54D and Section 6431(f) of the Internal Revenue Code of 1986 (the "Code"). The District has received an allocation of $2,810,000 from the State of Minnesota for the issuance of the Bonds. Proceeds will be used, along with other available District funds, to finance the acquisition and improvement of District facilities, including heating plant improvements. The Bonds are valid and binding general obligations of the District for which the District pledges its full faith and credit and power to levy direct general ad valorem taxes. In addition, the District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Chapter 126C.55 (Minnesota School District Credit Enhancement Program), which provides for payment by the State of Minnesota, in the event of a potential default of a school district debt obligation, principal and interest on the Bonds when due. See *Authority and Purpose* as well as *Security/Sources and Uses of Funds* herein for additional information.
DATE OF ISSUE -	June 15, 2011.
INTEREST PAID -	December 15, 2011, and semiannually thereafter on June 15 and December 15 to registered owners of the Bonds appearing of record in the bond register as of the close of business on the first day (whether or not a business day) of the calendar month of such interest payment date (the "Record Date").
MATURITIES -	06/15/26 $2,810,000
OPTIONAL REDEMPTION -	Bonds maturing on June 15, 2026 are subject to redemption and prepayment at the option of the District on June 15, 2020, and any date thereafter, at a price of par plus accrued interest.
EXTRAORDINARY OPTIONAL REDEMPITON -	The Bonds are also subject to extraordinary optional redemption in the event of a Determination of Ineligibility. If the Bonds are designated and issued as taxable "Qualified Energy Conservation Bonds" under Section 54D and 6431(f) of the Code, at the option of the District, the Bonds are subject to extraordinary redemption in whole, but not in part, at a redemption price equal to par plus accrued interest to the redemption date, upon or on any date after the occurrence of a Determination of Ineligibility, as defined herein.
BOOK-ENTRY -	Bonds will be issued as fully registered and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, to which principal and interest payments will be made. Individual purchases will be made in book-entry form only, in the principal amount of $5,000 or any whole multiple thereof. Purchasers will not receive physical delivery of Bonds.
PAYING AGENT/REGISTRAR -	Northland Trust Services, Inc., Minneapolis, Minnesota.
TAX DESIGNATIONS -	NOT Private Activity Bonds – Bonds are not "private activity bonds" as defined in Section 141 of the Internal Revenue Code of 1986, as amended (the Code). NOT Qualified Tax-Exempt Obligations - The District WILL NOT designate these Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.
LEGAL OPINION -	Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota (the "Bond Counsel").
BOND RATING/CREDIT ENHANCEMENT -	As of the date of this Final Official Statement, the District applied for and received an enhanced rating assigned by Standard & Poor's Corporation ("S&P"). The District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55 (Minnesota School District Credit Enhancement Program), which provides for payment by the State of Minnesota, in the event of a potential default of a school district debt obligation, of the principal and interest on the Bonds when due. The Bonds are rated "AAA" by S&P based upon the Minnesota School District Credit Enhancement Program. This rating reflects the opinion of S&P and any explanation of the significance of this rating may be obtained only from S&P. There is no assurance that a rating will continue for any given period of time, or that such rating will not be revised or withdrawn, if in the judgment of S&P, circumstances so warrant. A revision or withdrawal of the rating may have an adverse affect on the market price of the Bonds. See *Minnesota School District Credit Enhancement Program* herein for additional information.
CLOSING -	June 15, 2011.
PRIMARY CONTACTS -	Kim Belcastro, Interim Superintendent, Independent School District No. 696, Ely, Minnesota, 218-365-6166. Michael R. Hoheisel, Senior Vice President, Public Finance Department, *Northland Securities, Inc.*, 800-851-2920.

INEDEPENDENT SCHOOL DISTRICT
NO. 696, ELY

ADMINISTRATIVE OFFICIALS

Elected Officials

Name	*Position*	*Term Expires*
	District Positions	
Ray Marsnik	Chair	12/31/2014
Paul Pengal	Treasurer	12/31/2012
Scott C. Kellerman	Clerk	12/31/2012
James Pointer	Director	12/31/2012
Amy Richter	Director	12/31/2014
Bill Skradski	Director	12/31/2014

Primary Contacts

Kim Belcastro	District Superintendent (Interim)
Brian Dasher	District Business Manager

Bond Counsel

Fryberger, Buchanan, Smith & Frederick, P.A.
Duluth, Minnesota

Underwriter

Northland Securities, Inc.
Minneapolis, Minnesota

AUTHORITY AND PURPOSE

The Bonds are being issued pursuant to an election held March 29, 2011 and Minnesota Statutes, Chapter 475 and Section 126C.55, as amended. District voters approved the issuance of the Bonds by a vote of 909 (yes) to 411 (no). The Bonds are being issued as "Qualified Energy Conservation Bonds" pursuant to Section 54D and Section 6431(f) of the Internal Revenue Code of 1986 (the "Code"). The District has received an allocation of $2,810,000 from the State of Minnesota for the issuance of the Bonds. Proceeds will be used, along with other available District funds, to finance the acquisition and improvement of District facilities, including heating plant improvements. In addition, because the Bonds are designated as "qualified energy conservation bonds" under Section 54D of the Code, their proceeds may be applied only for qualified expenditures under the Recovery Act. Section 54D requires that the proceeds of qualified energy conservation bonds, such as the Bonds, be applied (among other purposes) to the capital expenditures incurred for the purpose of reducing energy consumption by at least 20 percent and for payment of costs of issuance not in excess of 2% of the issue price of said bonds.

SECURITY/SOURCES AND USES OF FUNDS

Security

At closing Bond Counsel will render an opinion that the Bonds are valid and binding general obligations of Independent School District No. 696, Ely. Bonds will be payable solely from the District pledge of its full faith and credit and power to levy direct general ad valorem taxes. In addition, the District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Chapter 126C.55 (Minnesota School District Credit Enhancement Program), which provides for payment by the State of Minnesota, in the event of a potential default of a school district debt obligation, principal and interest on the Bonds when due. See *Appendix A – Form of Legal Opinion.*

The total amount of Qualified Energy Conservation Bonds issued in Minnesota is limited by the Code, and the State of Minnesota has allocated a portion of such limit to the District (the "Allocation") in the amount of $2,810,000. The District has designated the Bonds as Qualified Energy Conservation Bonds under the Code and the principal amount of the Bonds will be deducted from the Allocation.

Sources and Uses of Funds

Following are the sources and uses of funds in connection with the issuance of the Bonds.

Sources of Funds	
Par Amount of Bonds	$ 2,810,000
Uses of Funds	
Deposit to Project Construction Fund	$ 2,753,800
Costs of Issuance/Underwriter's Discount	56,200
Total Uses of Funds:	$ 2,810,000

DESCRIPTION OF BONDS

Details of Certain Terms

The Bonds will be dated, as originally issued, as of June 15, 2011, and will be issued as fully registered bonds in the denominations of $5,000 or any integral multiple thereof. Principal will be payable June 15, 2026. Interest on the Bonds will be payable semiannually June 15 and December 15, commencing December 15, 2011. The Bonds when issued, will be registered in the name of Cede & Co. (the "Registered Holder"), as nominee of The Depository Trust Company, New York, New York ("DTC"), the initial custodian for the Bonds, to which principal and interest payments on the Bonds will be made so long as Cede & Co. is the Registered Holder of the Bonds. See "Book-Entry System" in *Description of Bonds* herein for additional information. So long as the Book-Entry Only System is used, individual purchases of the Bonds will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof ("Authorized Denominations"). Individual purchasers ("Beneficial Owners") of the Bonds will not receive physical delivery of bond certificates, and registration, exchange, transfer, tender and redemption of the Bonds with respect to Beneficial Owners shall be governed by the Book-Entry Only System.

So long as the Book-Entry Only System is used, payments from Cede & Co., as the Record Holder, to the Beneficial Owners shall be governed by the Book-Entry Only System. If the Book-Entry Only System is discontinued, the principal of and premium, if any, on the Bonds will be payable upon presentation and surrender at the offices of the Paying Agent and Registrar or a duly appointed successor. Interest on the Bonds will be paid by check or draft mailed by the Bond Registrar to the registered holders thereof as such appear on the registration books maintained by the Bond Registrar on the first day (whether or not a business day) of the calendar month of such interest payment date (the "Record Date").

Registration, Transfer and Exchange

So long as the Book-Entry Only System is used, payments from Cede & Co., as the Record Holder, to the Beneficial Owners shall be governed by the Book-Entry Only System. If the Book-Entry Only System is discontinued, the Bonds may be transferred upon surrender of the Bonds at the principal office of the Bond Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the registered owner or his or her attorney duly authorized in writing. The Bonds, upon surrender thereof at the principal office of the Bond Registrar may also be exchanged for other Bonds of the same series, of any authorized denominations having the same form, terms, interest rates and maturities as the Bonds being exchanged. The Bond Registrar will require the payment by the Bondholder requesting such exchange or transfer of any tax or governmental charge required to be paid with respect to such exchange or transfer. The Bond Registrar is not required to (i) issue, transfer or exchange any Bond during a period beginning at the opening of business fifteen days before any selection of Bonds of a particular stated maturity for redemption in accordance with the provisions of the Resolution and ending on the day of the first mailing of the relevant notice of redemption or (ii) to transfer any Bond or portion thereof selected for redemption.

Optional Redemption

Bonds maturing on June 15, 2026 are subject to redemption and prepayment at the option of the District on June 15, 2020, and any date thereafter, at a price of par plus accrued interest. Redemption may be in whole or in part. If redemption is in part, the selection of the amounts and maturities of the Bonds to be prepaid shall be at the discretion of the District. Notice of redemption shall be given by registered mail to the registered owner of the Bonds not less than 30 days prior to such redemption date.

Extraordinary Optional Redemption

If the Bonds are designated and issued as taxable "qualified energy conservation bonds" under Section 54D and 6431(f) of the Code, at the option of the District, the Bonds are subject to extraordinary redemption in whole, but not in part, at a redemption price equal to par plus accrued interest to the redemption date, upon or on any date after the occurrence of a Determination of Ineligibility. A "Determination of Ineligibility" means (i) the enactment of legislation or the adoption of final regulations or a final decision, ruling or technical advice by any federal judicial or administrative authority which would have the effect of rendering the Bonds as not qualifying for treatment as Qualified Energy Conservation Bonds under Section 54D and 6431(f) of the Code; (ii) the federal government discontinues the Qualified Energy Conservation Bonds Direct Payment program with retroactive applicability to obligations issued prior to the date of such discontinuance (including the Bonds); (iii) the U.S. Treasury Department determines that the Bonds are not Qualified Energy Conservation Bonds under Section 54D and 6431(f) of the Code; or (iv) the receipt by the District of a written opinion of nationally recognized bond counsel selected by the District to the effect that the Bonds are not Qualified Energy Conservation Bonds under Section 54D and 6431(f) of the Code.

Mandatory Sinking Fund Deposits

The District has established a schedule of mandatory sinking fund deposits from its annual tax levies, providing for deposit of the following amounts into the sinking fund of the District for the payment of principal on the Bonds at maturity, as follows:

Date	Mandatory Sinking Fund Deposit	Date	Mandatory Sinking Fund Deposit
06/15/2012	$ 55,000	12/15/2019	$110,000
12/15/2012	55,000	06/15/2020	110,000
06/15/2013	85,000	12/15/2020	110,000
12/15/2013	85,000	06/15/2021	110,000
06/15/2014	85,000	12/15/2021	110,000
12/15/2014	85,000	06/15/2022	110,000
06/15/2015	90,000	12/15/2022	110,000
12/15/2015	90,000	06/15/2023	100,000
06/15/2016	90,000	12/15/2023	100,000
12/15/2016	90,000	06/15/2024	100,000
06/15/2017	90,000	12/15/2024	100,000
12/15/2017	90,000	06/15/2025	100,000
06/15/2018	110,000	12/15/2025	100,000
12/15/2018	110,000	06/15/2026	120,000
06/15/2019	110,000		

Book-Entry System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase.

Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or Agent. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

QUALIFIED ENERGY CONSERVATION BONDS – DIRECT PAY

The Bonds will be designated by the District as "Qualified Energy Conservation Bonds" under the provisions of Section 54D and 6431(f) of the Internal Revenue Code of 1986, as amended (the "Code"). The District also has elected to designate the Bonds as "specified tax credit bonds" as defined in Section 6431(f) of the Code. As a result of such election, the Bonds will bear interest which will be included in the gross income of holders thereof for federal income tax purposes, and the holders will not be entitled to any federal tax credits otherwise applicable to Qualified Energy Conservation Bonds in connection with their holding of the Bonds.

The District will be entitled to receive cash subsidies ("Interest Subsidy Payments") from the United States Department of the Treasury (the "Treasury") equal to 70% of the lesser of: (i) of the interest payable on the Bonds or (ii) the amount of interest which would have been payable on the Bonds on such interest payment date if such interest were determined at the applicable credit rate, which is the rate published by the Secretary of the Treasury and determined under Section 54A(b)(3) of the Code as of the date that there is a binding, written contract for the sale or exchange of the Bonds.

The Interest Subsidy Payments received by the District are not pledged to pay the Bonds, nor are their receipt a condition of payment of any portion of the principal of or interest on the Bonds. The District is obligated to make payments of the principal of and interest on the Bonds whether or not it receives Interest Subsidy Payments. Interest Subsidy Payments are treated as overpayments of tax, and accordingly are subject to offset against certain amounts that may be owed by the District to the federal government or its agencies. In addition, it is possible that the Interest Subsidy Payments could be reduced or eliminated or the timing of the payment thereof altered as a result of a change in federal law. Federal tax law imposes certain requirements for qualification of the Bonds as Qualified Energy Conservation Bonds. There can be no assurance that the Bonds will qualify as Qualified Energy Conservation Bonds, or as to the receipt, or timing of receipt, of Interest Subsidy Payments. Based on its allocation received from the Treasury Department, the State of Minnesota has allocated $2,810,000 to the District.

LIMITED CONTINUING DISCLOSURE

In order to assist the Underwriter(s) in complying with SEC Rule 15c2-12 (the "Rule"), pursuant to the Award Resolution and a Continuing Disclosure Undertaking (the "Certificate") to be executed on behalf of the District on or before Bond Closing, the District has and will covenant for the benefit of holders of the Bonds to annually provide certain financial and operating data, which information is customarily prepared by the District and is publicly available, to the Municipal Securities Rulemaking Board ("MSRB") in an electronic format prescribed by the MSRB, and to provide notices of the occurrence of certain events enumerated in the Rule to the MSRB. The specific nature of the Certificate, as well as the information to be contained in the annual report or the notices of material events is set forth in the Continuing Disclosure Undertaking in substantially the form attached hereto as Appendix B. The District has never failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events. A failure by the District to comply with the Certificate will not constitute an event of default on the Bonds (although holders will have an enforceable right to specific performance). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The District will covenant in the resolution awarding the sale of the Bonds and in a Continuing Disclosure Undertaking to provide, or cause to be provided, annual financial information, including audited financial statements of the District, and notices of certain material events, as required by SEC Rule 15c2-12. Please see *Appendix B – Continuing Disclosure Undertaking* herein for additional information.

UNDERWRITING

The Bonds are being purchased from the District by *Northland Securities, Inc*. The Underwriter will receive total compensation of $47,770 in connection with the purchase of the Bonds assuming all Bonds are sold at the rates and yields set forth on the cover page of this Official Statement, which compensation is 1.70% of the par value. The obligation to make such purchase is subject to certain terms and conditions, the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices set forth on the cover page hereof may be changed from time to time by the Underwriter.

TAXABILITY OF INTEREST

The interest to be paid on the Bonds *will be taxable as income* for purposes of Federal and State of Minnesota income taxes. The bond registrar will require all owners of Bonds of this issue to provide sufficient information to determine whether withholding of a percentage of interest earned as income for Federal and State income purposes is required. A report of interest income earned and withheld will be filed with the Internal Revenue Service by the bond registrar on an annual basis.

MINNESOTA SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM

In the resolution adopting the sale of the Bonds, the District will covenant and obligate itself to be bound by the provisions of Minnesota Statutes, Section 126C.55, which provides for payment by the State of Minnesota in the event of a potential default of a school district obligation (herein referred to as the "State Payment Law" or the "Law"). The provisions of the State Payment Law shall be binding on the District as long as any obligations of the issues remain outstanding. Under the State Payment Law, if the District believes it may be unable to make a principal or interest payment for these issues on the due date, it must notify the Commissioner of Education as soon as possible, but not less than 15 working days prior to the due date, (which notice is to specify certain information) and will use the provisions of the Law to have the State of Minnesota make payment of the principal and interest when due. The District also covenants in the Resolution to deposit with the paying agent for the issues three business days prior to the date on which a payment is due an amount sufficient to make that payment or to notify the Commissioner of Education that it will be unable to make all or a portion of the payment.

The Law also requires the paying agent for these issues to notify the Commissioner of Education if it becomes aware of a potential default in the payment of principal and interest on these obligations, or if, on the day two business days prior to the payment date, there are insufficient funds to make the payment or deposit with the paying agent.

After receipt of a notice which requests a payment pursuant to the Law, after consultation with the paying agent and District, and after verifying the accuracy of the information provided, the Commissioner of Education shall notify the Commissioner of Finance of the potential default. The State Payment Law provides that "upon receipt of this notice...the Commissioner of Finance shall issue a warrant and authorize the Commissioner of Education to pay to the paying agent for the debt obligation the specified amount on or before the date due. The amounts needed for purposes of subdivision are annually appropriated to the Department of Education from the state general fund."

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CONCURRENT/FUTURE FINANCING

The District issued $220,000 Taxable General Obligation School Building Bonds, Series 2011B concurrently with this issue. The District does not anticipate the need to finance additional capital improvements with the issuance of general obligation bonds and/or lease purchase deals within the next three months.

BOND RATING/CREDIT ENHANCEMENT

As of the date of this Final Official Statement, the District applied for and received an enhanced rating assigned by Standard & Poor's Corporation ("S&P"). The District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55 (Minnesota School District Credit Enhancement Program), which provides for payment by the State of Minnesota, in the event of a potential default of a school district debt obligation, of the principal and interest on the Bonds when due. The Bonds are rated "AAA" by S&P based upon the Minnesota School District Credit Enhancement Program. This rating reflects the opinion of S&P and any explanation of the significance of this rating may be obtained only from S&P. There is no assurance that a rating will continue for any given period of time, or that such rating will not be revised or withdrawn, if in the judgment of S&P, circumstances so warrant. A revision or withdrawal of the rating may have an adverse affect on the market price of the Bonds. See *Minnesota School District Credit Enhancement Program* herein for additional information.

LITIGATION

As of April 15, 2011, the District was not aware of any threatened or pending litigation that questions the organization or boundaries of the District or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver these Bonds or otherwise questioning the validity of these Bonds.

CERTIFICATION

The District will furnish a statement to the effect that this Official Statement to the best of their knowledge and belief, as of the date of sale and the date of delivery, is true and correct in all material respects, and does not contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The District has always promptly met all payments of principal and interest on its indebtedness when due.

LEGALITY

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving legal opinion of Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota, Bond Counsel. Signed copies of the opinion, dated and premised on law in effect as of the date of original delivery of the Bonds, will be delivered to the Underwriter at the time of such original delivery. The Bonds are offered subject to prior sale and to the approval of legality of the Bonds by Bond Counsel. See *Appendix A – Proposed Form of Legal Opinion.*

The legal opinion to be delivered will express the professional judgment of Bond Counsel and by rendering a legal opinion Bond Counsel does not become an insurer or guarantor of the result indicated by that expression of professional judgment or of the transaction or the future performance of the parties to the transaction.

Bond Counsel has not been engaged, nor has it undertaken, to prepare or to independently verify the accuracy of the Official Statement, including but not limited to financial or statistical information of the District and risks associated with the purchase of the Bonds, except Bond Counsel has reviewed the information and statements contained in the Official Statement under *Security/Sources and Uses of Funds* and *Taxability of Interest* insofar as such statements contained under such captions purport to summarize certain provisions of the Internal Revenue Code of 1986, the Bonds and any opinions rendered by Bond Counsel and Bond Counsel has prepared the documents contained in Appendices A and B.

INDEPENDENT SCHOOL DISTRICT
NO. 696, ELY

GENERAL INFORMATION

Location/Access/Transportation

Independent School District No. 696, situated in St. Louis County, is headquartered within the City of Ely. The District is comprised entirely of the Cities of Ely, Winton, and Morse. The District is located in the northeast portion of Minnesota, approximately 110 miles northeast of Duluth and 260miles north of the Twin Cities Metropolitan Area. Access is provided via State Highways 1 and 169, as well as County Road 21. The City of Ely lies in the heart of the Superior National Forest and is the primary entrance to the BWCA Wilderness area. The City of Ely has a municipal airport with a 5,600-foot paved and lighted runway that can accommodate charter and private jet air traffic.

Area

161,280 Acres
(252 Square Miles)

Population

2011 Estimate[*] 5,446

District Capital Assets

Fixed assets, excluding accumulated depreciation, of the District have the following values as of June 30 (audited):

Asset	*2010*	*2009*	*2008*
Land/Land Improvements	$ 408,897	$ 408,897	$ 408,897
Construction in Progress	0	0	76,651
Buildings	5,495,342	5,455,554	5,179,657
Equipment	1,310,083	1,290,871	1,237,137
Total Fixed Assets:	$7,214,322	$7,155,322	$6,902,352

Employee Pension Programs

The District has 82 employees, 39 certified (licensed) and 43 noncertified (non-licensed).

All *certified personnel* employees (teachers) are covered by defined benefit plans administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan 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, Chapters 354 and 356.

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. Coordinated and Basic Plan members are currently required to contribute 5.5% and 9.0%, respectively, of their annual covered salary. Employer contribution rates matched the rates paid by the member of 5.5% for Coordinated members and 9.5% for Basic members.

[*] Source: ISD No. 696, Ely.

Presently there are 39 employees covered under the TRA plan. Audited District contributions to TRA for the past six years have been as follows:

Year	*Amount*	*Year*	*Amount*
2010	$119,359	2008	$117,683
2009	115,240	2007	115,049

All *noncertified personnel* (full-time and certain part-time) employees are covered by defined benefit plans administered by the Public Employees Retirement Association (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, Chapter 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 Plan 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.

Minnesota Statutes Chapter 353.27 sets the rates for the employee and employer contributions. Effective January 1, 2011, Coordinated and Basic Plan members are required to contribute 6.25% and 9.10%, respectively, of their annual covered salary. The District is required to contribute 7.25% for Coordinated Plan PERF members and 11.78% for Basic Plan PERF members.

Presently there are 43 employees covered under the PERA plan. Audited District contributions to PERA for the past six years have been as follows:

Year	*Amount*	*Year*	*Amount*
2010	$60,444	2008	$60,714
2009	61,247	2007	58,016

Bargaining Units/Teacher Contracts

Recognized/Certified Bargaining Units

Employee Group	*Bargaining Unit*	*Expiration Date*
Confidential/Supervisory	Confidential/Supervisory Employee Association	June, 30, 2011
Teachers	Education Minnesota	June, 30, 2011
Principals	Master Principals	June, 30, 2011
Bus Drivers, Paraprofessionals, Cafeteria, Custodians, Office	AFSCME Local No. 295	June, 30, 2011

Teacher Contracts

The School Board of Independent School District No. 696, Ely, has recognized Education Minnesota as the District's bargaining agent on wages, conditions of employment, and hours for all licensed instructional employees. At the present time the teachers are working under a settled contract for the 2010/2011 school year, which will expire on June 30, 2011. All other employee groups are working under settled contracts for the 2010/2011 school year.

School Data

Enrollments for the last five school years as well as the current school year are as follows:

Year	*Elementary (Grades K-6)*	*Secondary (Grades 7-12)*	*Totals*
2010/11	288	256	544
2009/10	278	260	538
2008/09	283	277	560
2007/08	278	304	582
2006/07	290	319	609
2005/06	285	336	621

Enrollments for the next two school years are projected as follows:

Year	*Elementary (Grades K-6)*	*Secondary (Grades 7-12)*	*Totals*
2012/13	291	261	552
2011/12	290	260	550

Buildings/Facilities

The District currently operates two educational buildings: Washington Elementary consisting of grades kindergarten through fourth and Memorial High School, grades fifth through twelfth. Both facilities are located entirely within the City of Ely.

Labor Force Data

Comparative average labor force and unemployment rate figures for 2011 (through February) and year-end 2010 from the Minnesota Department of Economic Security, Research and Statistics Office, are listed below. Figures are not seasonally adjusted and numbers of people are estimated by place of residence.

	February 2011		2010	
	Civilian Labor Force	*Unemployment Rate*	*Civilian Labor Force*	*Unemployment Rate*
St. Louis County	105,571	8.3%	106,167	7.7%
Minnesota	2,938,005	7.5	2,963,402	7.3

Banking/Financial Institutions

The banking/financial institutions listed below provide various financial services within the City. The most recent available deposit information is as follows:

Bank Name	*Reported Deposits/Assets*[1]
Boundary Waters Bank	$66,260,000
Ely Area Credit Union	18,565,955
Ely Steelworkers Credit Union	973,119
Wells Faro Bank, National Association	37,730,000

[1] Reported deposits are as of June 30, 2010, according to the Federal Deposit Insurance Corporation (FDIC) website at www2.fdic.gov. Reported assets for credit unions are as of December 31, 2010, as obtained from the National Credit Union Administration website at http://cuonline.ncua.gov.

Major/Leading Employers

Following are the major/leading employers within the District as provided by the District as well as from the 2011 Minnesota Manufacturers Register:

Name	*Product/Service*	*Number of Employees*[1]
Ely Bloomenson Community Hospital	Medical Services	264
Vermillion Community College	Educational Services	111
SATO/Navigant Travel	Travel Call Center	108
ISD No. 696, Ely	Public Education	82
Leustek & Sons Inc.	Heavy Construction	75
Irresistible Ink/Hallmark Cards Inc.	Cards	70
Grand Ely Lodge	Motel	61
MN Department of Revenue	State Agency	58
U.S. Forest Service	Forest Management/Government Agency	51
Zup's Food Market	Grocery Store	47
City of Ely	City Government	42

Largest Taxpayers

Following are the ten largest taxpayers within the District as reported by St. Louis County:

Name	*Property Classification*	*2010/2011 Taxable Market Value*	*2010/2011 Tax Capacity*	*Percent of Real Property to Tax Capacity ($8,020,340)*[2]
Potlatch Corp.	Timber	$5,649,400	$ 56,494	.70%
Grand Ely Lodge LLC	Commercial	2,985,100	54,232	.68
Individual	Seasonal	4,223,800	43,812	.55
Berry Corp of South Dakota	Commercial	3,556,800	35,950	.45
Pamida	Commercial	1,528,900	29,828	.37
Individual	Residential	2,116,400	24,025	.30
Individual	Seasonal	1,906,300	22,579	.28
Ely Economic Development Authority	Commercial	1,150,000	22,250	.28
Individual	Seasonal	1,746,100	20,050	.25
Individual	Seasonal	1,768,100	19,473	.24
			$ 328,693	4.10%

[1] Includes full-time, part-time, and seasonal employees.
[2] Before tax increment and fiscal disparity adjustments.

<u>MINNESOTA VALUATIONS; PROPERTY TAX CLASSIFICATIONS</u>

Market Value

According to Minnesota Statutes, Chapter 273, all real property subject to taxation is to be appraised at maximum intervals of five years. All real property becoming taxable in any year is listed at its taxable market value on January 2 of that year. The taxable market value is the County Assessor's appraisal of the worth of the property.

Indicated Market Value

The Minnesota Department of Revenue conducts the Real Estate Sales Assessment Ratio Study to accomplish equalization of property valuation in the State of Minnesota and to determine the probable selling price of a property. The study is a three-year average of sale prices as related to the latest assessor's taxable market value. The indicated market value is determined by dividing the taxable market value by the Sales Assessment Ratio for the District as determined by the Department of Revenue.

Tax Cycle

Minnesota local government ad valorem property taxes are extended and collected by the various counties within the state. The process begins in the fall of every year with the certification, to the county auditor, of all local taxing districts' property tax levies. Local tax rates are calculated by dividing each taxing district's levy by its net tax capacity. One percentage point of local tax rate represents one dollar of tax per $100 net tax capacity. A list of taxes due is then prepared by the county auditor and turned over to the county treasurer on or before the first Monday in January.

The county treasurer is responsible for collecting all property taxes within the county. Real estate and personal property tax statements (excluding manufactured homes) are to be mailed out no later than March 31, and manufactured home property tax statements no later than July 15. The due dates for payment of real and personal property taxes (excluding manufactured homes) are one-half on or before May 15 (May 31 for resorts) and one-half on or before October 15 (November 15 for farm property). Personal property taxes for manufactured homes become due one-half on or before August 31 and one-half on or before November 15.

Following each distribution (May 24, June 5, July 4, October 26, November 2, November 30[†] and January 25 of the following year), the county treasurer must redistribute property tax revenues to the local taxing districts in proportion to their tax capacity ratios. Delinquent property taxes are penalized at various rates depending on the type of property and the length of delinquency.

Tax Credits

Prior to 1990, taxes on homestead residential and agricultural property were reduced by a direct subsidy to the taxpayer. Beginning in 1990, the homestead credit has been eliminated. The state subsidy is now accomplished through lower class rates to homesteaded classifications of property and increased state aids paid directly to local taxing districts. This new system is intended to have generally the same impact as the former homestead credit system.

Tax Levies for General Obligation Bonds
(Minnesota Statutes, Section 475.61)

The governing body of any municipality issuing general obligations shall, prior to delivery of the obligations, levy by resolution a direct general ad valorem tax upon all taxable property in the municipality to be spread upon the tax rolls for each year of the term of the obligations. The tax levies for all years shall be specified and such that if collected in full they, together with estimated collections of special assessments and other revenues pledged for the payment of said obligations, will produce at least five percent in excess of the amount needed to meet when due the principal and interest payments on the obligations.

Such resolution shall irrevocably appropriate the taxes so levied and any special assessments or other revenues so pledged to the municipality's debt service fund or a special debt service fund or account created for the payment of one or more issues of obligations.

The governing body may, at its discretion, at any time after the obligations have been authorized, adopt a resolution levying only a portion of such taxes, to be filed, assessed, extended, collected and remitted as hereinafter provided, and the amount or amounts therein levied shall be credited against the tax required to be levied prior to delivery of the obligations.

The recording officer of the municipality shall file in the office of the county auditor of each county in which any part of the municipality is located a certified copy of the resolution, together with full information regarding the obligations for which the tax is levied. No further action by the municipality is required to authorize the extension, assessment and collection of the tax, but the municipality's liability on the obligations is not limited thereto and its governing body shall levy and cause to be extended, assessed and collected any additional taxes found necessary for full payment of the principal and interest. The auditor shall annually assess and extend upon the tax rolls the amount specified for such year in the resolution, unless the amount has been reduced as authorized below or, if the municipality is located in more than one county, the portion thereof that bears the same ratio to the whole amount as the tax capacity value of taxable property in that part of the municipality located in his county bears to the tax capacity value of all taxable property in the municipality.

Tax levies so made and filed shall be irrevocable, except that if the governing body in any year makes an irrevocable appropriation to the debt service fund of moneys actually on hand or if there is on hand any excess amount in the debt service fund, the recording officer may certify to the county auditor the fact and amount thereof and the auditor shall reduce by the amount so certified the amount otherwise to be included in the rolls next thereafter prepared.

All such taxes shall be collected and remitted to the municipality by the county treasurer as other taxes are collected and remitted, and shall be used only for payment of the obligations on account of that levied or to repay advances from other funds used for such payments, except that any surplus remaining in the debt service fund when the obligations and interest thereon are paid may be appropriated to any other general purpose by the municipality.

Class Rate

The factors (class rates) for converting taxable market value to net tax capacity represent a basic element of the State's property tax relief system and are therefore subject to annual revisions by the State Legislature.

Refer to the following page for a partial summary of these factors.

The following is a partial summary of these factors:

Property Tax Classifications

Class	Type of Property	Class Rate Schedule 2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
1a	Residential Homestead: First $500,000	1.00%	1.00%	1.00%	1.00%	1.00%
	Over $500,000	1.25	1.25	1.25	1.25	1.25
1c	Commercial seasonal-residential recreational-under 250 days and includes homestead					
	First $600,000			.50	.50	.50
	$600,000-2,300,000			1.00	1.00	1.00
	Over $2,300,000†			1.25	1.25	1.25
	First $500,000	.55	.55			
	$500,000-2,200,000	1.00	1.00			
	Over $2,200,000†	1.25	1.25			
2a	Agricultural Homestead – House, Garage, One Acre:					
	First $500,000	1.00	1.00	1.00	1.00	1.00
	Over $500,000	1.25	1.25	1.25	1.25	1.25
	Remainder of Farm* – First $690,000	.55				
	Over $690,000	1.00				
	First $790,000		.55	.55		
	Over $790,000		1.00	1.00		
	First $890,000			.50		
	Over $890,000			1.00		
	1st Tier Homestead Property-First $1,140,000 (2a/2b)				.50	.50
	Farming Entities Excess 1st Tier (unused HS-2a/2b)					.50
	Agricultural Land[2]				1.00	1.00
2b	Non-Homestead Agricultural Land*	1.00	1.00	1.00		
	Rural Vacant Land[3]				1.00	1.00
3a	Commercial/Industrial and Public Utility†					
	First $150,000	1.50	1.50	1.50	1.50	1.50
	Over $150,000	2.00	2.00	2.00	2.00	2.00
4a	Apartment (4+ units, incl. private for-profit hospitals)	1.25	1.25	1.25	1.25	1.25
4b(4)	Unimproved Residential	1.25	1.25	1.25	1.25	1.25
	Residential Non-Homestead (Single Unit)					
4bb(1)	First $500,000	1.00	1.00	1.00	1.00	1.00
	Over $500,000	1.25	1.25	1.25	1.25	1.25
4bb(2)	Ag Non-Homestead (Single unit, garage & 1 acre):					
	First $500,000	1.00	1.00	1.00	1.00	1.00
	Over $500,000	1.25	1.25	1.25	1.25	1.25
4c(1)	Seasonal Residential Recreational†					
	Non-Commercial (Cabin)[4]: First $76,000*					1.00
	$76,000-$500,000*	1.00	1.00	1.00	1.00	1.00
	Over $500,000*	1.25	1.25	1.25	1.25	1.25
	Commercial (Resort): First $500,000	1.00	1.00	1.00	1.00	1.00
	Over $500,000	1.25	1.25	1.25	1.25	1.25
4c(2)	Qualifying golf courses	1.25	1.25	1.25	1.25	1.25
4d	Qualifying Low-Income Rental Housing	.75	.75	.75	.75	.75

† Subject to the state general property tax.

* Exempt from referendum market value based taxes.

2 Homestead remainder & non-homestead; includes structures.

3 Homestead remainder & non-homestead; includes ancillary structures.

4 Note: For purposes of the state general property tax only, non-commercial class 4c(1) seasonal residential recreational property has the following class rate structure: First $76,000 0.40%, $76,001-$500,000 1.00% and over $500,000 1.25%.

INDEPENDENT SCHOOL DISTRICT
NO. 696, ELY

ECONOMIC AND FINANCIAL INFORMATION

Valuations

	Taxable Market Value 2010/2011	*Net Tax Capacity 2010/2011*
Real Property	$ 760,643,400	$ 8,020,340
Personal Property	2,042,900	28,352
Less Tax Increment Deduction		(70,470)
Iron Range Fiscal Disparities[1]		
(Fiscal Disparity Contribution)		(251,474)
Fiscal Disparity Distribution		192,122
Total Valuation	$ 762,686,300	$ 7,918,870

Market Value after Sales Assessment Ratio

The Minnesota Department of Revenue conducts the Real Estate Sales Assessment Ratio Study to accomplish equalization of property valuations in the State and to determine the probable selling price of a property. The Study is a three-year average of sale prices as related to the latest assessor's market value. The latest Sales Assessment Ratio (2009) is 87.6% meaning the County Auditor's recorded real property taxable market value of $760,643,400 is 87.6% of the probable resale market value. We have made the following computations in deriving the market value figure used in the "Summary of Debt and Debt Statistics."

	$ 760,643,400	County Auditor's recorded real property taxable market value.
÷	87.6%	Latest Composite Ratio from the Real Estate Sales Assessment Ratio Study of the Minnesota Department of Revenue.
=	$ 868,314,384	Indicated market value of real property.
+	2,042,900	Personal property.
=	$ 870,357,284	Indicated market value of real and personal property used in "Summary of Debt and Debt Statistics."

1 *Fiscal Disparities Law*
In 1996 Minnesota Legislature established a commercial-industrial tax base sharing program for the Iron Range that is modeled after the Twin Cities metropolitan area program commonly known as "fiscal disparities." Under the Iron Range Fiscal Disparities ("IRFD") program, 40% of the growth in each municipality's commercial-industrial tax base after 1995 is contributed to an area wide pool. The tax base pool is distributed back to municipalities on the basis of property wealth per capita; i.e., municipalities with lower property wealth receive greater distributions. For the purposes of the IRFD program, commercial-industrial property includes public utility property, but does not include commercial, seasonal, recreational property. All local taxing jurisdictions in the area, including counties, cities, towns (including unorganized towns), school districts, and special taxing districts, participate in the IRFD program.

Sales Assessment Ratios

Sales assessment ratios over the past six years have been as follows:

Year	*Ratio*	*Year*	*Ratio*
2009	87.6%	2006	67.4%
2008	75.5	2005	66.1
2007	70.8	2004	65.3

Valuation Trends (Real and Personal Property)

Valuation trends over the past six years have been as follows:

Levy Year/ Collection Year	*Indicated Market Value*	*Taxable Market Value*	*Tax Capacity Before Tax Increments*[1]	*Tax Capacity After Tax Increments*[2]
2010/2011	$ 870,357,284	$762,686,300	$8,048,692	$7,918,870
2009/2010	1,023,493,510	772,737,600	8,174,915	8,051,143
2008/2009	962,379,520	681,364,700	7,204,611	7,049,278
2007/2008	910,893,175	613,942,000	6,498,787	6,314,767
2006/2007	824,073,676	544,712,700	5,771,551	5,581,987
2005/2006	728,478,560	475,696,500	5,028,744	4,882,515

Breakdown of Valuations

2010/2011 Taxable Market Value, Real and Personal Property:

Real Property[3]	$ 760,643,400	99.73%
Personal Property	2,042,900	.27
Totals:	$ 762,686,300	100.00%

2010/2011 Tax Capacity, Real and Personal Property (before tax increment and fiscal disparity adjustments):

Residential Homestead	$ 3,019,623	37.52%
Agricultural	915,461	11.37
Commercial & Industrial	717,864	8.92
Public Utility	8,038	.09
Railroad	2	.01
Residential Non-Homestead	684,804	8.51
Seasonal/Recreational Commercial & Residential	2,674,548	33.23
Personal Property	28,352	.35
Totals:	$ 8,048,692	100.00%

[1] Also before fiscal disparity adjustments.
[2] Also after fiscal disparity adjustments.
[3] Breakdown of Real Property Taxable Market Value is not available from St. Louis County.

Tax Capacity Rates

Following are tax rates for a resident residing in the City of Ely within St. Louis County for the past five-assessable/collection years:

Levy Year/ Collection Year	*2006/07 Tax Capacity Rates*	*2007/08 Tax Capacity Rates*	*2008/09 Tax Capacity Rates*	*2009/10 Tax Capacity Rates*	*2010/11 Tax Capacity Rates*
St. Louis County	60.202%	56.375%	54.847%	52.513%	52.527%
City of Ely	70.042	75.529	64.263	69.953	76.071
ISD No. 696, Ely	4.462	1.635	2.480	4.020	8.400
ARDC	.172	.155	.147	.141	.148
County RR Authority	.846	.824	.762	.719	.739
County HRA	.260	.236	.224	.218	.218
Ely HRA	.000	.000	1.765	1.608	1.860
Totals:	135.948%	134.754%	124.488%	129.172%	139.963%

Tax Levies and Collections[1]

Levy Year/ Collection Year	*2006/ 2007*	*2007/ 2008*	*2008/ 2009*	*2009/ 2010*
Original Gross Tax Levy	$1,243,262	$1,141,175	$1,237,029	$1,300,713
Property Tax Credits[2]	(56,677)	(32,062)	(39,710)	(53,305)
Levy Adjustments	(79,303)	(79,306)	(79,365)	(79,379)
Net Tax Levy	$1,107,282	$1,029,807	$1,117,954	$1,168,029
Amount Collected during Collection Year	$1,066,639	$ 945,009	$1,074,547	$1,124,437
Percent of Net Tax Levy Collected	96.33%	91.77%	96.11%	96.27%
Amount Delinquent at end of Collection Year	$ 40,643	$ 84,798	$ 43,407	$ 43,592
Delinquencies Collected as of (12/31/10)	(38,149)	(77,836)	(25,064)	(0)
Delinquencies Abated or Cancelled as of (12/31/10)	(576)	(62)	(595)	(0)
Total Delinquencies Outstanding as of (12/31/10)	$ 1,918	$ 6,900	$ 17,748	$ 43,592
Percent of Net Tax Levy Collected	99.83%	99.33%	98.41%	96.27%

Note: 2010/2011 Gross Tax Levy N/A

1 2010/2011 property taxes are currently in the process of collection/reporting and no updated figures are available from St. Louis County.

2 Property tax credits are aids provided by the State of Minnesota and paid directly to the District.

Statutory Debt Limit[1]

Minnesota Statutes, Section 475.53, subdivision 4, states that a district may not incur or be subject to a net debt in excess of fifteen percent (15%) of its taxable market value or indicated market value, whichever results in a higher value. Net debt is, with limited exceptions, debt paid solely from ad valorem taxes.

Computation of Legal Debt Margin as of April 18, 2011:

2010/2011 Indicated Market Value	$ 870,357,284
Times 15% of Indicated Market Value	x .15
Statutory Debt Limit	$ 130,553,593

Outstanding bonds applicable to debt limit: (includes this issue)

$220,000 G.O. Capital Facilities Bonds, Series 2003A	$ 50,000
$755,000 G.O. Refunding Bonds of 2004	445,000
$2,810,000 Taxable G.O. School Building Bonds, Series 2011A (this issue)	2,810,000
$220,000 Taxable G.O. School Building Bonds, Series 2011B (concurrent issue)	220,000
Total debt applicable to debt limit	$ 3,525,000
Legal debt margin	$ 127,028,593

Estimated Cash and Investment Balances as of March 31, 2011 (unaudited)

Fund	
General Fund	$ 1,063,330
Food Service Fund	599
Community Service Fund	(21,089)
Debt Service Fund	(804,820
Trust and Agency Fund	138,580
Total Estimated Cash and Investment Balances	$ 376,600

1 Pursuant to Minnesota Statutes 465.71, any lease revenue or public project revenue bond issues/agreements of $1,000,000 or more are subject to the statutory debt limit. Lease revenue or public project revenue bond issues/agreements less than $1,000,000 are not subject to the statutory debt limit.

INDEPENDENT SCHOOL DISTRICT NO. 696, ELY, MINNESOTA
GENERAL OBLIGATION DEBT
(As of April 18, 2011, Plus These Issues)

			These Issues			
Purpose:	***G.O. Capital Facilities Bonds, Series 2003A***	***G.O. Refunding Bonds of 2004***	***Taxable G.O. School Building Bonds, Series 2011A [QECBs]***	***Taxable G.O. School Building Bonds, Series 2011B***		
Dated:	03/01/03	03/01/04	06/15/11	06/15/11		
Original Amount:	$220,000	$755,000	$2,810,000	$220,000		
Maturity:	1-Feb	1-Feb	15-Jun	15-Jun	***TOTAL***	
Interest Rates:	2.00-3.55%	1.75-3.90%	4.85%	1.00-3.00%	***PRINCIPAL:***	
2011	$0	$0	$0	$0	$0	2011
2012	25,000	70,000	0	0	95,000	2012
2013	25,000	70,000	0	40,000	135,000	2013
2014	0	70,000	0	45,000	115,000	2014
2015	0	75,000	0	45,000	120,000	2015
2016	0	80,000	0	45,000	125,000	2016
2017	0	80,000	0	45,000	125,000	2017
2018	0	0	0	0	0	2018
2019	0	0	0	0	0	2019
2020	0	0	0	0	0	2020
2021	0	0	0	0	0	2021
2022	0	0	0	0	0	2022
2023	0	0	0	0	0	2023
2024	0	0	0	0	0	2024
2025	0	0	0	0	0	2025
2026	0	0	2,810,000	0	2,810,000	2026
	$50,000	$445,000	$2,810,000	$220,000	$3,525,000	
	(1)	*(1) (2) (4)*	*(1) (3)*	*(1)*		
				Less	(356,000)	*(4)*
				Net G.O. Debt:	$3,169,000	

NOTE: 20% OF GENERAL OBLIGATION DEBT WILL BE RETIRED WITHIN TEN YEARS.

(1) These bonds are payable solely from ad valorem taxes on all taxable property within the District and without limitation of amount.

(2) These bonds crossover refunded $710,000 of the $1,015,000 General Obligation School Building Bonds of 1997, dated June 1, 1997. Maturities 2007 through 2017, inclusive, were called for redemption on February 1, 2006, at a price of par plus accrued interest.

(3) The District has established a schedule of mandatory sinking fund deposits from its annual tax levies, providing for semi-annual deposits into the sinking fund of amounts sufficient for the payment of principal at maturity.

(4) The Taconite Environmental Protection Fund is responsible for 80 percent of the principal and interest on the District's G.O. Refunding Bonds of 2004. The School Board shall levy an ad valorem tax for each year of the term of these Bonds in an amount equal to 20% of the principal and interest payments on the outstanding Bonds.

INDEPENDENT SCHOOL DISTRICT NO. 696, ELY, MINNESOTA
SPECIAL OBLIGATION DEBT
(As of April 18, 2011)

Purpose:	***Certificates of Participation, Series 2003B***
Dated:	08/01/03
Original Amount:	$900,000
Maturity:	1-Feb
Interest Rates:	2.50-5.50%
2011	0
2012	40,000
2013	40,000
2014	45,000
2015	45,000
2016	45,000
2017	50,000
2018	50,000
2019	55,000
2020	55,000
2021	60,000
2022	60,000
2023	65,000
	$610,000 *(1) (2)*

NOTE: 43% OF SPECIAL OBLIGATION DEBT WILL BE RETIRED WITHIN TEN YEARS.

(1) These certificates are payable from annual appropriations to be made by the district's school board. The certificates are subject to termination by the district at the end of any fiscal year of the district if the school board does not appropriate monies sufficient to continue the Intallment Contract for the ensuing fiscal year. In such event the Installment Contract is terminated and there is no obligation of the District for future Installment Payments.

(2) These certificates ARE NOT a general obligation of the District, and the full faith and credit and ad valorem taxing powers ARE NOT pledged to the payment of the Installment Payments.

Indirect Debt*

Issuer	*2010/2011 Tax Capacity Value*[(1)]	*2010/2011 Tax Capacity Value in District*[(1)]	*Percentage Applicable District*	*Outstanding General Obligation Debt*	*Taxpayers' Share of Debt*
St. Louis County	$179,759,359	$7,726,748	4.30%	$41,465,000[(2)]	$1,782,995
City of Ely	1,912,378	1,912,378	100.00	1,017,200[(3)]	1,017,200
				Total Indirect Debt:	$2,800,195

* Only those taxing jurisdictions with general obligation debt outstanding are included. Debt figures do not include non-general obligation debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

(1) Tax Capacity Values are after tax increment and fiscal disparity contribution and before fiscal disparity distribution adjustments.

(2) St. Louis County has bond indebtedness of $41,465,000 as of April 5, 2011.

(3) The City of Ely has bond indebtedness of $1,017,200 as of April 5, 2011.

SUMMARY OF DEBT AND DEBT STATISTICS

Direct Debt

Bonds secured by taxes (includes this and concurrent issue)	$3,525,000
Total Direct Debt	$3,525,000
Add taxpayers' share of indirect debt	2,800,195
Direct and Indirect Debt	$6,325,195

Special Obligation Debt

$900,000 Certificates of Participation, Series 2003B	$ 610,000

Facts for Ratio Computations

2010/2011 Indicated Market Value	$870,357,284
2010/2011 Net Tax Capacity[1]	$7,918,870
Population (2011 estimate)	5,446

Debt Ratios

	Direct Debt	*Indirect Debt*	*Direct and Indirect Debt*
To Indicated Market Value	.41%	.32%	.73%
Per Capita	$647	$514	$1,161

[1] After tax increment and fiscal disparity adjustments.

APPENDIX A

Legal Opinion

FRYBERGER, BUCHANAN, SMITH & FREDERICK, P.A.
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DULUTH, MINNESOTA 55802

PHONE (218) 722-0861
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June 15, 2011

ISD No. 696 (Ely), Minnesota
600 East Harvey Street
Ely, MN 55731

[PURCHASER]

RE: Independent School District No. 696 (Ely), Minnesota
$2,810,000 Taxable General Obligation School Building Bonds, Series 2011A (Qualified Energy Conservation Bonds-Direct Pay)

We have acted as Bond Counsel in connection with the authorization, issuance and delivery by Independent School District No. 696 (Ely), Minnesota (the "Issuer"), of the bonds referred to above dated the date hereof (the "Bonds"). The Bonds are issued pursuant to Minnesota Statutes, Chapter 475 and Section 126C.55.

For purposes of this opinion, we have examined the law and certified copies of certain proceedings taken, and certain affidavits and certificates furnished by the Issuer in the authorization, sale and issuance of the Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certificates of public officials furnished to us without undertaking to verify such facts by independent investigation.

We have not been engaged or undertaken to review the accuracy, completeness, or sufficiency of the Official Statement or other offering material relating to the Bonds, and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

Based upon such examination, and assuming the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals, and assuming the genuineness of the signatures thereon and the accuracy of the facts and representations stated therein, and on the basis of laws, regulations, rulings and decisions in effect on the date hereof, but excluding any pending legislation which may have a retroactive effective date prior to the date hereof, it is our opinion that:

1. The Bonds are valid and binding general obligations of the Issuer enforceable in accordance with their terms.

2. All the taxable property in the territory of the Issuer is subject to a levy of ad valorem taxes to pay principal of and interest on the Bonds, without limitation as to rate or amount.

We express no opinion as to the federal or state consequences arising from ownership of the Bonds.

The Issuer has obligated itself to be bound by Minnesota Statutes, Section 126C.55 (the “Act”), in the resolution authorizing the issuance and sale of the Bonds. We express no opinion as to the enforceability against the State of Minnesota (the “State”) of the application of the Act in the absence of appropriated and available funds to pay the obligation of the State thereunder.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors’ rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

APPENDIX B

Continuing Disclosure Certificate

LIMITED CONTINUING DISCLOSURE CERTIFICATE

This Limited Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by Independent School District No. 696 (Ely), Minnesota (the "Issuer") in connection with the issuance of the $2,810,000 Taxable General Obligation School Building Bonds, Series 2011A (Qualified Energy Conservation Bonds-Direct Pay), and the $220,000 Taxable General Obligation School Building Bonds, Series 2011B, each dated June 15, 2011 (the "Obligations"). The Obligations are being issued pursuant to Resolutions of the Issuer dated May 24, 2011 (the "Resolutions"). The Issuer certifies (i) that it is the only obligated person with respect to the Obligations; and (ii) that on the date hereof, the Issuer is an obligated person with respect to less than $10,000,000 aggregate amount of outstanding municipal securities, including the Obligations, and thus limited continuing disclosure pursuant to subparagraph (d)(2) of the Rule is required. The Issuer covenants and agrees as follows:

Section 1. (a) Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the holders and beneficial owners of the Obligations and in order to assist the Participating Underwriter in complying with the Rule (defined below). References in this Disclosure Certificate to holders of the Obligations shall include the beneficial owners of the Obligations. This Disclosure Certificate constitutes the written understanding under the Rule.

(b) Filing Requirements. Any filing under this Disclosure Certificate must be made solely by transmitting such filing to the MSRB (defined herein) through the Electronic Municipal Market Access ("EMMA") System at www.emma.msrb.org in the format prescribed by the MSRB. All documents provided to the MSRB shall be accompanied by the identifying information prescribed by the MSRB.

Section 2. Definitions. In addition to the definitions set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Audited Financial Statements" means the Issuer's annual financial statements, which are currently prepared in accordance with generally accepted accounting principles (GAAP) for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and which the Issuer intends to continue to prepare in substantially the same form.

"Dissemination Agent" means such person from time to time designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Listed Events" means any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board, whose current address is 1900 Duke Street, Suite 600, Alexandria, Virginia 22314.

“Official Statement” means the Official Statement, dated _____________, 2011 delivered in connection with the original issuance and sale of the Obligations, together with any amendments thereto or supplements thereof.

“Participating Underwriter” means any of the original underwriter(s) of the Obligations required to comply with the Rule in connection with offering of the Obligations.

“Rule” means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” means the Securities and Exchange Commission or any successor to its functions governing state and municipal securities.

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than 12 months after the end of the fiscal year (presently June 30), commencing with the fiscal year ended June 30, 2011, provide to the MSRB, filed in accordance with Section 1(b) of this Disclosure Certificate, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate.

(b) Not later than 15 days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent (if the Issuer is not the Dissemination Agent).

(c) If the Issuer is unable or fails to provide an Annual Report by the date required in subsection (a), the Issuer shall send in a timely manner a notice of such fact to the MSRB in the format prescribed by the MSRB, as described in Section 1(b) of this Disclosure Certificate.

Section 4. Content of Annual Reports. The Issuer’s financial information or operating data shall contain or consist of the audited financial statements of the Issuer for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Governmental Accounting Standards Board.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Obligations:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults, if material;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, if any, or their failure to perform;

(6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Obligations, or other events affecting the tax-exempt status of the Obligations;

(7) modifications to rights of holders of the Obligations, if material;

(8) bond calls, if material, and tender offers;

(9) defeasances;

(10) release, substitution or sale of property securing repayment of the Obligations, if material;

(11) rating changes;

(12) bankruptcy, insolvency, receivership or similar event of the Issuer;

(13) the consummation of a merger, consolidation or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) For the purposes of the event identified in subsection (a)(12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event under subsection (a) for which a determination of materiality is required, the Issuer shall as soon as possible determine if such event would constitute material information for holders of Obligations.

(d) Unless otherwise required by law, the Issuer shall submit the information in the format prescribed by the MSRB, as described in Section 1(b) of this Disclosure Certificate.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Obligations.

Section 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Issuer shall be the Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is supported by an opinion of nationally recognized bond counsel to the effect that such amendment or waiver would not, in and of itself, cause the undertaking herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default.

(a) The Issuer has never failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events.

(b) In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Obligations may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolutions, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Obligations.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Obligations, and shall create no rights in any other person or entity.

Section 13. Reserved Rights. The Issuer reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or, subject to the provisions of Section 8 hereof, to modify the undertaking under this Disclosure Certificate if the Issuer determines that such modification is required by the Rule or by a court of competent jurisdiction.

Dated as of June 15, 2011.

INDEPENDENT SCHOOL DISTRICT NO. 696 (ELY), MINNESOTA

By ________________________________
Chair

By ________________________________
Clerk

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APPENDIX C

District's Financial Statement

The following financial statements are excerpts from the annual financial report for the year ended June 30, 2010. The complete financial report for the year 2010 and the prior two years are available for inspection at the District Offices and the office of *Northland Securities, Inc*. The reader of this Official Statement should be aware that the complete financial report may have further data relating to the excerpts presented in the appendix which may provide additional explanation, interpretation or modification of the excerpts.

- Management's Discussion and Analysis

- Basic Financial Statements:

  District-wide Financial Statements:

  - Statement of Net Assets
  - Statement of Activities

  Fund Financial Statements:

  Governmental Funds

  - Balance Sheet
  - Reconciliation of the Balance Sheet to the Statement of Net Assets
  - Statement of Revenues, Expenditures and Changes in Fund Balance
  - Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance to the Statement of Activities

  Fiduciary Funds

  - Statement of Fiduciary Net Assets
  - Statement of Changes in Fiduciary Net Assets

- Notes to Basic Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 696
ELY, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010

As management of Independent School District No. 696 (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009-2010 fiscal year include the following:

- Net assets decreased $416,618.
- Overall revenues in the statement of activities were $6,369,869 and expenditures were $6,786,487, leaving expenditures exceeding revenues by $416,618.
- General Fund unreserved fund balance increased $162,459 from the prior year.
- The District's long-term liabilities in general obligation bonds, capital lease, severance and OPEB obligations increased $374,240.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts - Independent Auditor's Report, required supplementary information which includes the Management's Discussion and Analysis (this section), the basic financial statements and supplemental information. The basic financial statements include two kinds of statements that present different views of the District.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The *statement of net assets* includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The *statement of activities* presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused compensated absences).

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, state statutes, and to control and manage money for particular purposes. All of the funds of the District can be divided into two categories: *governmental funds* and *fiduciary funds*.

Governmental funds - Most of the District's basic services are included in governmental funds. Governmental fund financial statements focus on near-term inflows of cash and other financial assets that can readily be converted to cash, as well as the balances at year-end that are available for spending. Consequently, the government funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

Because this information does not encompass the additional long-term focus of the district-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. A reconciliation is provided to facilitate a comparison between governmental funds financial statements and district-wide financial statements.

Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship trust fund and student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operation.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets may serve over time as a useful indicator of a district's financial position. In the case of the District, assets exceeded liabilities by $1,259,859 as of June 30, 2010.

Statement of Net Assets
June 30,

	2010	2009
Capital assets	$ 2,511,355	$ 2,606,545
Other assets	3,308,250	2,916,958
Total assets	5,819,605	5,523,503
Long-term liabilities	2,441,696	2,094,480
Other liabilities	2,118,050	1,752,546
Total liabilities	4,559,746	3,847,026
Net assets		
Invested in capital assets, net of related debt	1,215,614	754,177
Unrestricted	44,245	922,300
Total net assets	$ 1,259,859	$ 1,676,477

Change in Net Assets
For the years ended June 30,

	2010	2009
Revenues		
Program revenues		
Charges for service	$ 251,037	$ 256,832
Operating grants and contributions	1,017,403	464,564
General revenues		
Property taxes	1,444,017	1,426,157
State aids	3,406,659	4,204,217
Other	250,753	459,572
Total revenues	6,369,869	6,811,342
Expenses		
District and school administration	476,841	482,718
District support services	212,692	217,332
Regular instruction	3,614,893	3,282,145
Vocational instruction		3,532
Exceptional instruction	718,760	670,597
Instructional support services	221,671	202,112
Pupil support services	257,951	290,660
Sites and buildings	780,149	1,047,427
Fiscal and other fixed cost programs	31,332	25,659
Food service	248,298	239,227
Community service	94,259	78,090
Interest and fiscal charges on long-term debt	80,489	79,800
Unallocated depreciation expense	49,152	46,797
Total expenses	6,786,487	6,666,096
Change in net assets	(416,618)	145,246
Beginning of year net assets	1,676,477	1,531,231
End of year net assets	$ 1,259,859	$ 1,676,477

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District has previously reported all financial information on a fund accounting basis. While GASB 34 presentations are designed to present users with a more complete picture of the District's financial position and results of operation, traditional fund accounting basis provides users with cash flow and available resources information.

The general fund balance increased $39,761.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund (which includes the District's general, transportation and capital funds) adopted an original revenue budget of $5,956,935, which was revised to $6,148,445, mostly due to revised pupil count estimates.

The general fund adopted an original expenditure budget of $5,935,025, which was revised to $6,154,376 mostly due to staffing changes.

While the District's final budget for the general fund anticipated that expenditures would exceed revenues by $5,931, the actual results for the year showed revenues exceeding expenditures by $54,187.

- Actual revenues were $227,854 less than anticipated, due largely to lower than estimated pupil counts.
- Actual expenditures were $287,972 less than anticipated, due largely to conservative budgeting an spending in several categories.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

By the end of fiscal year 2010, the District had invested $7,214,322 in capital assets, including school buildings and technology equipment. Total depreciation expense for the year was $154,190. More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

Debt Administration

At June 30, 2010 the District had $2,441,696 in general obligation bonds, capital lease, severance and OPEB obligations. Under current state statutes, the District's general obligation bonded debt issuances are subject to a legal limitation of 10 percent of the fair market value of property in the District. The District is within its legal authority for bonded debt.

More detailed information about the District's long-term liabilities is presented in Note 5, 6 and 7 to the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District faces deteriorating facilities due to the age of its buildings. A future referendum will be needed in order to address the aging heating systems, asbestos abatement, obsolete technology and other facility needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Business Office, Independent School District 696, 600 East Harvey, Ely, Minnesota 55731-1614.

INDEPENDENT SCHOOL DISTRICT NO. 696
ELY, MINNESOTA

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
ASSETS	
Cash and temporary cash investments	$ 807,073
Investments	74,071
Current property taxes receivable	930,009
Delinquent property taxes receivable	46,581
Accounts receivable	5,769
Due from Minnesota Department of Education	941,824
Due from the federal government through the Minnesota Department of Education	355,442
Due directly from the federal government	9,776
Due from other Minnesota school districts	13,257
Due from other governmental units	43,830
Inventory	5,888
Prepaid expenses	74,730
Capital assets, net of depreciation	
Assets not being depreciated	42,000
Assets being depreciated, net	2,469,355
Total assets	$ 5,819,605
LIABILITIES AND NET ASSETS	
Aid anticipation note	$ 630,000
Salaries payable	123,775
Accounts payable	66,568
Due to other Minnesota school districts	64,476
Due to other governmental units	157
Accrued payroll taxes	16,261
Accrued interest payable	26,904
Unearned revenue	69,715
Property taxes levied for subsequent year's expenditures	1,120,194
Long-term liabilities	
Due within one year	180,060
Due in more than one year	2,261,636
Total liabilities	4,559,746
Net assets	
Invested in capital assets, net of related debt	1,215,614
Unrestricted	44,245
Total net assets	1,259,859
Total liabilities and net assets	$ 5,819,605

INDEPENDENT SCHOOL DISTRICT NO. 696
ELY, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets: Governmental Activities
Governmental activities					
District and school administration	$ 476,841	$	$	$	$ (476,841)
District support services	212,692				(212,692)
Regular instruction	3,614,893	70,007	519,544		(3,025,342)
Exceptional instruction	718,760		381,319		(337,441)
Instructional support services	221,671	4,579			(217,092)
Pupil support services	257,951	18,872			(239,079)
Sites, buildings and equipment	780,149				(780,149)
Fiscal and other fixed cost programs	31,332				(31,332)
Food service	248,298	127,047	109,817		(11,434)
Community education	94,259	30,532	6,723		(57,004)
Interest and fiscal charges on long-term debt	80,489				(80,489)
Unallocated depreciation expense	49,152				(49,152)
Total governmental activities	$ 6,786,487	$ 251,037	$ 1,017,403	$	(5,518,047)

General Revenues	
Taxes	
Property taxes, levied for general purposes	1,276,240
Property taxes, levied for community service	68,438
Property taxes, levied for debt service	99,339
State aid-formula grants	3,406,659
Other general revenues	246,241
Investment earnings	4,512
Total general revenues	5,101,429
Change in net assets	(416,618)
Net assets, beginning of the year	1,676,477
Net assets, end of the year	$ 1,259,859

INDEPENDENT SCHOOL DISTRICT NO. 696
ELY, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Other Funds	Total Governmental Funds
ASSETS			
Cash and temporary cash investments	$ 758,261	$ 48,812	$ 807,073
Investments	74,071		74,071
Current property taxes receivable	898,006	32,003	930,009
Delinquent property taxes receivable	44,676	1,905	46,581
Accounts receivable	5,769		5,769
Due from Minnesota Department of Education	936,841	4,983	941,824
Due from the federal government through the Minnesota Department of Education	354,290	1,152	355,442
Due directly from the federal government	9,776		9,776
Due from other Minnesota school districts	13,257		13,257
Due from other governments	7,130	36,700	43,830
Due from other funds	20,505		20,505
Inventory		5,888	5,888
Prepaid expenses	74,730		74,730
Total assets	$ 3,197,312	$ 131,443	$ 3,328,755
LIABILITIES AND FUND BALANCES			
Liabilities			
Aid anticipation note	$ 630,000	$	$ 630,000
Salaries payable	121,119	2,656	123,775
Accounts payable	63,935	2,633	66,568
Interest payable	1,189		1,189
Due to other Minnesota school districts	64,476		64,476
Due to other governmental units	157		157
Due to other funds		20,505	20,505
Accrued payroll taxes	15,897	364	16,261
Deferred revenue			
Delinquent property taxes	44,676	1,905	46,581
Other	68,141	1,574	69,715
Property taxes levied for subsequent year's expenditures	1,064,860	55,334	1,120,194
Total liabilities	2,074,450	84,971	2,159,421
Fund balances (deficit)			
Reserved			
Reserved for health and safety	(50,957)		(50,957)
Reserved for operating capital	22,941		22,941
Reserved for gifted and talented	15,009		15,009
Reserved for community education		36,429	36,429
Reserved for E.C.F.E.		1,961	1,961
Reserved for school readiness		2,570	2,570
Total reserved	(13,007)	40,960	27,953
Unreserved			
Undesignated			
General fund	1,135,869		1,135,869
Community service fund		12,669	12,669
Debt service fund		(7,157)	(7,157)
Total unreserved	1,135,869	5,512	1,141,381
Total fund balances	1,122,862	46,472	1,169,334
Total liabilities and fund balances	$ 3,197,312	$ 131,443	$ 3,328,755

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 696
ELY, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2010

Total fund balances - governmental funds	$ 1,169,334
Amounts reported for governmental activities in the statement of activities are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	7,214,322
Less accumulated depreciation	(4,702,967)
Long-term liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Also, governmental funds report debt issuance, premiums and discounts as an other financing source at the time of issuance. Premiums and discounts are reported as an unamortized asset or liability in the District-wide financial statements. This amount is the net effect of these differences in the treatment of long-term liabilities.	(1,362,734)
Long-term liabilities, including severance payable, are not due and payable in the current period and therefore not reported as liabilities in the funds.	(304,805)
Postemployment benefits are funded on a pay-as-you go basis in the governmental fund financial statements. The actuarially determined annual required contribution is recorded in the District-wide financial statements.	(774,157)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	46,581
Governmental funds do not report a liability for accrued interest until due and payable.	(25,715)
Total net assets - governmental activities	$ 1,259,859

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 696
ELY, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General	Other Funds	Total Governmental Funds
Revenues			
Local property tax levies	$ 1,277,863	$ 167,842	$ 1,445,705
Other local and county revenues	305,312	30,582	335,894
Revenue from state sources	3,586,761	24,428	3,611,189
Revenue from federal sources	712,933	101,067	814,000
Interest income	4,512		4,512
Sales and other conversion of assets	33,210	127,047	160,257
Total revenues	5,920,591	450,966	6,371,557
Expenditures			
Current			
District and school administration	457,618		457,618
District support services	212,692		212,692
Regular instruction	3,058,545		3,058,545
Exceptional instruction	713,667		713,667
Community education and services		93,859	93,859
Instructional support services	191,278		191,278
Pupil support services	243,467	248,298	491,765
Site, buildings, and equipment	730,142		730,142
Fiscal and other fixed cost programs	31,332		31,332
Debt service			
Principal	82,215	85,000	167,215
Interest and other fiscal costs	54,602	25,828	80,430
Capital outlay	90,846	400	91,246
Total expenditures	5,866,404	453,385	6,319,789
Excess (deficiency) of revenues over expenditures	54,187	(2,419)	51,768
Other financing sources (uses)			
Transfer in		14,426	14,426
Transfer out	(14,426)		(14,426)
Total other financing sources (uses)	(14,426)	14,426	
Net change in fund balance	39,761	12,007	51,768
Fund balances, beginning	1,083,101	34,465	1,117,566
Fund balances, ending	$ 1,122,862	$ 46,472	$ 1,169,334

INDEPENDENT SCHOOL DISTRICT NO. 696
ELY, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

Total net changes in fund balances - governmental funds	$ 51,768
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures., However in the statement of activities, the costs of those assets is allocated over the estimated useful lives as depreciated expense.	
Capital outlays	59,000
Depreciation expense	(154,190)
Repayment of bond principal and other long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred an amortized in the statement of net assets. This amount is the net effect of these differences in the treatment of long-term debt.	(374,241)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	2,733
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditure, and therefore are deferred in the funds.	(1,688)
Change in net assets - governmental activities	$ (416,618)

INDEPENDENT SCHOOL DISTRICT NO. 696
ELY, MINNESOTA

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	Trust Fund	Agency Fund	
	Scholarship Fund	Student Activity	Flex Benefit Plan
ASSETS			
Cash and temporary cash investments	$ 142,904	$ 24,683	$ 4,233
LIABILITIES			
Due to employees	$	$	$ 4,233
Due to student groups		24,683	
Total liabilities		24,683	4,233
NET ASSETS			
Held in trust	142,904		
Total liabilities and net assets	$ 142,904	$ 24,683	$ 4,233

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 696
ELY, MINNESOTA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Trust Fund Scholarship Fund
Additions	
Contributions	$ 1,100
Investment earnings	2,615
Total additions	3,715
Deductions	
Scholarships	12,777
Change in net assets	(9,062)
Net Assets	
Beginning of year	151,966
End of year	$ 142,904

The accompanying notes are an integral part of these financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Independent School District No. 696 (District) was formed and operates pursuant to applicable Minnesota laws and statutes. The Governing Body consists of a six-member Board elected by voters of the District. Members are elected for four-year terms. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting board for establishing governmental accounting and financial reporting principles.

Reporting Entity

The District's financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities.

Basic Financial Statement Presentation

The district-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 District, except for the fiduciary funds. The fiduciary funds are only reported in the statement of fiduciary net assets at the fund financial statement level.

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. Taxes and other items not properly included among program revenues are reported instead as general revenues.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted net assets are available. Depreciation expense can be specifically identified by function and is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material inter-fund activity has been removed from the district-wide financial statements.

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as a separate column in the fund financial statements. Aggregated information for the remaining non-major governmental funds is reported in a single column in the fund financial statements.

The fiduciary funds are presented in the fiduciary fund financial statements by type (trust and agency). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the district-wide statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advanced recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition - Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year in which it applies according to Minnesota Statutes. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.

2. Recording of Expenditures - Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A general summary of the nature and purpose of each of the funds maintained by the District follows:

Major Governmental Funds

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund accounts for: administration, education through 12th grade instruction, transporting students to and from school, maintenance of facilities, equipment purchases, health and safety projects, and disabled accessibility projects.

Nonmajor Governmental Funds

Other Funds - These funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specified purposes. The District's other funds are:

Food Service - is used to account for food service revenues and expenditures.

Community Service - is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, K-6 extended day programs, or other similar services.

The Debt Service Fund - accounts for the accumulation of resources for the retirement of principal and interest on all general obligation bond indebtedness. Assets of the Debt Service Fund are restricted to the payment of bond principal and interest.

Fiduciary Funds

Scholarship Trust - This fund is used to account for gifts, donations, certain grants, and other monies to be handled in accordance with specified conditions of the trusts.

Agency - This fund is used to account for assets that the District holds on behalf of others as their agent, which includes the Student Activity Accounts and the Flex Benefit Plan.

Budgeting

Formal budgetary accounting is employed as a management control for all funds of the District. For each fund for which a formal budget is adopted, the budget is prepared on the same basis of accounting as the financial statements. The budget is adopted through passage of a resolution. The School Board must approve revisions. Legal budgetary control is at the fund account level. The annual budget is not legally binding on the District unless the District has a total deficit in its general fund, which exceeds 2.5 percent of expenditures.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

Cash and investments of the individual funds are combined to form a pool and are invested to the extent available in various securities as authorized by state law. Investments of the pool consist primarily of money market accounts, external investment pools, and U.S. government securities that are recorded at fair value, based on quoted market price. Earnings from the pooled investments are distributed based on their prorated portion of monthly cash balances.

Receivables

All receivables are shown net of any allowance for uncollectible amounts. No allowances for uncollectible amounts have been recorded. The only receivables not expected to be collected within one year are current and delinquent property taxes receivable.

Inventory

The District maintains no central stores and, therefore, expenses supply items as purchased. However, inventories for food items have been recorded in the proper funds. The District values its inventories at cost, on a first-in, first-out basis.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as expenditures at the time of consumption.

Property Taxes

Property taxes are set by the school board and certified to the county auditor who acts as collecting agent, in December, of the year prior to collection. Taxes become a lien on property on the following January 1. Minnesota school districts operate under a levy limitation law that generally limits annual increases in taxes per capita. This law does not cover levies for bonded indebtedness.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The county provides tax settlements to school districts and other taxing districts in January, March, June, and November or December. Portions of the tax levy paid by the state in the form of credits are included in revenue from state sources.

The District also receives revenue from taconite production taxes, which is recognized in the school year received, in accordance with Minnesota Statute §121.904.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). General fund revenue is determined annually by statutory funding formulas. These formulas allocate revenue between property taxes and state aids based on education funding priorities set by the Minnesota State Legislature. Changes in this allocation result in an annual change in property tax revenue recognition referred to as the "tax shift". In prior years, the amount of shift has varied between 0 and 50 percent.

The following is a summary of tax shift transactions by fund:

	(0%) Total Shift June 30, 2009	State Aid Adjustment	Revenue Adjustment	(0%) Total Shift June 30, 2010
General Fund	$ 162,609	$ 17,909	$	$ 180,518

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of $3,500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives, ranging from five to fifty years.

Capital assets not being depreciated include land.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

Deferred Revenue

Deferred revenue results when asset recognition criteria have been met, but revenue recognition criteria have not been met. The balance consists primarily of revenue that will be recognized based on future expenditures.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Vacation granted and sick pay earned is based on length of service and various bargaining unit contracts. Vacation time must be used by June 30 each year; therefore there is no vacation payable at June 30, 2010. Unused sick leave enters into the calculation of severance payments for some employees upon termination.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. That portion of the fund balance not reserved is reported as unreserved fund balance, and is available for budgeting in future periods.

Net Assets

Net assets represent the difference between assets and liabilities in the district-wide and fiduciary fund 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 district-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. §118A.03 requires that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District requires collateral for deposits over FDIC insurance amounts. At June 30, 2010, the District's deposits were not exposed to custodial credit risk.

Investments

Minnesota statutes 118A.04 and 118A.05 generally authorize the following types of investments as available to the District:

Securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. 118A.04, subd.6; mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments; general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service; Bankers' acceptances of United States banks; commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

The District had the following investments at June 30, 2010:

Investment Type	Fair Value
External investment pool	$ 929,274
Money market funds	74,071
Total investments	$ 1,003,345

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk - The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value loses arising from increasing interest rates. All of the District's investments have a maturity of less than one year.

Credit risk - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the District's policy to invest only in securities that meet the ratings requirements set by state statute.

The District's exposure to credit risk as of June 30, 2010, was as follows:

S & P Ratings	Fair Value
AAAm	$ 929,274
Not rated	74,071
Total	$ 1,003,345

Custodial credit risk - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2010, none of the District's investments were subject to custodial credit risk.

Concentration of credit risk - The concentration of credit risk is the risk of loss that may be caused by the District's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer.

The District's total cash and investments at June 30, 2010 are as follows:

Petty cash	$ 150
Deposits	49,469
Investments	1,003,345
Total	$ 1,052,964

Presented in the basic financial statements as follows:

Statement of net assets	
Cash and temporary cash investments	$ 807,073
Investments	74,071
Statement of fiduciary net assets	
Trust fund	
Cash and temporary cash investments	142,904
Agency Fund	
Cash and temporary cash investments	
Student Activity	24,683
Flex Benefit Plan	4,233
Total cash and investments	$ 1,052,964

NOTE 3 CAPITAL ASSETS

The following is a summary of capital assets:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets not being depreciated				
Land	$ 42,000	$	$	$ 42,000
Capital assets being depreciated				
Land improvements	366,897			366,897
Buildings	5,455,554	39,788		5,495,342
Equipment	1,290,871	19,212		1,310,083
Total capital assets being depreciated	7,113,322	59,000		7,172,322
Less accumulated depreciation				
Land improvements	(323,105)	(4,067)		(327,172)
Buildings	(3,213,019)	(107,136)		(3,320,155)
Equipment	(1,012,653)	(42,987)		(1,055,640)
Total accumulated depreciation	(4,548,777)	(154,190)		(4,702,967)
Total capital assets being depreciated, net	2,564,545	(95,190)		2,469,355
Capital assets, net	$ 2,606,545	$ (95,190)	$	$ 2,511,355

Depreciation is charged to governmental functions as follows:

District and school administration	$ 665
Regular instruction	12,867
Exceptional instruction	1,305
Instructional support services	4,897
Pupil support services	32,143
Sites, building and equipment	53,161
Unallocated depreciation expense	49,152
Total	$ 154,190

NOTE 4 SHORT-TERM DEBT

On May 6, 2010, the District issued $630,000 General Obligation Tax Aid Anticipation Certificates of Participation, Series 2010A, at an interest rate of 1.250 percent. The debt was issued to finance current operational costs of the General Fund. Principal and interest of $7,088 are due March 30, 2011.

Also, during the year ended June 30, 2010, the District entered into two short-term line of credit agreements to finance current operation costs of the General Fund at an interest rate ranging from 2.24 to 2.27 percent. Each agreement had a maturity of 45 days from the date of the borrowing. The last note matured on June 7, 2010. Interest expense on the borrowings was $1,730 during the year ending June 30, 2010.

NOTE 4 SHORT-TERM DEBT (Continued)

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010
G.O. Tax Aid Anticipation Certificates	$ 311,838	$ 630,000	$ (311,838)	$ 630,000
Line of credit agreements		601,522	(601,522)	
Total	$ 311,838	$ 1,231,522	$ (913,360)	$ 630,000

NOTE 5 LONG-TERM OBLIGATIONS

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010
General Obligation Bonds:				
$220,000 Capital Facilities Bonds, 2003A. Issued March 1, 2003 at an interest rate of 2 - 3.55%, maturing February 1, 2013.	$ 100,000	$	$ (25,000)	$ 75,000
$755,000 General Obligation Refunding Bonds, 2004. Issued February 1, 2004, at an interest rate of 1.75 - 3.9%, maturing February 1, 2017.	570,000		(60,000)	510,000
Less deferred amounts for unamortized discounts	(27,025)	2,792		(24,233)
Total General Obligation Bonds	642,975	2,792	(85,000)	560,767
Certificate of Participation issued August 1, 2003 in the amount of $900,000 at an interest rate of 2.5-5.5%, maturing on February 1, 2023.	680,000		(35,000)	645,000
Capital Lease Purchase issued August 3, 2000 in the amount of $331,182 at an interest rate of 6.47%, maturing August 3, 2012.	123,842		(32,614)	91,228
Capital Lease Purchase issued January 23, 2009 in the amount of $80,340 at an interest rate of 4.79%, maturing January 23, 2014.	80,340		(14,601)	65,739
Severance	164,266	206,080	(65,541)	304,805
OPEB	376,032	790,709	(392,584)	774,157
Total long-term obligations	$ 2,067,455	$ 999,581	$ (625,340)	$ 2,441,696

NOTE 5 LONG-TERM OBLIGATIONS (Continued)

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portion of the long-term liabilities as of June 30, 2010:

	General Obligation Bonds	Certificate of Participation	Capital Lease Purchase	Severance	OPEB	Total
Current portion	$ 90,000	$ 40,000	$ 50,060	$	$	$ 180,060
Long-term portion	495,000	605,000	106,907	304,805	774,157	2,285,869
Total	$ 585,000	$ 645,000	$ 156,967	$ 304,805	$ 774,157	$ 2,465,929

General Obligation Bonds are payable from the Debt Service Funds. The Certificate of Participation and Capital Lease Purchase are payable from the General Fund. Severance and OPEB benefits are paid from the General, Food Service or Community Service Funds.

Annual amounts required to service outstanding long-term liabilities for the years ended June 30, are as follows:

	General Obligation Bonds			Certificates of Participation		
	Principal	Interest	Total	Principal	Interest	Total
2011	$ 90,000	$ 20,293	$ 110,293	$ 40,000	$ 32,250	$ 72,250
2012	95,000	17,595	112,595	40,000	30,650	70,650
2013	95,000	14,540	109,540	40,000	29,050	69,050
2014	70,000	11,307	81,307	45,000	27,250	72,250
2015	75,000	8,858	83,858	45,000	25,225	70,225
2016 - 2020	160,000	9,240	169,240	255,000	91,475	346,475
2021 - 2024				180,000	19,800	199,800
Totals	$ 585,000	$ 81,833	$ 666,833	$ 645,000	$ 255,700	$ 900,700

	Capital Lease Purchase		
	Principal	Interest	Total
2011	$ 50,060	$ 8,497	$ 58,557
2012	53,077	5,480	58,557
2013	36,226	2,276	38,502
2014	17,604	844	18,448
Totals	$ 156,967	$ 17,097	$ 174,064

NOTE 5 LONG-TERM OBLIGATIONS (Continued)

The District has entered into two capital lease agreements, one for the purchase of a bus and the other for an energy saving performance contract. The leases qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of future minimum lease payments. At June 30, 2010, the bus is included in capital assets at a cost of $80,340, less accumulated depreciation of $15,064 for a book value of $65,276. There was no equipment added to the District's capital assets as a result of the energy saving performance contract.

NOTE 6 SEVERANCE

Most employees are eligible for a one-time severance payment upon retirement. Severance is based upon the number of unused sick leave or vacation days multiplied by rates defined within their respective contractual agreements. Severance benefit expenditures are recognized when paid. During the year, the District expended $65,541 in severance benefits. At June 30, 2010, seven employees meet the age and years of service requirement for severance. A liability has been recorded in the district-wide financial statements in the amount of $304,805.

NOTE 7 POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description - Independent School District No. 696 administers a single-employer defined benefit OPEB plan which provides medical insurance benefits to eligible retired employees and their dependents in accordance with the terms of the plan. The District has not established a trust to account for the plan.

Funding - Employer contribution requirements are established and may be amended as set forth in the applicable employment and bargaining unit agreements. As of July 1, 2008, the date of the latest actuarial valuation, approximately 80 retirees and their dependents were receiving postemployment health insurance benefits and an estimated 64 active employees are eligible to receive future benefits under the plan. The District is funding the benefits on a pay-as-you go basis.

Annual OPEB Cost and Net OPEB Obligation – Independent School District No. 696's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 7 POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

The following table shows the components of Independent School District No. 696's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in Independent School District No. 696's net OPEB obligation as of June 30, 2010:

Annual OPEB costs	
Annual required contribution (ARC)	$ 796,614
Interest on ARC	13,248
Adjustment to ARC	(19,153)
Annual OPEB cost	790,709
Contributions made:	
Payments to retirees	(358,432)
Actuarially determined contribution toward the implicit rate portion of the ARC	(34,152)
Total contributions made	(392,584)
Increase in OPEB obligation	398,125
Net OPEB obligation, June 30, 2009	376,032
Net OPEB obligation, June 30, 2010	$ 774,157

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$ 790,709	49.65%	$ 774,157
June 30, 2009	796,614	52.80%	376,032

Funded Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation date the plan was 100 percent unfunded. The actuarial accrued liability and the unfunded actuarial accrued liability (UAAL) for benefits was $10,075,216. The covered payroll (annual payroll of active employees covered by the plan) was $2,585,670, and the ration of the UAAL to the covered payroll was 389.66 percent.

NOTE 7 POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 4 percent, health care trend rates ranging from ten percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. The UAAL is being amortized as a level dollar amount over thirty years.

NOTE 8 RETIREMENT PLANS

Substantially all employees of the District 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.

A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

1. Plan Description

All full-time and certain part-time employees of the District are covered by defined benefit plans administered by 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 Plan 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.

NOTE 8 RETIREMENT PLANS (Continued)

Two methods are used to compute benefits for PERF's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan 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. The annuity accrual for a Coordinated Plan member 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 Plan members and 1.7 percent for Coordinated Plan 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 the age for unreduced Social Security benefits capped at 66 for coordinated members hired 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the Internet at www.pera.org, by writing to PERA, 60 Empire # 200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.0 percent, respectively, of their annual covered salary. The District is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members and 6.75 percent for Coordinated Plan PERF members through December 31, 2009. Effective January 1, 2010 employer contribution rates for the Coordinated Plan increased to 7.0 percent. The District's contributions to the Public Employees Retirement Fund for the years ending June 30, 2010, 2009, and 2008 were $60,444, $61,247, and $60,714, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 8 RETIREMENT PLANS (Continued)

B. TEACHERS RETIREMENT ASSOCIATION (TRA)

1. Plan Description

All teachers employed by the District are covered by a defined benefit plan administered by the TRA. TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All basic members were first hired prior to July 1, 1989. 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 5 consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989 receive the greater of the Tier I or Tier II as described:

Tier I:	**Step rate formula**	**Percentage**
Basic	1st ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
(b) 3 percent per year early retirement reduction factors for all years under normal retirement age.
(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

NOTE 8 RETIREMENT PLANS (Continued)

Tier II: For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent for Basic members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.5 percent per year.

Members first employed after June 30, 1989 receive only the Tier II calculation with a normal retirement age that is their retirement age for full social security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any members terminating service are eligible for a refund of their employee contributions plus interest.

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, and further information on benefit provisions. The report may be assessed at the TRA web site www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St. Paul, MN 55103-4000
(651) 296-6449
1-800-657-3853

2. 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. Coordinated and Basic Plan members are required to contribute 5.5 percent and 9.0 percent, respectively, of their annual covered salary as employee contributions. The employer contribution rate for Coordinated members is 5.5 percent and 9.5 percent for Basic members.

The District's contributions for the years ending June 30, 2010, 2009, and 2008 were $119,359, $115,240, and $117,683, respectively, equal to the required contributions for each year as set by state statute.

NOTE 9 EXPENDITURES OVER BUDGET

The following fund had expenditures in excess of budget for the year ended June 30, 2010:

	Final Budget	Actual	Variance
Food Service Fund	$ 244,726	$ 248,298	$ (3,572)
Community Service Fund	71,762	94,259	(22,497)
Debt Service Fund	107,615	110,828	(3,213)

NOTE 10 FUND BALANCES

The following funds had a fund balance deficit at June 30, 2010:

General Fund	
Health and safety	$ (50,957)
Other Funds	
Debt service	
Unreserved	(7,157)

The deficits will be eliminated through future tax levies, reduced future expenditures, or fund transfers as required.

NOTE 11 INTERFUND BALANCES

Interfund balances for the year ended June 30, 2010, consisted of the following:

Due to/from other funds

	Due from Other Funds	Due to Other Funds
General Fund	$ 20,505	$
Food Service Fund		20,505
Total	$ 20,505	$ 20,505

Due to/from balances are due to the elimination of a negative cash balance in the Food Service Fund. The Interfund balance is expected to be repaid with one year.

NOTE 11 INTERFUND BALANCES (Continued)

Interfund transfers

A transfer was made to clear the Food Service Fund deficit at June 30, 2010.

	Transfer to	Transfer from
General Fund	$	$ 14,426
Food Service Fund	14,426	
Total	$ 14,426	$ 14,426

NOTE 12 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As allowed under state statutes, the District joined the Minnesota School Board Association Insurance Trust Fund, a public entity risk pool currently operating as a common risk management and insurance program for its member school districts. The District pays annual premiums to the Trust Fund for its worker's compensation insurance coverage; all other insurance is covered through commercial companies. The Minnesota School Board Association Insurance Trust Fund is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of the limits as set by the Trustees. There were no significant increases or decreases in insurance from the previous year. Settled claims resulting from these risks did not exceed insurance coverage in any of the past three fiscal years.

NOTE 13 CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

NOTE 14 ACCOUNTING STANDARDS EFFECTIVE IN FUTURE PERIODS

Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, was recently issued and is effective for the District for the year ending June 30, 2011. Implementation of the new standard establishes fund balance classifications that establish a hierarchy based on the extent to which the District must observe constraints imposed upon the use of resources that are reported by the governmental funds. The effect of the new standard on the District's financial statements is unknown at this time.