

# COMPREHENSIVE ANNUAL FINANCIAL REPORT



Independent School District No. 199  
Inver Grove Heights, Minnesota

For the Fiscal Year  
Ended June 30, 2009

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended June 30, 2009

INDEPENDENT SCHOOL DISTRICT NO. 199  
INVER GROVE HEIGHTS, MINNESOTA

2990 – 80th Street East  
Inver Grove Heights, MN 55076

Prepared by  
Business Office

Bruce Rimstad • Business Manager

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INDEPENDENT SCHOOL DISTRICT NO. 199

Table of Contents

	Page
<b>INTRODUCTORY SECTION</b>	
Letter of Transmittal	i–viii
Organizational Chart	ix
School Board and Administration	x
ASBO Certificate of Excellence	xi
<b>FINANCIAL SECTION</b>	
<b>INDEPENDENT AUDITOR’S REPORT</b>	1–2
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	3–13
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-Wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds	
Balance Sheet	16–17
Reconciliation of the Balance Sheet to the Statement of Net Assets	18
Statement of Revenue, Expenditures, and Changes in Fund Balances	19–20
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
Statement of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	22
Internal Service Fund	
Statement of Net Assets	23
Statement of Revenues, Expenses, and Changes in Fund Net Assets	24
Statement of Cash Flows	25
Fiduciary Funds	
Statement of Fiduciary Net Assets	26
Statement of Changes in Fiduciary Net Assets	26
Notes to Basic Financial Statements	27–47
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedules of Funding Progress	
Other Post-Employment Benefits Plan	48
Pension Benefits Plan	48
<b>COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES</b>	
Nonmajor Governmental Funds	
Combining Balance Sheet	49
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	50
General Fund	
Comparative Balance Sheet	51
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	52–54

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INDEPENDENT SCHOOL DISTRICT NO. 199

**Table of Contents (continued)**

Page

**COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES  
(CONTINUED)**

Food Service Special Revenue Fund	
Comparative Balance Sheet	55
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	56
Community Service Special Revenue Fund	
Comparative Balance Sheet	57
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	58
Capital Projects – Building Construction Fund	
Comparative Balance Sheet	59
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	60
Debt Service Fund	
Comparative Balance Sheet	61
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	62
Internal Service Funds	
Combining Statement of Net Assets	63
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	64
Combining Statement of Cash Flows	65

**STATISTICAL SECTION (UNAUDITED)**

Net Assets by Component	66–67
Changes in Net Assets	68–69
Governmental Activities Tax Revenues by Source and Levy Type	70
Fund Balances of Governmental Funds	71–72
Changes in Fund Balances of Governmental Funds	73–74
General Governmental Tax Revenues by Source and Levy Type	75
Tax Capacities and Estimated Market Values	76–77
Property Tax Rates – Direct and Overlapping Governments	78
Principal Taxpayers	79–80
Property Tax Levies and Receivables	81–82
Outstanding Debt by Type	83
Ratio of Net General Obligation Bonded Debt to Tax Capacity and Net General Obligation Bonded Debt per Capita	84–85
Direct and Overlapping Debt	86
Legal Debt Margin Information	87–88
Demographic and Economic Statistics	89
Principal Employers	90–91
Employees by Classification	92
Operating Indicators – Standardized Testing and Graduation Rates	93
School Facilities	94
Expenditures per Student (Average Daily Membership)	95–96
Demographic Statistics – Student Enrollment	97
Food Service Meals Served and Pricing	98

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# SECTION I

## INTRODUCTORY SECTION





**Inver Grove Heights**

# *Community* **Schools**

**Independent School District 199**

November 16, 2009

District Office  
2990 80th Street East  
Inver Grove Heights, MN 55076  
651-306-7800  
FAX 651-306-7295

Simley High School  
2920 80th Street East  
Inver Grove Heights, MN 55076  
651-306-7000  
FAX 651-306-7016

IGH Middle School  
8167 Cahill Avenue  
Inver Grove Heights, MN 55076  
651-306-7200  
FAX 651-306-7152

Hilltop Elementary  
3201 68th Street East  
Inver Grove Heights, MN 55076  
651-306-7400  
FAX 651-306-7444

Pine Bend Elementary  
9875 Inver Grove Trail  
Inver Grove Heights, MN 55076  
651-306-7701  
FAX 651-306-7739

Salem Hills Elementary  
5899 Babcock Trail  
Inver Grove Heights, MN 55077  
651-306-7300  
FAX 651-306-7321

Community Education  
1515 5th Avenue S.  
South St. Paul, MN 55075  
651-306-3602  
FAX 651-306-3640

Kids' Choice  
1515 5th Avenue S.  
South St. Paul, MN 55075  
651-306-3631  
FAX 651-306-3640

District Website  
[www.invergrove.k12.mn.us](http://www.invergrove.k12.mn.us)

To the School Board, citizens, employees, and students of Inver Grove Heights  
Community Schools

## **INTRODUCTION**

The following comprehensive annual financial report (CAFR) of Independent School District No. 199, Inver Grove Heights, Minnesota, also known as Inver Grove Heights Community Schools (the District), presents the financial position of the District as of June 30, 2009 and the results of its operations for the fiscal year then ended. This report is prepared in accordance with accounting principles generally accepted in the United States of America and is audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. State law requires the District to publish a complete set of audited financial statements within six months of the close of the District's fiscal year.

The District's financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments." The reader of this CAFR will notice that the two main financial statements created by this standard, the Statement of Net Assets and Statement of Activities, do not contain numerous columns for various funds like the fund-based financial statements. These two statements consolidate much of the information contained in fund-based financial statements into statements which tend to answer the question: "Is the District better or worse off financially than it was the previous year?" A comparison of net assets should help the reader in answering that question.

Also required as part of required supplementary information by GASB Statement No. 34 is the Management's Discussion and Analysis (MD&A) which allows the District to explain, in layman's terms, its financial position and results of its operations for the past fiscal year.

This report consists of management's representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the District has established internal controls. The internal controls are designed to protect the District's assets from loss, theft, or misuse and to compile sufficient reliable information for the presentation of the District's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not be more than the benefits, the District's internal controls are designed to provide reasonable, rather than absolute, assurance that these financial statements will be free of material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

These financial statements have been audited by Malloy, Montague, Karnowski, Radosevich & Co., P.A. (MMKR), a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2009 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2009 are fairly presented in conformity with accounting principles generally accepted in the United States of America.

## **FEDERAL SINGLE AUDIT AND STATE COMPLIANCE AUDIT**

The independent audit of the financial statements of the District was part of a broader, federally mandated "single audit" designed to meet the special needs of federal grantor agencies. The standards governing single audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited district's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The District is also required to undergo an annual Minnesota state legal compliance audit under Minnesota Statute § 6.65. These reports are available in a separate document.

## **REPORT FORMAT**

This CAFR is presented in three sections: introductory, financial, and statistical. The introductory section contains the letter of transmittal, organizational chart, information on the School Board and administration, and the Association of School Business Officials International (ASBO) Certificate of Excellence in Financial Reporting Award. The financial section contains the independent auditor's report, MD&A, basic financial statements, required supplementary information, and the combining and individual fund statements and schedules. The statistical section contains supplemental financial and other statistical data, generally presented on a multi-year basis.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A of the District can be found immediately following the report of the independent auditors.

## **THE DISTRICT'S PROFILE**

The District was formed in 1957 as residents in the area realized the need for a local high school. The consolidation of one-room schoolhouses formed the District. In 1960, Simley High School opened its doors to students. In 1971, a new Simley High School was built adjacent to what is now the middle school. The oldest parts of the middle school (the original Simley High School) have been replaced.

The District operates under an elected seven-member School Board. The School Board is responsible, among other things, for passing policies, adopting the budget, and hiring the Superintendent of Schools. The Superintendent of Schools is responsible for carrying out the policies of the School Board, for overseeing the day to day operations of the school district and for appointing the directors/principals of the various departments or schools. The School Board is elected on a non-partisan basis.

The District is a suburban school district located 12 miles south of the City of St. Paul, Minnesota which serves a general population of approximately 33,600, covers an area of about 22 square miles, and enrolled 3,812 students for the 2008–2009 fiscal year. In terms of number of students, the District is Minnesota’s 50th largest school district. The District has one senior high school, one middle school, and three elementary schools.

The District provides a full range of public education services appropriate to grade levels ranging from pre-kindergarten through Grade 12. These include regular and enriched academic education, special education for exceptional children, and career/vocational education. Food service and transportation are provided as supporting programs. The District’s community education program includes Early Childhood, Family, and Adult Basic Education programs as well as a myriad of classes for lifelong learning experiences for children and adults.

The District strives for educational excellence and is proud of the achievements of its students and staff, including the following:

- Two Athenium classes placed first and second in the Thinking Cap Quiz Bowl.
- Mrs. Gerber’s class won the weekly national Newspapers in Education Quiz.
- Simley’s wrestling program was featured in VYPE magazine in an article titled “Spartans Going Back to the Future.”
- Two of the District’s teachers have been selected as TIES Exceptional Teachers for 2008; Linda Potts, assistive technology specialist and early childhood special education teacher, and Jorge Guiral, fourth-grade teacher at Hilltop Elementary.
- Simley High School senior Cory Haala was selected as a KARE-11 Academic All-Star.
- Sid Ramesh, a fifth-grader at Athenium, received top honors in the latest Word-Masters competition. He was 1 of 23 students in the national to receive a perfect score.
- The Quiz Bowl team had an 11–1 record and won an invite to the State Meet.
- Cory Haala and Theresa Hayes, two Simley seniors, have been named National Merit Scholarship finalists.
- Simley Athletic Director, Will Short, announced that Cory Haala has been named a finalist for the Minnesota State High School League “Triple A” (Academics, Arts, and Athletics) award.
- The Girls Hockey team was named the Section 4A Academic Champions.
- The Simley swimming and diving team placed second in Section 1A and placed fourth at the State Tournament.
- The Simley wrestling team won the Class AA State Championship.
- The Varsity Knowledge Bowl team earned a bronze medal in Regional Play. The team is headed to the State Meet.
- Cory Haala won third place in National Forensics League, qualifying for a spot in the National Forensics Tournament in June.

- Sid Ramesh and Helen Mastoff, fifth-graders at Atheneum, received highest honors in the latest Word Masters Challenge.
- Meghan Zellmer and her floor hockey team, Dakota United, won the CI Adapted Floor Hockey State Tournament by defeating Maple Grove.
- The Jump Rope for Heart event at Pine Bend Elementary School raised \$17,223.62 for the American Heart Association.
- Stephan Gossweiler, an eighth-grader at Inver Grove Heights Middle School, took third place in the Minnesota National Geographic Geography Bee.
- Simley teams competed at the State Destination ImagiNation tournament. Team Dihydroenmonoxide tied for second place and will compete at the Global Finals in Knoxville, Tennessee.
- Middle school students Summer Freed, Sarah Christiansen, Emma Honerbrink, Laura Hayes, and Abby Jacobsen advanced to the Destination ImagiNational Global Finals.
- Atheneum teachers Kim Westra and Kathy Gerber received \$10,000 as winners of two WEM Foundation Outstanding Educator Awards.
- Simley's Quiz Bowl team attended nationals in Chicago.
- Simley was named "Best School" by South West Review readers. Newsweek magazine has named Simley one of America's best schools.
- Total Construction of Inver Grove Heights donated a new baseball scoreboard.

## **Our Vision**

The vision of the District is to create learning environments that provide for high student achievement so all learners are academically and socially prepared for lifelong learning.

## **Our Mission**

The Mission of the District is to provide a challenging education through which all learners achieve success in a diverse society. This will be accomplished through:

- safe and caring environments;
- a strong and stimulating curriculum;
- high academic standards;
- respect, honesty, and accountability in all relationships;
- effective and innovative teaching;
- open communication and partnerships with families and community;
- safe and caring environments; and
- facilities that support and enhance learning.

## **School Board Goals**

1. To provide a safe, caring, and respectful learning environment.
2. To develop a financial decision making process focused on full implementation of the vision and mission of the District.
3. To assure a government-wide system will be in place that places curriculum as a high priority, and is articulated pre-kindergarten through Grade 12.
4. To promote effective and innovative teaching and competent performance by all district staff.
5. To assure that government-wide facilities support and enhance innovative teaching and learning needs and requirements.
6. To assure open and honest communication and to promote community involvement and partnership.

The laws of the state of Minnesota give the authority to direct the District's business operations and educational functions to the District's School Board, whose members are elected officials. The School Board has the authority to levy taxes, set fees, approve budgets, and staff positions, along with other business and educational functions, without prior approval from any other governmental unit. The School Board can issue debt, generally with prior district voter approval. The Minnesota Department of Education does have some minor oversight responsibility over the District that is generally related to compliance and approval of certain laws and procedures, but is not substantive in nature.

The financial reporting entity includes all the funds of the District. Component units are legally separate entities for which the District is financially accountable. There are no organizations considered to be component units of the District.

## **BUDGETARY PROCESS**

The District's budget sets forth the financial plan for the forthcoming fiscal year. It is based on the projected financial needs of the District to allocate limited resources in the best possible way to give the best educational opportunities to students. The budget process starts with the development of the plan and timeline with completion and adoption in June. The plan is disseminated to School Board members and administration, and the preparation of the budget is implemented. The administration reviews enrollment projections and determines staffing levels needed for the forthcoming year. A preliminary financial forecast is prepared by the business manager and staffing levels are determined, keeping the financial projection in focus. The administration then recommends staff changes to the School Board for approval.

The budget process is continuous and involves staff at all levels as they inform administration of their needs and anticipated expenditures. These requests are then reviewed by their budget administrator who determines their appropriateness and, if appropriate, includes them in his/her budget. Each building principal is allocated an amount for supplies, materials, and equipment, based on student enrollment of that building, which he/she must allocate to those accounts under their control. When each administrator has his/her budget assembled, the business department enters it in the finance system.

The business manager prepares the salary and benefits budget and updates this data to the master budget. The finance/business department staff, along with the business manager, prepares estimates of other areas for inclusion in the master budget. Staff in the finance/business department reviews the data entered by each budget administrator and makes any necessary corrections. Preliminary budgets are compiled and presented to the School Board. The School Board considers these preliminary budgets, makes recommendations and changes, and adopts the final budget in June as required by state law.

The budget is then implemented and administered. Each administrator is responsible for approving purchase requisitions from their buildings or areas of responsibility. They must remain within the budget constraints and monitor their budgets from periodic reports that they receive from the finance/business department. They also have the ability to review their budgets online through their computer terminal. The business manager has responsibility for the financial integrity of the District. The availability of funds, the proper code classification, the maintenance of the coding structure, and compliance with legal purchasing directives are all continuously monitored by the finance/business departments. All bids and contracts must be authorized and approved by the School Board. The revenue and expenditure budgets are monitored and changed as conditions change. All revisions to the budget are approved by the School Board.

## **ECONOMIC FACTORS**

The District is located in Dakota County, which is one of seven counties that make up the Twin Cities Metropolitan Area. This seven-county area is the most populated area of Minnesota, with service division jobs constituting the greatest growth of the area's employment. This growth is strongest in the professional, paraprofessional, and technical categories. The demand for workers is growing faster than supply with the greatest growth in the suburbs. The labor force in Dakota County is projected to grow by 6 percent between 2000 and 2010. The number of jobs is expected to grow 9 percent during the same period. Within the metropolitan area, health services, business services, and retail trade are the most significant industries.

The unemployment rate for Dakota County is currently 6.1 percent, which is an increase from a rate of 4.0 percent a year ago. This compares favorably to both state and national average unemployment rates of 7.3 percent and 9.8 percent, respectively.

Taxable market value in the District increased from \$2,893,381,800 to \$2,918,203,900; or 0.86 percent for the year.

The District has always been dependent on the state for its revenue authority. However, in the past the general education basic formula allowance, which funds the majority of the District's operations, was composed of aid and levy components. The amount of levy was determined by a state determined tax rate. This rate was adjusted up or down depending on the state's financial position. By doing so, the state could shift revenue responsibility to local taxpayers in times of need or relieve local taxpayers in times of plenty. This is no longer the case as the general education basic formula allowance is now all state aid. Because of this, the District is extremely concerned about the state's financial position. The state of Minnesota is projecting a \$4.4 to \$7.2 billion deficit beginning with the 2012–2013 biennium, which may result in a reduction of state aid funding.

Minnesota school districts have the ability to raise additional revenue through voter-approved excess levy referendums. The additional funding is capped at 26 percent of the general education formula allowance (\$5,124 GEFA x 26 percent inflation cap (1,472) x 1.0142 percent inflation = \$1,493). The referendum formula determines the amount of the referendum that is state aid as compared to local levy. For fiscal year 2009, the District has authority for \$844 per pupil unit of excess levy authority, which raises a total of approximately \$3.8 million. The District is presently \$649 below the referendum cap established by the Minnesota Legislature. The District's budget reductions for fiscal year 2009 amounted to \$1.0 million. Due to declining enrollment and increasing costs, the District is anticipating a \$200,000 shortfall in its General Fund for fiscal year 2010.

## **CONFORMANCE WITH STATE ACCOUNTING REGULATIONS**

The state of Minnesota established the Uniform Financial Accounting and Reporting System (UFARS) in 1976. These financial statements follow the guidelines established by UFARS.

## **CASH MANAGEMENT**

The policy of the District is to invest idle funds. Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Investment earnings for the year amounted to \$542,895 as compared to \$675,039 for the previous year. Interest rates decreased from an average of 4.10 percent in fiscal year 2008 to an average rate of 1.72 percent in fiscal year 2009. The bulk of the investment earnings (70 percent) were attributable to the other post-employment benefit bonds issued in fiscal year 2009. Investment maturities are laddered over time to meet current and future obligations. The District has not done any short-term borrowing since the 1991 fiscal year due to the healthy financial condition of the District's General Fund.

In 2000, the District developed an unreserved fund balance policy for the District's overall financial stability. The resources represented by this unreserved fund balance policy are critical to the District's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls. At June 30, 2009, the unreserved fund balance in the General Fund represented 11.0 percent of annual expenditures or about six weeks of operations, assuming level spending throughout the year.

## **RISK MANAGEMENT**

The District contracts with Health Partners for a fully insured plan providing hospitalization, medical, and major medical benefits for its employees.

The District is insured by Indiana Insurance for property and casualty, and workers' compensation coverage. Indiana Insurance was established in 1851, and has more than 30 years experience insuring schools. The corporate offices for Indiana Insurance are located in Loveland, Ohio. Indiana Insurance insures 55 Minnesota school districts.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

## **AWARDS AND ACKNOWLEDGEMENTS**

The District was one of the few of the 344 school districts in Minnesota to be awarded the ASBO Certificate of Excellence in Financial Reporting for the preparation and issuance of a high-quality CAFR for the fiscal year ending June 30, 2008. This was the fourth time the District submitted its CAFR for consideration of this award. The Certificate of Excellence, the highest recognition for school district financial operations offered by ASBO, is only conferred to school systems that have met or exceeded the standards of the program.

A Certificate of Excellence is only valid for a period of one year. We believe that our current CAFR continues to meet the standards of this program, and we are submitting it to ASBO to determine its eligibility for another certificate.

The timely preparation of this report could not have been accomplished without the professional and dedicated hard work of the entire staff of the District's business services team. We wish to express our appreciation to all members of the staff who assisted and contributed to the report preparation.

Our appreciation is also given to the School Board for their support in leading the District in sound and responsible financial management.

Respectfully submitted,

A handwritten signature in cursive script, reading "Dr. Deirdre Wells".

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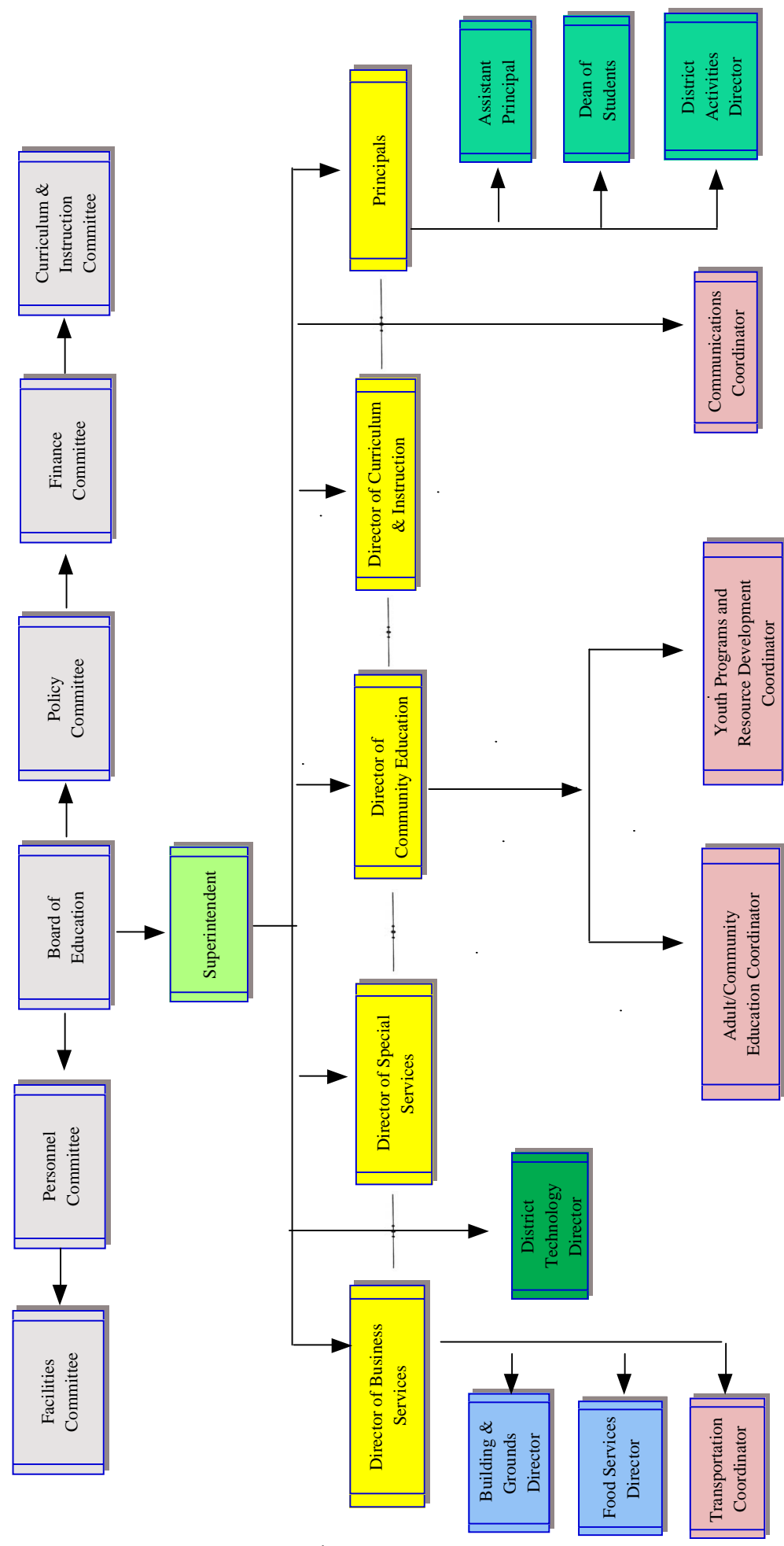
Dr. Deirdre Wells  
Superintendent

A handwritten signature in cursive script, reading "Bruce Rimstad".

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Bruce Rimstad  
Business Manager





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INDEPENDENT SCHOOL DISTRICT NO. 199

School Board and Administration  
Year Ended June 30, 2009

**SCHOOL BOARD**

Position on School Board  
During 2008–2009

---

Phil Prokopowicz	Chairperson
Mickey Difronzo	Vice Chairperson/Treasurer
Keri Myran	Clerk
Thomas Mahoney	Director
Paul Mandell	Director
Lynette Stensgard	Director
Bridget Sutton	Director

**ADMINISTRATION**

Dr. Deirdre Wells	Superintendent
Bruce Rimstad	Business Manager

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**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS  
INTERNATIONAL**



This Certificate of Excellence in Financial Reporting is presented to

**INDEPENDENT SCHOOL DISTRICT NO. 199 – INVER GROVE HEIGHTS**  
**For its Comprehensive Annual Financial Report (CAFR)**  
For the Fiscal Year Ended June 30, 2008

Upon recommendation of the Association's Panel of Review which has judged that the Report substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

*Angela Piterman*

President

*John D. Mueser*

Executive Director

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## **SECTION II**

### **FINANCIAL SECTION**



## PRINCIPALS

Kenneth W. Malloy, CPA  
Thomas M. Montague, CPA  
Thomas A. Karnowski, CPA  
Paul A. Radosevich, CPA  
William J. Lauer, CPA  
James H. Eichten, CPA  
Aaron J. Nielsen, CPA  
Victoria L. Holinka, CPA

## INDEPENDENT AUDITOR'S REPORT

To the School Board of  
Independent School District No. 199  
Inver Grove Heights, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 199, Inver Grove Heights, Minnesota (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information presented has been derived from the District's 2008 financial statements and, in our report dated October 27, 2008, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 of the notes to basic financial statements, the District has implemented Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions," during the year ended June 30, 2009.

The financial statements include prior year partial comparative information, which does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2008, from which it was derived.

(continued)



In accordance with *Government Auditing Standards*, we have also issued a report dated November 16, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Schedules of Funding Progress, as listed in the table of contents, are not required parts of the basic financial statements, but are supplementary information required by accounting standards generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual fund statements and schedules, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Malloy, Montague, Karnowski, Radoszewich & Co., P.A.*

November 16, 2009

## INDEPENDENT SCHOOL DISTRICT NO. 199

### Management's Discussion and Analysis Fiscal Year Ended June 30, 2009

The management of Independent School District No. 199, Inver Grove Heights, Minnesota (the District) has provided readers of the District's financial statements with this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the other components of the District's comprehensive annual financial report, including the letter of transmittal located in the introductory section.

#### **FINANCIAL HIGHLIGHTS**

The District's assets exceeded its liabilities at June 30, 2009 by \$11,921,617 (net assets). The unrestricted portion of assets was \$4,457,391. The District also had \$2,367,912 of net assets available to meet its ongoing obligations, but restricted for specific uses. Total net assets increased by \$152,055 from current year activities.

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions," during the year. This change in accounting principle increased the District's beginning net assets by \$4,395,689 due to the elimination of the estimated liability the District had reported for other post-employment benefits (OPEB) prior to the implementation of this new standard. This change primarily affected unrestricted net assets.

The District issued \$9,220,000 G.O. Taxable OPEB Bonds Series 2009A. The proceeds were contributed to a revocable trust established to finance its OPEB liability. The assets of this revocable trust are accounted for in a new internal service fund created by the District.

At June 30, 2009, the District's governmental funds reported a combined ending fund balance of \$7,814,701, a decrease of \$948,868 from the prior year. This decrease was primarily the result of the District spending approximately \$2.1 million for capital improvements from the remaining proceeds of a \$33 million building bond issue sold in 2005.

The District's General Fund, its primary operating fund, closed the fiscal year with an unreserved fund balance of \$4,801,090, which represents approximately 10.4 percent of annual General Fund expenditures, based on fiscal 2009 expenditure levels.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements consist of the following three components: the government-wide financial statements, fund financial statements, and the notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

#### **Government-Wide Statements**

The government-wide statements (Statement of Net Assets and Statement of Activities) 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 government-wide statements report the District's *net assets* and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District requires consideration of additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements the District's activities are all shown in one category titled "governmental activities." These activities, including regular and special education, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds, rather than the District as a whole. Funds (Food Service and Community Service Special Revenue) that do not meet the threshold to be classified as major funds are called "nonmajor" funds. Detailed financial information for nonmajor funds can be found in the combining and individual fund statements and schedules section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Minnesota schools must establish funds within the guidelines of the state's Uniform Financial Accounting and Reporting Standards.

The District maintains the following types of funds:

**Governmental Funds** – The District's basic services are included in governmental funds, which generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps to determine whether there are more or less 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 government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental fund statements that explain the relationship (or differences) between these two types of financial statement presentations.

**Proprietary Funds** – Proprietary fund statements offer *short-term* and *long-term* financial information about the activities the District operates like businesses. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The District maintains one type of proprietary fund, internal service funds, which are used to accumulate and allocate costs internally among the District's various functions. The District's two internal service funds account for its post-employment employee benefit liabilities. These activities have been included within governmental activities in the government-wide financial statements.

**Fiduciary Funds** – The District is the trustee, or fiduciary, for assets that belong to other organizations. 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 government-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 is a summarized view of the District's Statement of Net Assets:

<b>Table 1</b> <b>Summary of Net Assets</b> <b>as of June 30, 2009 and 2008</b>		
	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Current and other assets	\$ 33,428,669	\$ 24,655,871
Capital assets, net of depreciation	42,930,064	42,553,332
<b>Total assets</b>	<b>\$ 76,358,733</b>	<b>\$ 67,209,203</b>
<b>Liabilities</b>		
Current and other liabilities	\$ 15,929,517	\$ 15,331,323
Long-term liabilities, including due within one year	48,507,599	44,504,007
<b>Total liabilities</b>	<b>\$ 64,437,116</b>	<b>\$ 59,835,330</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	\$ 5,096,314	\$ 5,638,108
Restricted	2,367,912	2,403,846
Unrestricted	4,457,391	(668,081)
<b>Total net assets</b>	<b>\$ 11,921,617</b>	<b>\$ 7,373,873</b>

The District's financial position is the product of many factors. For example, the determination of the District's investment in capital assets, net of related debt involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts. The District's total net assets increased by \$152,055 during the year ended June 30, 2009. In addition, net assets increased by \$4,395,689 due to a change in accounting principle as the District implemented GASB Statement No. 45 during the year.

Table 2 presents a condensed version of the Change in Net Assets of the District:

<b>Table 2</b> <b>Change in Net Assets</b> <b>for the Years Ended June 30, 2009 and 2008</b>		
	<u>2009</u>	<u>2008</u>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 3,547,574	\$ 3,302,566
Operating grants and contributions	5,642,691	6,622,615
General revenues		
Property taxes	10,229,785	9,140,273
General grants and aids	24,939,865	24,160,613
Other	953,432	983,437
<b>Total revenues</b>	<u>45,313,347</u>	<u>44,209,504</u>
<b>Expenses</b>		
Administration	1,568,100	1,267,400
District support services	1,028,899	1,026,514
Elementary and secondary regular instruction	16,499,940	16,638,409
Vocational education instruction	392,126	411,009
Special education instruction	7,398,059	8,388,707
Instructional support services	2,541,338	2,370,339
Pupil support services	3,189,324	2,971,179
Sites and buildings	5,583,255	8,226,708
Fiscal and other fixed cost programs	80,594	102,736
Food service	1,690,081	1,678,391
Community service	2,120,802	2,021,807
Unallocated depreciation	1,137,350	690,032
Interest and fiscal charges	1,931,424	1,715,119
<b>Total expenses</b>	<u>45,161,292</u>	<u>47,508,350</u>
<b>Change in net assets</b>	<u>\$ 152,055</u>	<u>\$ (3,298,846)</u>

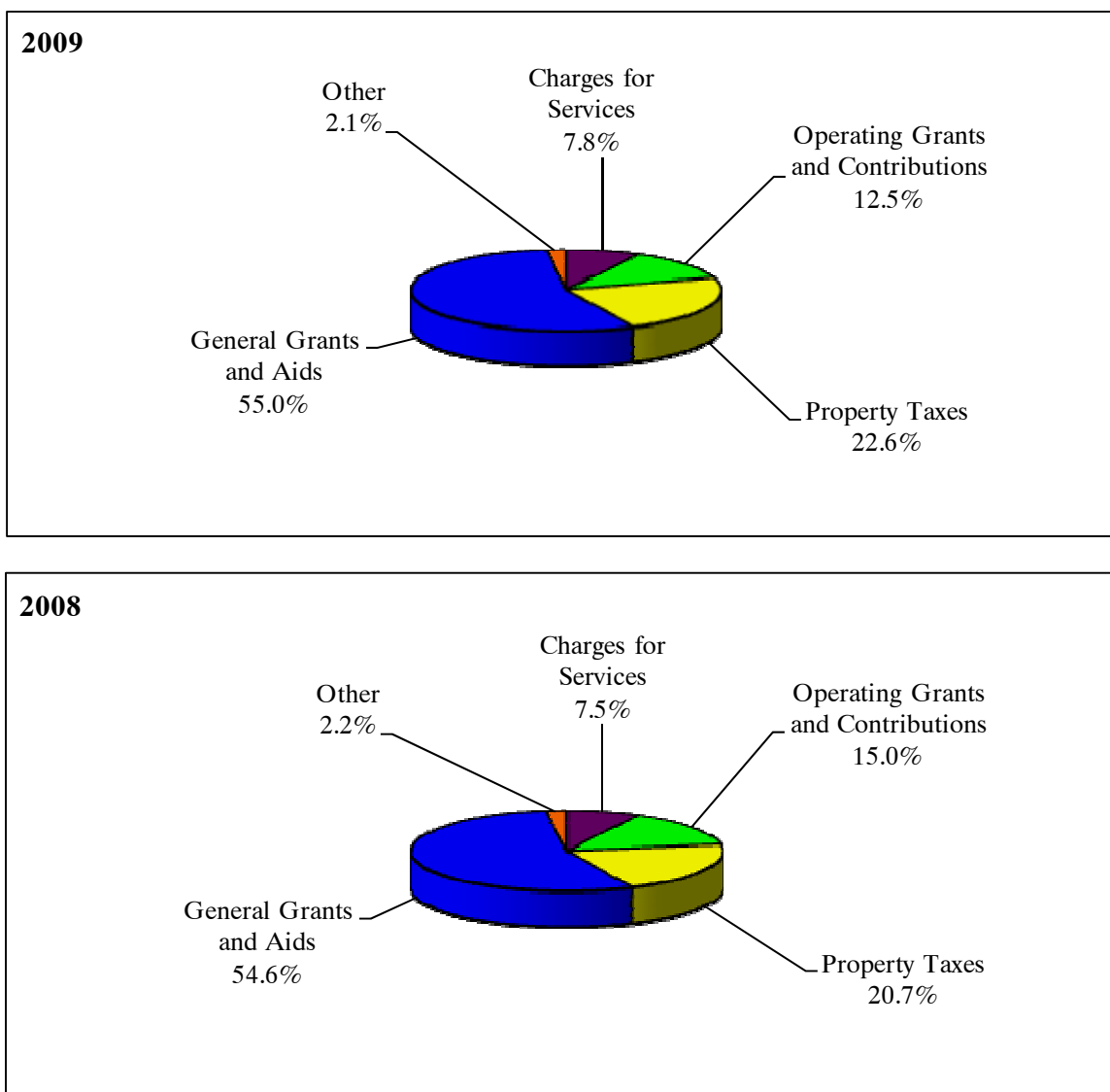
This statement is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

Revenues in fiscal year 2009 increased \$1,103,843. Most of the increase was in property tax revenue, which was over \$1 million higher than last year due to increases in the Health and Safety Levy (\$800,000); the Building Lease Levy (\$92,000); and a lease levy passed through to Intermediate School District No. 917 for the newly constructed Alliance Education Center (\$74,000).

Total expenses for fiscal year 2009 decreased by \$2,347,058 or 4.9 percent from the previous year. The most significant change was a decrease of about \$2.6 million in sites and buildings program costs, as the District had a number of significant non-capitalized repair and maintenance projects in the prior year. The decrease of nearly \$1 million in the special education program area was due to a change in the way the District is charged for its students attending a cooperative special education program. In prior years, the District was charged tuition for these services. The costs are now recovered through a reduction to the state special education aid the District receives. Conversely, the District's depreciation expense increased by about \$453,000 due the District adding a significant amount of new capital assets the last few years, which were financed with \$33 million of building bonds issued in 2005.

Figures A and B show further analysis of these revenue sources and expense functions:

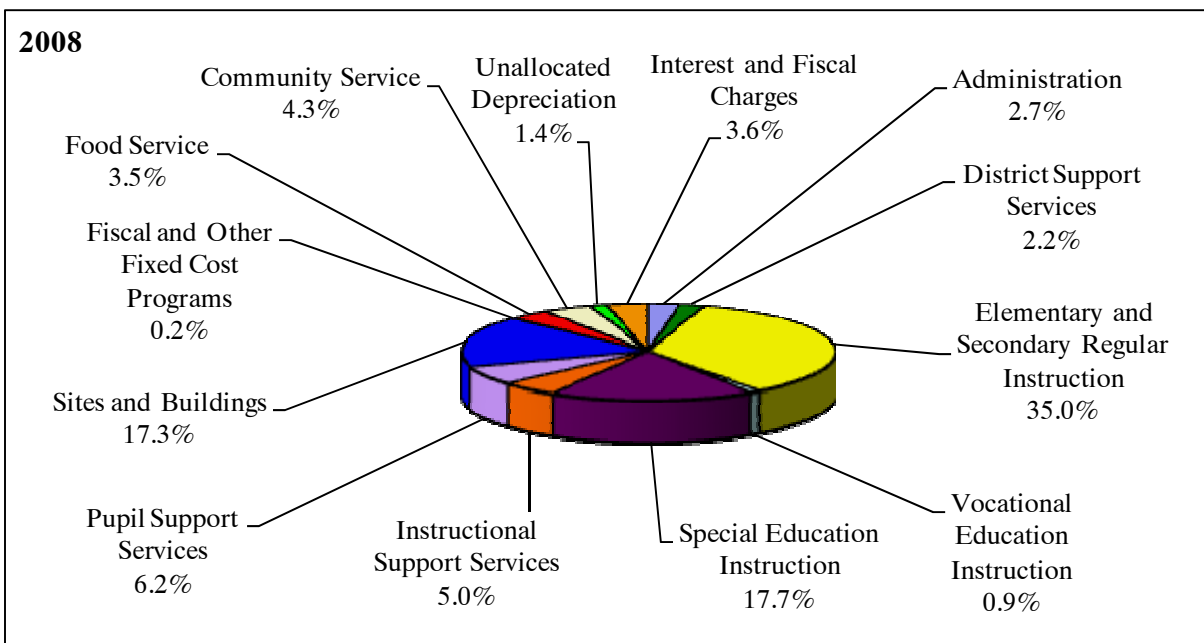
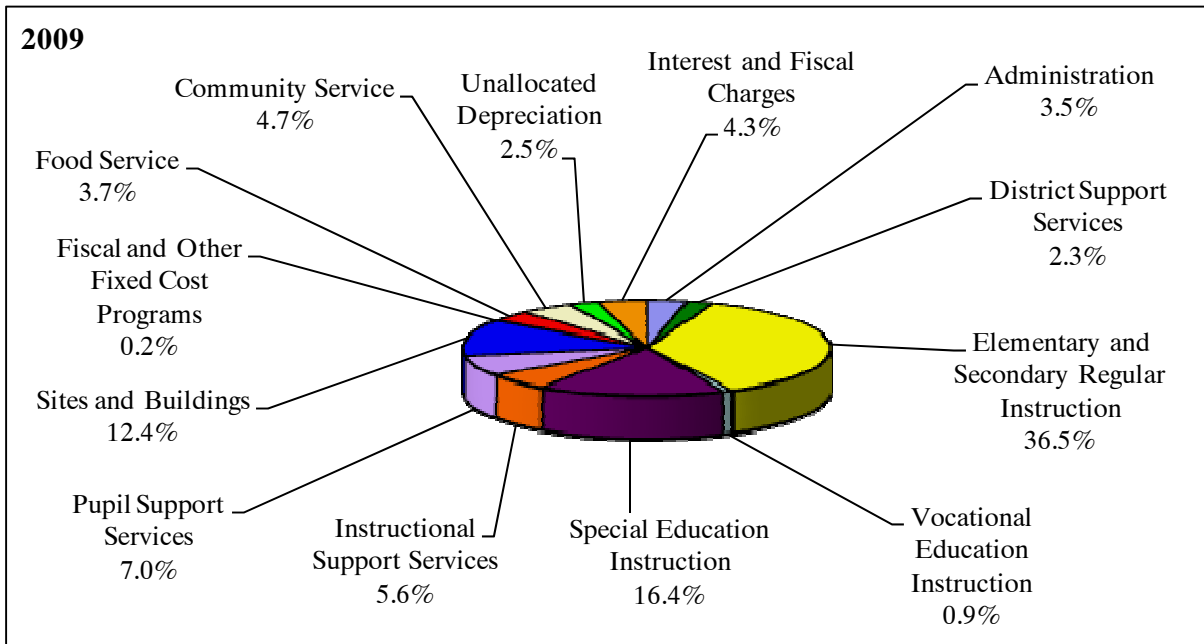
**Figure A – Sources of Revenue for Fiscal Years 2009 and 2008**



The largest share of the District's revenue is received from the state, including the aid formula and most of the capital and operating grants. This means that the District's financial condition depends significantly on the state's current financial condition.

Revenue from property taxes increased due to the levy increases discussed earlier. General grants and aids were also higher than last year, mainly in general education because of higher enrollment than anticipated. Operating grants and contributions declined from the prior year due to the change in special education tuition billing discussed previously.

**Figure B – Expenses for Fiscal Years 2009 and 2008**



The District's expenses are predominately related to educating students. Approximately 66.4 percent of the District's 2009 expenses were in categories directly related to providing instruction, which includes: elementary and secondary regular instruction, vocational education instruction, special education instruction, instructional support services, and pupil support services.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. Table 3 shows the change in total fund balances of each of the District's governmental funds:

<b>Table 3</b> <b>Governmental Fund Balances</b> <b>as of June 30, 2009 and 2008</b>				
	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>	<u>Total Percent Change</u>
Major funds				
General	\$ 5,904,725	\$ 4,818,927	\$ 1,085,798	22.5%
Capital Projects –				
Building Construction	193,387	2,273,852	(2,080,465)	(91.5%)
Debt Service	590,200	498,963	91,237	18.3%
Nonmajor funds				
Food Service Special Revenue	781,891	670,265	111,626	16.7%
Community Service Special Revenue	<u>344,498</u>	<u>501,562</u>	<u>(157,064)</u>	<u>(31.3%)</u>
Total governmental funds	<u>\$ 7,814,701</u>	<u>\$ 8,763,569</u>	<u>\$ (948,868)</u>	<u>(10.8%)</u>

The increase in the General Fund was mainly attributable to the increase in revenues due to the District's enrollment being higher than expected. The Capital Projects – Building Construction Fund decrease was due to the completion of the remaining improvement projects approved with the issuance of the District's 2005 building bonds. The increase in the Debt Service Fund was attributable to levying 105 percent of the required Debt Service Fund for bonds payable.

### Analysis of the General Fund

Table 4 summarizes the amendments to the General Fund budget:

<b>Table 4</b> <b>General Fund</b> <b>Budget</b>				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase (Decrease)</u>	<u>Percent Budget</u>
Revenue	<u>38,756,408</u>	<u>36,338,838</u>	<u>(2,417,570)</u>	<u>(6.2%)</u>
Expenditures	<u>39,684,676</u>	<u>45,890,384</u>	<u>6,205,708</u>	<u>15.6%</u>
Other sources	<u>\$ –</u>	<u>9,127,800</u>	<u>9,127,800</u>	<u>N/A</u>
N/A – Not Available				



The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to on the previous page as the original budget. In December of each year, it is the District's practice to amend the General Fund budget for known significant changes in circumstances, such as: updated enrollment estimates, legislation changes, additional funding received from grants or other local sources, staffing changes, employee contract settlements, health insurance premium increases, special education tuition changes, or utility rate changes. Recently, in addition to the annual December amendment, the District has found it necessary to amend the federal program budgets in March.

The District increased its budgeted expenditures and other financing sources due to the issuance of \$9.2 million of OPEB bonds, the proceeds of which were allocated to the General Fund and special revenue funds, and subsequently contributed to the revocable OPEB trust discussed earlier.

Table 5 summarizes the operating results of the General Fund:

<b>Table 5</b> <b>General Fund</b> <b>Operating Results</b>					
	2009 Actual	Over (Under) Final Budget		Over (Under) Prior Year	
		Amount	Percent	Amount	Percent
Revenue	\$ 38,408,822	\$ 2,069,984	5.7%	\$ 866,223	2.3%
Expenditures	46,216,852	\$ 326,468	0.7%	\$ 8,226,045	21.7%
Other financing sources (uses)	<u>8,893,828</u>	\$ (233,972)	(2.6%)	\$ 8,893,828	N/A
Net change in fund balances	<u><u>\$ 1,085,798</u></u>				
N/A – Not Available					

General Fund revenues exceeded the final budget for fiscal year 2009 by \$2,069,984. State aid revenue exceeded budget by about \$1,636,000, which was attributable to the higher enrollment and special education state aid discussed earlier. Revenue from other local sources, including gifts, reimbursements from other districts, and medical assistance reimbursements, were about \$525,000 higher than budget.

General Fund expenditures and other financing sources both increased significantly in 2009 due to the District issuing \$9.2 million of taxable OPEB bonds. The proceeds of these bonds were allocated to the District's General Fund and special revenue funds, which then contributed the proceeds into a revocable OPEB trust. The contributions are reflected as employee benefits expenditures in the governmental fund financial statements. The excess of expenditures over budget was almost entirely due to higher purchased service costs for special education than anticipated.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2009 and 2008:

<b>Table 6</b> <b>Capital Assets</b>			
	2009	2008	Increase (Decrease)
Land	\$ 421,200	\$ 421,200	\$ –
Buildings and improvements	56,212,325	33,979,379	22,232,946
Furniture and equipment	2,161,858	2,006,335	155,523
Construction in progress	–	20,982,432	(20,982,432)
Less accumulated depreciation	(15,865,319)	(14,836,014)	(1,029,305)
Total	<u>\$ 42,930,064</u>	<u>\$ 42,553,332</u>	<u>\$ 376,732</u>
Depreciation expense	<u>\$ 1,255,170</u>	<u>\$ 802,244</u>	<u>\$ 452,926</u>

The most significant changes in capital assets were due to the District completing a number of building improvement projects in 2009 that were in progress in the previous year.

## Long-Term Liabilities

Table 7 illustrates the components of the District's long-term liabilities, together with the change from the prior year:

<b>Table 7</b> <b>Outstanding Long-Term Liabilities</b>			
	2009	2008*	Increase (Decrease)
General obligation bonds payable	\$ 46,530,000	\$ 38,310,000	\$ 8,220,000
Special assessments payable	143,750	156,250	(12,500)
Capital leases payable	380,000	159,924	220,076
Severance payable	1,453,849	1,482,144	(28,295)
Total	<u>\$ 48,507,599</u>	<u>\$ 40,108,318</u>	<u>\$ 8,399,281</u>
* The balance at June 30, 2008 is as restated for a change in accounting principle due to the District implementing GASB Statement No. 45.			

The general obligation bonds payable in Table 7 are mainly the OPEB taxable bonds issued in 2009 and capital improvement bonds which were sold in 2005. The District entered into a new capital lease with Apple Computer to continue its adopted computer replacement plan in fiscal year 2009.

The state limits the amount of general obligation debt the District can issue to 15 percent of the market value of all taxable property within the District's corporate limits. (See Table 8)

<b>Table 8</b> <b>Limitations on Debt</b>	
District's market value	\$ 2,910,481,100
Limit rate	<u>15.0%</u>
Legal debt limit	<u>\$ 436,572,165</u>

Additional details of the District's capital assets and long-term debt activity can be found in the notes to basic financial statements.

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

With the exception of the voter-approved operating referendum, the District is dependent on the state of Minnesota for a majority of its revenue authority. The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The basic general education formula amount for all Minnesota school districts increased 1 percent to \$5,124 for fiscal year 2009, and will remain at this level for fiscal year 2010 and fiscal year 2011. A weakened economy and growing demand on limited resources have created challenges in funding education for Minnesota schools in recent years.

The District had a portion (\$364 per pupil unit) of its current excess operating referendum authority renewed for 10 years in the state-wide general election in November of 2008. The second portion (\$480 per pupil unit) of the District's excess operating referendum authority expires at the end of the 2012–2013 fiscal year. The District's present plan is to ask the electorate to renew this second portion of its excess levy authority in conjunction with the November 2011 School Board election. If unsuccessful, the District will place the question on the state-wide general election ballot in November 2012.

The District acted on the state legislation approved in 2008, which created new options for funding its OPEB obligations. The District issued \$9,220,000 of general obligation bonds to fund its estimated historical OPEB obligation in December of 2008. Issuing these bonds will help reduce the pressure on the District's operating funds. The bond proceeds were placed in a revocable trust that will be used to pay future OPEB, greatly reducing the amount to be paid from operating funds.

The new law also specified who may be a trust administrator and an investment advisor. The District selected Wells Fargo to be its trust administrator and investment advisor. In the initial six months (1/1/09–6/30/09) investment period, the trust assets earned \$350,174 of investment income. The District plans to use \$552,315 of the OPEB trust assets in fiscal year 2010 to pay for retiree health obligations.

The cost of providing services for special education students continues to escalate faster than other portions of the District's budget. In fiscal year 2009, the transportation expenditures for special education students increased 16 percent while the transportation expenditures for regular students remained the same.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, 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 No. 199, 2990 – 80th Street East, Inver Grove Heights, Minnesota 55076.

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## BASIC FINANCIAL STATEMENTS

## INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Net Assets  
as of June 30, 2009  
(With Partial Comparative Information as of June 30, 2008)

	Governmental Activities	
	2009	2008
<b>Assets</b>		
Cash and temporary investments	\$ 12,608,193	\$ 14,122,097
Receivables		
Current taxes	6,030,816	5,835,109
Delinquent taxes	147,538	114,003
Accounts and interest	93,963	145,653
Due from other governmental units	4,726,794	4,192,769
Inventory	69,088	51,679
Prepaid items	84,033	88,730
Unamortized discounts and issue costs	230,637	105,831
 Restricted assets – temporarily restricted		
Cash and investments for other post-employment benefits	9,437,607	–
 Capital assets		
Not depreciated	421,200	21,403,632
Depreciated, net	42,508,864	21,149,700
Total capital assets, net of depreciation	<u>42,930,064</u>	<u>42,553,332</u>
 Total assets	<u>\$ 76,358,733</u>	<u>\$ 67,209,203</u>
 <b>Liabilities</b>		
Salaries and compensated absences payable	\$ 1,660,986	\$ 1,645,998
Accounts and contracts payable	2,419,832	2,665,262
Accrued interest payable	1,001,618	737,893
Due to other governmental units	165,212	132,265
Property taxes levied for subsequent year	9,679,101	9,415,475
Unearned revenue	63,426	65,697
Unamortized premiums	629,524	668,733
Net pension obligation	278,010	–
Net OPEB obligation	31,808	–
 Long-term liabilities		
Due within one year	1,604,482	1,718,828
Due in more than one year	46,903,117	42,785,179
Total long-term liabilities	<u>48,507,599</u>	<u>44,504,007</u>
 Total liabilities	64,437,116	59,835,330
 <b>Net assets</b>		
Invested in capital assets, net of related debt	5,096,314	5,638,108
Restricted for		
Capital asset acquisition	694,877	985,271
Other post-employment benefits	217,607	–
Other purposes	1,455,428	1,418,575
Unrestricted	4,457,391	(668,081)
Total net assets	<u>11,921,617</u>	<u>7,373,873</u>
 Total liabilities and net assets	<u>\$ 76,358,733</u>	<u>\$ 67,209,203</u>

See notes to basic financial statements

## INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Activities  
Year Ended June 30, 2009  
(With Partial Comparative Information for the Year Ended June 30, 2008)

Functions/Programs	2009			2008	
	Expenses	Program Revenues		Net (Expense)	Net (Expense)
		Charges for	Operating	Revenue and	Revenue and
		Services	Grants and	Changes in	Changes in
			Contributions	Net Assets	Net Assets
				Governmental	Governmental
				Activities	Activities
Governmental activities					
Administration	\$ 1,568,100	\$ —	\$ —	\$ (1,568,100)	\$ (1,267,400)
District support services	1,028,899	—	—	(1,028,899)	(1,022,665)
Elementary and secondary regular instruction	16,499,940	157,396	—	(16,342,544)	(16,468,567)
Vocational education instruction	392,126	—	—	(392,126)	(386,088)
Special education instruction	7,398,059	590,234	4,276,136	(2,531,689)	(2,709,949)
Instructional support services	2,541,338	—	298,459	(2,242,879)	(2,063,570)
Pupil support services	3,189,324	164,525	180,431	(2,844,368)	(2,667,648)
Sites and buildings	5,583,255	175,842	—	(5,407,413)	(8,038,321)
Fiscal and other fixed cost programs	80,594	—	—	(80,594)	(102,736)
Food service	1,690,081	1,007,980	714,526	32,425	(44,901)
Community service	2,120,802	1,451,597	173,139	(496,066)	(406,173)
Unallocated depreciation	1,137,350	—	—	(1,137,350)	(690,032)
Interest and fiscal charges	1,931,424	—	—	(1,931,424)	(1,715,119)
Total governmental activities	<u>\$45,161,292</u>	<u>\$ 3,547,574</u>	<u>\$ 5,642,691</u>	(35,971,027)	(37,583,169)
General revenues					
Taxes					
Property taxes, levied for general purposes				7,349,291	6,374,827
Property taxes, levied for community service				215,590	216,873
Property taxes, levied for debt service				2,664,904	2,548,573
General grants and aids				24,939,865	24,160,613
Other general revenues				410,537	308,398
Investment earnings				542,895	675,039
Total general revenues				<u>36,123,082</u>	<u>34,284,323</u>
Change in net assets				152,055	(3,298,846)
Net assets – beginning, as previously reported				7,373,873	10,672,719
Change in accounting principle				<u>4,395,689</u>	—
Net assets – beginning, as restated				<u>11,769,562</u>	<u>10,672,719</u>
Net assets – ending				<u>\$ 11,921,617</u>	<u>\$ 7,373,873</u>

See notes to basic financial statements



INDEPENDENT SCHOOL DISTRICT NO. 199

Balance Sheet  
Governmental Funds  
as of June 30, 2009  
(With Partial Comparative Information as of June 30, 2008)

	Capital Projects – Building				Total Governmental Funds	
	General Fund	Construction Fund	Debt Service Fund	Nonmajor Funds	2009	2008
<b>Assets</b>						
Cash and temporary investments	\$ 6,806,923	\$ 571,181	\$ 2,068,625	\$ 1,383,643	\$ 10,830,372	\$ 12,374,326
Receivables						
Current taxes	3,904,902	–	1,992,985	132,929	6,030,816	5,835,109
Delinquent taxes	105,584	–	37,479	4,475	147,538	114,003
Accounts and interest	49,293	–	–	44,670	93,963	145,653
Due from other governmental units	4,641,549	–	31,468	53,777	4,726,794	4,192,769
Inventory	–	–	–	69,088	69,088	51,679
Prepaid items	83,303	–	–	730	84,033	88,730
Total assets	<u>\$ 15,591,554</u>	<u>\$ 571,181</u>	<u>\$ 4,130,557</u>	<u>\$ 1,689,312</u>	<u>\$ 21,982,604</u>	<u>\$ 22,802,269</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Salaries and compensated absences payable	\$ 1,623,909	\$ –	\$ –	\$ 37,077	\$ 1,660,986	\$ 1,645,998
Accounts and contracts payable	1,988,378	377,794	–	53,660	2,419,832	2,665,262
Due to other funds	29,598	–	–	2,210	31,808	–
Due to other governmental units	153,156	–	–	12,056	165,212	132,265
Property taxes levied for subsequent year	5,786,204	–	3,502,878	390,019	9,679,101	9,415,475
Deferred revenue – delinquent taxes	105,584	–	37,479	4,475	147,538	114,003
Unearned revenue	–	–	–	63,426	63,426	65,697
Total liabilities	<u>9,686,829</u>	<u>377,794</u>	<u>3,540,357</u>	<u>562,923</u>	<u>14,167,903</u>	<u>14,038,700</u>
<b>Fund balances</b>						
Reserved	1,103,635	–	–	342,687	1,446,322	2,596,813
Unreserved – designated	1,083,225	–	–	–	1,083,225	–
Unreserved – undesignated						
Reported in major funds	3,717,865	193,387	590,200	–	4,501,452	5,497,006
Reported in special revenue funds	–	–	–	783,702	783,702	669,750
Total fund balances	<u>5,904,725</u>	<u>193,387</u>	<u>590,200</u>	<u>1,126,389</u>	<u>7,814,701</u>	<u>8,763,569</u>
Total liabilities and fund balances	<u>\$ 15,591,554</u>	<u>\$ 571,181</u>	<u>\$ 4,130,557</u>	<u>\$ 1,689,312</u>	<u>\$ 21,982,604</u>	<u>\$ 22,802,269</u>

See notes to basic financial statements

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INDEPENDENT SCHOOL DISTRICT NO. 199

Reconciliation of the Balance Sheet to the  
Statement of Net Assets  
as of June 30, 2009  
(With Partial Comparative Information as of June 30, 2008)

	<u>2009</u>	<u>2008</u>
Total fund balances – governmental funds	\$ 7,814,701	\$ 8,763,569
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets are included in net assets, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	58,795,383	57,389,346
Less accumulated depreciation	(15,865,319)	(14,836,014)
Long-term liabilities are included in net assets, but are excluded from fund balances until due and payable.		
General obligation bonds payable	(46,530,000)	(38,310,000)
Special assessments payable	(143,750)	(156,250)
Capital leases payable	(380,000)	(159,924)
Internal service funds have been established to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	9,483,569	(4,130,062)
Accrued interest payable is included in net assets, but is excluded from fund balances until due and payable.	(1,001,618)	(737,893)
Debt issuance premiums and discounts are excluded from net assets until amortized, but are included in fund balances upon issuance as other financing sources and uses.	(398,887)	(562,902)
Certain revenues (including delinquent property taxes) are included in net assets, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	<u>147,538</u>	<u>114,003</u>
Total net assets – governmental activities	<u>\$ 11,921,617</u>	<u>\$ 7,373,873</u>

See notes to basic financial statements

## INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Revenue, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2009  
(With Partial Comparative Information for the Year Ended June 30, 2008)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds	
					2009	2008
Revenue						
Local sources						
Property taxes	\$ 7,323,012	\$ –	\$ 2,657,911	\$ 215,327	\$ 10,196,250	\$ 9,108,006
Investment earnings	99,051	20,468	15,639	27,514	162,672	606,139
Other	1,697,648	–	–	2,531,613	4,229,261	3,841,302
State sources	27,755,319	–	122,243	269,279	28,146,841	28,745,668
Federal sources	1,533,792	–	–	630,773	2,164,565	1,807,223
Total revenue	38,408,822	20,468	2,795,793	3,674,506	44,899,589	44,108,338
Expenditures						
Current						
Administration	1,950,035	–	–	–	1,950,035	1,448,291
District support services	1,160,932	–	–	–	1,160,932	1,067,131
Elementary and secondary regular instruction	21,084,417	–	–	–	21,084,417	16,281,280
Vocational education instruction	486,383	–	–	–	486,383	411,009
Special education instruction	9,038,200	–	–	–	9,038,200	8,401,644
Instructional support services	3,135,025	–	–	–	3,135,025	2,418,803
Pupil support services	3,633,832	–	–	–	3,633,832	2,955,188
Sites and buildings	5,440,052	–	–	–	5,440,052	4,882,944
Fiscal and other fixed cost programs	80,594	–	–	–	80,594	102,736
Food service	–	–	–	1,849,531	1,849,531	1,678,522
Community service	–	–	–	2,440,545	2,440,545	2,006,623
Capital outlay	–	2,100,933	–	61,440	2,162,373	9,121,987
Debt service						
Principal	172,424	–	1,000,000	–	1,172,424	823,611
Interest and fiscal charges	34,958	–	1,704,556	–	1,739,514	1,750,502
Total expenditures	46,216,852	2,100,933	2,704,556	4,351,516	55,373,857	53,350,271
Excess (deficiency) of revenue over expenditures	(7,808,030)	(2,080,465)	91,237	(677,010)	(10,474,268)	(9,241,933)
Other financing sources (uses)						
Debt issuance	8,588,428	–	–	631,572	9,220,000	–
Discount on debt issuance	(92,200)	–	–	–	(92,200)	–
Capital lease	380,000	–	–	–	380,000	–
Proceeds from sales of capital assets	17,600	–	–	–	17,600	29,878
Total other financing sources (uses)	8,893,828	–	–	631,572	9,525,400	29,878
Net change in fund balances	1,085,798	(2,080,465)	91,237	(45,438)	(948,868)	(9,212,055)
Fund balances						
Beginning of year	4,818,927	2,273,852	498,963	1,171,827	8,763,569	17,975,624
End of year	\$ 5,904,725	\$ 193,387	\$ 590,200	\$ 1,126,389	\$ 7,814,701	\$ 8,763,569

See notes to basic financial statements

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INDEPENDENT SCHOOL DISTRICT NO. 199

Reconciliation of the Statement of  
Revenue, Expenditures, and Changes in Fund Balances  
to the Statement of Activities  
Year Ended June 30, 2009

(With Partial Comparative Information for the Year Ended June 30, 2008)

	<u>2009</u>	<u>2008</u>
Total net change in fund balances – governmental funds	\$ (948,868)	\$ (9,212,055)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net assets and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	1,644,319	5,818,851
Depreciation expense	(1,255,170)	(802,244)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net assets. However, only the sale proceeds are included in the change in fund balances.	(12,417)	(101,557)
The amount of debt proceeds is reported in the governmental funds as a source of financing. Debt proceeds are not revenues in the Statement of Activities, but rather constitute long-term liabilities.	(9,600,000)	–
Internal service funds are used by management to charge the costs of certain activities to individual funds. The activity of the Internal Service Fund is included in the governmental activities in the Statement of Activities.	9,217,942	106,898
Repayment of long-term debt principal does not effect the change in net assets; however, it reduces fund balances.		
General obligation bonds payable	1,000,000	795,000
Special assessments payable	12,500	12,500
Capital leases payable	159,924	16,111
Interest on long-term debt is included in the change in net assets as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	(263,725)	3,935
Debt issuance premiums and discounts are included in the change in net assets as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	164,015	31,448
Certain revenues (including delinquent property taxes) are included in the change in net assets, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.	<u>33,535</u>	<u>32,267</u>
Change in net assets – governmental activities	<u>\$ 152,055</u>	<u>\$ (3,298,846)</u>

See notes to basic financial statements

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INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual  
General Fund  
Year Ended June 30, 2009

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
Revenue				
Local sources				
Property taxes	\$ 7,451,359	\$ 7,451,359	\$ 7,323,012	\$ (128,347)
Investment earnings	260,000	125,000	99,051	(25,949)
Other	1,172,175	1,172,175	1,697,648	525,473
State sources	28,419,256	26,119,256	27,755,319	1,636,063
Federal sources	1,453,618	1,471,048	1,533,792	62,744
Total revenue	38,756,408	36,338,838	38,408,822	2,069,984
Expenditures				
Current				
Administration	1,534,932	2,030,326	1,950,035	(80,291)
District support services	1,161,264	1,363,751	1,160,932	(202,819)
Elementary and secondary regular instruction	15,569,575	21,635,969	21,084,417	(551,552)
Vocational education instruction	167,655	275,497	486,383	210,886
Special education instruction	8,856,405	8,343,720	9,038,200	694,480
Instructional support services	2,693,429	3,264,551	3,135,025	(129,526)
Pupil support services	3,244,100	3,650,144	3,633,832	(16,312)
Sites and buildings	4,880,072	5,028,807	5,440,052	411,245
Fiscal and other fixed cost programs	1,366,150	86,525	80,594	(5,931)
Debt service				
Principal	172,500	172,500	172,424	(76)
Interest and fiscal charges	38,594	38,594	34,958	(3,636)
Total expenditures	39,684,676	45,890,384	46,216,852	326,468
Excess (deficiency) of revenue over expenditures	(928,268)	(9,551,546)	(7,808,030)	1,743,516
Other financing sources (uses)				
Debt issuance	—	9,127,800	8,588,428	(539,372)
Discount on debt issuance	—	—	(92,200)	(92,200)
Capital lease	—	—	380,000	380,000
Proceeds from sales of capital assets	—	—	17,600	17,600
Total other financing sources (uses)	—	9,127,800	8,893,828	(233,972)
Net change in fund balances	\$ (928,268)	\$ (423,746)	1,085,798	\$ 1,509,544
Fund balances				
Beginning of year			4,818,927	
End of year			\$ 5,904,725	

See notes to basic financial statements



INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Net Assets  
Internal Service Funds  
as of June 30, 2009  
(With Partial Comparative Information as of June 30, 2008)

	2009	2008
Current assets		
Cash and temporary investments	\$ 1,777,821	\$ 1,747,771
Due from other funds	31,808	—
Total current assets	<u>1,809,629</u>	<u>1,747,771</u>
Restricted assets – temporarily restricted		
Cash and cash equivalents	5,806,336	—
Investments	3,631,271	—
Total restricted assets – temporarily restricted	<u>9,437,607</u>	<u>—</u>
Total assets	11,247,236	1,747,771
Liabilities		
Current liabilities		
Severance benefits payable	441,982	546,404
Net pension obligation	278,010	—
Net OPEB obligation	31,808	—
Total current liabilities	<u>751,800</u>	<u>546,404</u>
Long-term liabilities		
Severance benefits payable	<u>1,011,867</u>	<u>5,331,429</u>
Total liabilities	1,763,667	5,877,833
Net assets		
Restricted for OPEB liabilities	9,437,607	—
Unrestricted	<u>45,962</u>	<u>(4,130,062)</u>
Total net assets	<u>\$ 9,483,569</u>	<u>\$ (4,130,062)</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Internal Service Funds  
Year Ended June 30, 2009  
(With Partial Comparative Information for the Year Ended June 30, 2008)

	<u>2009</u>	<u>2008</u>
Operating revenue		
Contributions from governmental funds	\$ 10,482,306	\$ 657,598
Operating expenses		
Severance benefits	95,482	619,600
Pension benefits	622,702	—
Other post-employment benefits	926,403	—
Total operating expenses	<u>1,644,587</u>	<u>619,600</u>
Operating income	8,837,719	37,998
Nonoperating revenue		
Investment earnings	<u>380,223</u>	<u>68,900</u>
Change in net assets	9,217,942	106,898
Net assets		
Beginning of year, as previously stated	(4,130,062)	(4,236,960)
Change in accounting principle	4,395,689	—
Beginning of year, as restated	<u>265,627</u>	<u>(4,236,960)</u>
End of year	<u>\$ 9,483,569</u>	<u>\$ (4,130,062)</u>

See notes to basic financial statements

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INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Cash Flows  
Internal Service Funds  
Year Ended June 30, 2009  
(With Partial Comparative Information for the Year Ended June 30, 2008)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Receipts from assessments made to governmental funds	\$ 10,450,498	\$ 657,598
Benefit payments	<u>(1,363,065)</u>	<u>(657,598)</u>
Net cash provided (used) by operating activities	9,087,433	—
Cash flows from investing activities		
Purchase of investments	(3,635,082)	—
Interest on investments	<u>384,035</u>	<u>68,900</u>
Net cash provided (used) by investing activities	<u>(3,251,047)</u>	<u>68,900</u>
Net increase (decrease) in cash and cash equivalents	5,836,386	68,900
Cash and cash equivalents		
Beginning of year	<u>1,747,771</u>	<u>1,678,871</u>
End of year	<u><u>\$ 7,584,157</u></u>	<u><u>\$ 1,747,771</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating income (loss)	\$ 8,837,719	\$ 37,998
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Changes in assets and liabilities		
Due from other funds	(31,808)	—
Net pension obligation	278,010	—
Net OPEB obligation	31,808	—
Severance benefits payable	<u>(28,296)</u>	<u>(37,998)</u>
Net cash provided (used) by operating activities	<u><u>\$ 9,087,433</u></u>	<u><u>\$ —</u></u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Fiduciary Net Assets  
as of June 30, 2009

	Employee Benefit Trust Fund	BEST Foundation Agency Fund
Assets		
Cash and temporary investments	\$ 43,747	\$ 1,118,837
Liabilities		
Due to plan participants	31,349	\$ -
Due to fiscal agent	-	43,981
Due to BEST Foundation	-	1,074,856
Total liabilities	31,349	\$ 1,118,837
Net assets		
Held in trust for flexible benefits and other purposes	\$ 12,398	

Statement of Changes in Fiduciary Net Assets  
Year Ended June 30, 2009

	Employee Benefit Trust Fund
Additions	
Plan member contributions	\$ 239,826
Deductions	
Flexible benefits to plan members	239,803
Change in net assets	23
Net assets	
Beginning of year	12,375
End of year	\$ 12,398

See notes to basic financial statements

# INDEPENDENT SCHOOL DISTRICT NO. 199

## Notes to Basic Financial Statements June 30, 2009

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Organization**

Independent School District No. 199, Inver Grove Heights, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. It is governed by a seven-member School Board elected by the voters of the District to serve four-year terms. The District's financial statements 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 (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

#### **B. Reporting Entity**

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

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 includes 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.

In addition to component units, the District is required to disclose its relationships with related organizations. The District is a member of Technology and Information Educational Services (TIES), a consortium of Minnesota school districts that provides data processing services and support to its member districts. TIES is a separate legal entity that is financially independent of the District. Further, the District does not appoint a voting majority of TIES' Board of Directors. Therefore, TIES is not included as part of the District's reporting entity. During the fiscal year ended June 30, 2009, the District paid TIES \$656,532 for services provided.

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. Accordingly, the extracurricular student activity accounts are not included in these financial statements.

#### **C. Government-Wide Financial Statement Presentation**

The government-wide financial statements (Statement of Net Assets and 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. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 internally directed revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 advance 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.

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with, or allocated to, functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. For capital assets that essentially serve all functional areas, depreciation expense is reported as “unallocated depreciation.” Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

### **D. Fund Financial Statement Presentation**

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements. The proprietary (internal service) funds are presented in the proprietary fund financial statements. Because the principal users of the internal services are the District’s governmental activities, the financial activity of the internal service funds are consolidated into the governmental activities in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity. Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust and agency. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide statements.

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. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as capital outlay expenditures in governmental funds. In the General Fund, capital expenditures are included within the applicable functional areas.

Proprietary and fiduciary fund financial statements are reported using the accrual basis of accounting. Proprietary and trust funds use the economic resources measurement focus.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's Internal Service Fund is charges to customers (other district funds) for services. Operating expenses for the Internal Service Fund include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The District applies only those applicable pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 in accounting and reporting for its proprietary operations.

### **Description of Funds**

The existence of the various district funds has been established by the Minnesota Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

#### **Major Governmental Funds**

**General Fund** – The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

**Capital Projects – Building Construction Fund** – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue or capital project levies.

**Debt Service Fund** – The Debt Service Fund is used to account for the accumulation of resources for, and payment of, debt principal, interest, and related costs.

#### **Nonmajor Governmental Funds**

**Food Service Special Revenue Fund** – The Food Service Special Revenue Fund is primarily used to account for the District's child nutrition program.

**Community Service Special Revenue Fund** – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, or other similar services.



## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Proprietary Funds**

**Severance and Pension Benefits Internal Service Fund** – The Severance and Pension Benefits Internal Service Fund is used to account for the payment and financing of its severance and pension benefit liabilities.

**Other Post-Employment Benefits Internal Service Fund** – The Other Post-Employment Benefits (OPEB) Internal Service Fund is used to account for the payment and financing of its OPEB liabilities, including the administration of assets held in a revocable trust to finance these liabilities.

### **Fiduciary Funds**

**Employee Benefit Trust Fund** – The Employee Benefit Trust Fund is used to administer resources received and held by the District as the trustee for employees participating in the District's flexible benefit plan (Internal Revenue Code § 125 Cafeteria Plan).

**Agency Fund** – The Agency Fund is established to account for cash and other assets held by the District as the agent for others. The District maintains one Agency Fund for the administration of the BEST Foundation Scholarship Funds.

### **E. Budgetary Information**

The School Board adopts annual budgets for all governmental funds. The budgets are prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. The School Board approved supplemental budgetary appropriations mid-year, which increased total appropriations in the General Fund by \$6,205,708. All appropriations lapse at year-end.

Actual expenditures for the year ended June 30, 2009 exceeded budgeted appropriations by \$326,468 in the General Fund, by \$22,586 in the (nonmajor) Food Service Special Revenue Fund, and \$430,469 in the (nonmajor) Community Service Special Revenue Fund.

### **F. Cash and Temporary Investments**

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Earnings from the investments of the Capital Projects – Building Construction Fund and all trust funds are allocated directly to those funds.

Restricted cash and investments include balances held in segregated accounts established for specific purposes. In the OPEB Internal Service Fund, this represents assets held in a revocable trust established to finance the District's liability for post-employment insurance benefits. Earnings from the investments of this trust are allocated directly to this fund.

Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptances, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### G. Receivables

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are property taxes receivable.

At June 30, 2009, the District reported the following receivables due from other governmental units:

Due from the Minnesota Department of Education	\$ 4,587,069
Due from other Minnesota school districts	46,446
Due from Dakota County	<u>93,279</u>
Total due from other governmental units	<u>\$ 4,726,794</u>

### H. Inventories

Inventories are recorded using the consumption method of accounting and consist of surplus commodities received from the federal government. Surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

### I. Prepaid Items

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

### J. Property Taxes

The majority of district revenue is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the “tax shift,” which periodically changes the District’s recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year’s levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$1,143,394 of the property tax levy collectible in 2009 as revenue to the District in fiscal year 2008–2009. The remaining portion of the taxes collectible in 2009 is recorded as deferred revenue (property taxes levied for subsequent year).

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid by the state of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

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 known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **K. Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$5,000 or more, which benefit more than one fiscal year. 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 government-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. Since surplus assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for buildings and improvements, and 5 to 20 years for furniture and equipment. Land and construction in progress are not depreciated.

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks or parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

### **L. Interfund Balances**

The current portions of interfund balances representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported as due to/due from other funds. At June 30, 2009, the General Fund, Food Service Special Revenue Fund, and Community Service Special Revenue Fund had payables of \$29,598, \$821, and \$1,389 due to the OPEB Internal Service Fund to allocate the District's net OPEB obligation costs at year-end. Interfund balances and transactions are reported in the fund financial statements, but are eliminated in the government-wide financial statements.

### **M. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs, if material, are also 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 or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **N. Compensated Absences**

Eligible employees accrue vacation and sick leave at varying rates as specified by contract, portions of which may be carried over to future years. Compensated absences are accrued in the governmental fund statements only to the extent they have been used or otherwise matured prior to year-end. Unused vacation accrued at year-end is insignificant, and no vacation liability has been recorded in the government-wide financial statements beyond the amounts that were used or matured by year-end. Unused sick leave enters into the calculation of severance benefits for some employees upon termination.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **O. Severance**

Under the terms of collectively bargained employment contracts, certain district employee groups, including teachers, may become eligible to receive lump sum severance benefits. Eligibility is based on years of service and/or minimum age requirements.

Severance benefits are calculated by converting a portion of unused, accrued sick leave times a pay rate specified in the employee's collectively bargained contract. Severance benefits based on convertible sick leave are recorded as a liability in the Internal Service Fund as they are earned and it becomes probable they will vest at some point in the future.

Employees may also elect to receive district matching contributions to their 403B individual retirement accounts. An individual's future severance benefits will be reduced by any 403B matching payments received. In accordance with Minnesota Statutes, no employee can receive severance or retirement incentive benefits that exceed one year's salary.

### **P. 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; natural disasters; and workers' compensation. The District carries commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2009.

### **Q. Statement of Cash Flows**

For purposes of the Statement of Cash Flows, the District considers all highly liquid debt instruments with an original maturity from the time of purchase by the District of three months or less to be cash equivalents. The proprietary fund's equity in the government-wide cash and investment management pool is considered to be cash equivalent.

### **R. Net Assets**

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consist 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 government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

### **S. Use of Estimates**

The preparation of 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, and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### **T. Prior Year Comparative Information**

Certain prior year comparative information included in the basic financial statements has been restated to conform to the current year presentation.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### U. Change in Accounting Principle

During the year ended June 30, 2009, the District implemented GASB Statements No. 45, “Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions.”

This statement provides new guidance on accounting and financial reporting for “other post-employment benefits” (OPEB) accounted for in financial statements of plan sponsors and employers. OPEB refer to non-pension benefits provided after the termination of employment. One example of this type of benefit is healthcare premiums paid by employers on behalf of former employees. Governmental entities have traditionally accounted for OPEB on a pay-as-you-go basis. The guidance in this statement rests on the assumption that OPEB should be accrued as service is provided by employees.

The implementation of these standards caused the net asset balances in the OPEB Internal Service Fund and in the government-wide governmental activities as of July 1, 2008 to increase by \$4,395,689. The District is implementing this standard prospectively, meaning there is no OPEB liability accrued for past service at the date of transition. Therefore, this change in accounting principle resulted in the removal of the \$4,395,689 estimated liability for OPEB benefits the District had been reporting prior to the implementation of this new standard. More information on the funding status of these liabilities is included later in these notes.

## NOTE 2 – DEPOSITS AND INVESTMENTS

### A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	\$ 2,135,856
Investments	<u>21,072,528</u>
Total	<u>\$ 23,208,384</u>

Cash and investments are presented in the financial statements as follows:

Statement of Net Assets	
Cash and temporary investments	\$ 12,608,193
Cash and investments for other post-employment benefits	9,437,607
Statement of Fiduciary Net Assets	
Cash and temporary investments – Employee Benefit Trust Fund	43,747
Cash and temporary investments – Agency Fund	<u>1,118,837</u>
Total	<u>\$ 23,208,384</u>

## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

### B. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and non-negotiable certificates of deposit.

The following is considered the most significant risk associated with deposits:

**Custodial Credit Risk** – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety 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.

The District's deposit policies do not further limit depository choices.

At year-end, the carrying amount of the District's deposits was \$2,135,856, while the balance on the bank records was \$4,300,867. At June 30, 2009, all of the District's deposits were insured or collateralized by securities held by the District's agent in the District's name.

### C. Investments

The District has the following investments at year-end:

Investment Type	Credit Risk		Interest Risk – Maturity Duration in Years			Total
	Rating	Agency	Less Than 1	1 to 5	5 to 10	
U.S. agency securities	AAA	S&P	\$ 766,328	\$ 1,073,535	\$ –	\$ 1,839,863
Corporate obligations	AAA	Moody's	–	1,277,260	–	1,277,260
Corporate obligations	AA2	Moody's	514,148	–	–	514,148
Equities	N/A	N/A	N/A	N/A	N/A	1,321,466
Real estate investment trusts	N/A	N/A	N/A	N/A	N/A	16,892
Negotiable certificates of deposit	N/A	N/A	–	103,033	–	103,033
Investment pools/mutual funds	N/R	N/R	N/A	N/A	N/A	1,086,120
Investment pools/mutual funds	AAA	S&P	N/A	N/A	N/A	14,913,746
Total investments						<u>\$ 21,072,528</u>

N/A – Not Applicable

N/R – Not Rated

## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

The amount in investment pools/mutual funds includes \$10,743,218 invested in the Minnesota School District Liquid Asset Fund and \$658,074 invested in the MN Trust Investment Shares Portfolio, both of which are external investment pools not registered with the Securities Exchange Commission (SEC) that follow the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pools is the same as the value of the pool shares.

Investments are subject to various risks, the following of which are considered the most significant:

**Custodial Credit Risk** – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

**Credit Risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. For assets held in the District's revocable OPEB trust accounted for in its OPEB Internal Service Fund, the investment options available to the District are expanded to include the investment types specified in Minnesota Statute §356A.06, Subd. 7. The District's investment policies do not further restrict investing in specific financial instruments.

**Interest Rate Risk** – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District's investment policies do not limit the maturities of investments; however, when purchasing investments the District considers such things as interest rates and cash flow needs.

**Concentration Risk** – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District's investment policies do not address concentration risk. At June 30, 2009, the District's investment portfolio includes the following percentages of specific issuers:

U.S. agency securities	
Federal Home Loan Bank	6.0%

### NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	\$ 421,200	\$ –	\$ –	\$ 421,200
Construction in progress	20,982,432	940,712	(21,923,144)	–
Total capital assets, not depreciated	21,403,632	940,712	(21,923,144)	421,200
Capital assets, depreciated				
Buildings and improvements	33,979,379	22,373,144	(140,198)	56,212,325
Furniture and equipment	2,006,335	253,607	(98,084)	2,161,858
Total capital assets, depreciated	35,985,714	22,626,751	(238,282)	58,374,183
Less accumulated depreciation for				
Buildings and improvements	(13,401,405)	(1,126,930)	140,198	(14,388,137)
Furniture and equipment	(1,434,609)	(128,240)	85,667	(1,477,182)
Total accumulated depreciation	(14,836,014)	(1,255,170)	225,865	(15,865,319)
Net capital assets, depreciated	21,149,700	21,371,581	(12,417)	42,508,864
Total capital assets, net	<u>\$ 42,553,332</u>	<u>\$ 22,312,293</u>	<u>\$ (21,935,561)</u>	<u>\$ 42,930,064</u>

Depreciation expense for the year ended June 30, 2009 was charged to the following governmental functions:

Elementary and secondary regular instruction	\$ 13,181
Pupil support services	73,875
Sites and buildings	14,280
Food service	16,484
Unallocated depreciation	<u>1,137,350</u>
Total depreciation expense	<u>\$ 1,255,170</u>



## NOTE 4 – LONG-TERM LIABILITIES

### A. General Obligation Bonds Payable

The District currently has the following general obligation bonds payable outstanding:

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
2001A Refunding Bonds	03/27/2001	4.65%	\$ 6,805,000	02/01/2017	\$ 5,230,000
2005A Building Bonds	07/01/2005	4.25–5.00%	\$ 33,000,000	02/01/2026	32,080,000
2009A Taxable OPEB Bonds	01/06/2009	6.00–6.75%	\$ 9,220,000	02/01/2028	9,220,000
Total general obligation bonds payable					<u>\$ 46,530,000</u>

These bonds were issued to finance acquisition and/or construction of capital facilities, to finance (refund) prior bond issues, or to finance OPEB. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

### B. Special Assessments Payable

In January 2000, the District entered into an agreement with the City of Inver Grove Heights for payment of \$350,000 in special assessments for Cahill Avenue improvements. The assessments require annual principal and interest payments of varying amounts (at an interest rate of 5.5 percent) over a period of 20 years, maturing in July 2020. The assessments are being repaid through the General Fund.

### C. Capital Lease Payable

The District has entered into a capital lease agreement for equipment. The lease bears an interest rate of 2.90 percent, and matures January 15, 2012. The individual values of the leased assets (computers) were below the District's capitalization threshold, and they have not been recorded as capital assets. The lease is being paid through the General Fund.

### D. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds, special assessments, and capital leases are as follows:

Year Ending June 30,	General Obligation Bonds		Special Assessments		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 1,150,000	\$ 2,316,274	\$ 12,500	\$ 7,906	\$ –	\$ –
2011	1,310,000	2,223,983	12,500	7,219	190,000	20,538
2012	1,485,000	2,162,053	12,500	6,531	190,000	5,355
2013	1,665,000	2,091,463	12,500	5,844	–	–
2014	1,860,000	2,011,363	12,500	5,156	–	–
2015–2019	11,420,000	8,492,875	62,500	15,469	–	–
2020–2024	14,265,000	5,692,653	18,750	1,375	–	–
2025–2028	13,375,000	2,040,865	–	–	–	–
	<u>\$ 46,530,000</u>	<u>\$ 27,031,529</u>	<u>\$ 143,750</u>	<u>\$ 49,500</u>	<u>\$ 380,000</u>	<u>\$ 25,893</u>

## NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

### E. Changes in Long-Term Liabilities

	June 30, 2008*	Additions	Retirements	June 30, 2009	Due Within One Year
General obligation bonds payable	\$ 38,310,000	\$ 9,220,000	\$ 1,000,000	\$ 46,530,000	\$ 1,150,000
Special assessments payable	156,250	—	12,500	143,750	12,500
Capital leases payable	159,924	380,000	159,924	380,000	—
Severance payable	1,482,144	95,482	123,777	1,453,849	441,982
	<u>\$ 40,108,318</u>	<u>\$ 9,695,482</u>	<u>\$ 1,296,201</u>	<u>\$ 48,507,599</u>	<u>\$ 1,604,482</u>

\* The balance at June 30, 2008 is as restated for the change in accounting principle described earlier in these notes.

## NOTE 5 – RESERVED AND DESIGNATED FUND BALANCES

Certain portions of fund balance are reserved based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. Any such “reserves” which have an accumulated deficit rather than a positive balance at June 30 are included in unreserved fund balance in the District’s financial statements in accordance with accounting principles generally accepted in the United States of America. However, a description of these “deficit balance reserves” is included herein since the District has specific statutory authority to levy taxes for such deficits. In addition, the District’s School Board has designated portions of fund balance for specific purposes.

At June 30, 2009, the District has recorded the following reservations of fund balances:

	Reserved	Designated	Reported in Unreserved – Undesignated
General Fund			
Reserved for staff development	\$ 322,417	\$ —	\$ —
Reserved for deferred maintenance	539,250	—	—
Reserved for operating capital	239,821	—	—
Reserved for safe schools	2,147	—	—
Designated for separation and retirement benefits	—	1,083,225	—
Health and safety “reserve” account deficit	—	—	(277,581)
Total General Fund	<u>1,103,635</u>	<u>1,083,225</u>	<u>(277,581)</u>
Nonmajor funds			
Community Service Special Revenue Fund			
Reserved for community education programs	333,143	—	—
Reserved for early childhood family education programs	9,544	—	—
School readiness “reserve” account deficit	—	—	(6,053)
Total nonmajor funds	<u>342,687</u>	<u>—</u>	<u>(6,053)</u>
Total all funds	<u>\$ 1,446,322</u>	<u>\$ 1,083,225</u>	<u>\$ (283,634)</u>

## NOTE 6 – OTHER POST-EMPLOYMENT BENEFITS PLAN

### A. Plan Description

The District provides post-employment insurance benefits to certain eligible employees through its Other Post-Employment Benefits Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements.

Employees that meet certain age and/or length of service requirements are eligible for post-retirement health-care benefits. For teachers that retired by June 30, 2007, the District is contractually required to pay health insurance premiums for a period of seven years from the date of retirement. The amount to be paid is equal to the single coverage insurance premium benefit available to full-time employees in the bargaining group. Eligible full-time teachers retiring after June 30, 2007 with 20 years of continuous service receive a one-time benefit of \$30,000. Part-time teachers that retire with at least 25 years of continuous service working at least half of a full-time schedule will receive a pro-rated portion of the \$30,000 benefit. Eligible principals receive a one-time benefit of \$60,000 if hired before July 1, 2008, or \$30,000 if hired on or after July 1, 2008. All benefits are to be paid into an individual healthcare savings plan account administered by the Minnesota State Retirement System.

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an “implicit rate subsidy.” This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District’s younger and statistically healthier active employees.

### B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the District. The District has established a separate internal service fund to account for these obligations.

### C. Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost (expense) is calculated based on annual required contributions (ARC) of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement No. 45. The ARC represents a level 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 30 years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District’s net OPEB obligation to the plan:

Annual required contribution	\$ 926,403
Interest on net OPEB obligation	—
Adjustment to annual required contribution	—
Annual OPEB cost (expense)	926,403
Contributions made	894,595
Increase in net OPEB obligation	31,808
Net OPEB obligation – beginning of year	—
Net OPEB obligation – end of year	\$ 31,808

## NOTE 6 – OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009	\$ 926,403	\$ 894,595	96.6%	\$ 31,808

### D. Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$9,088,650, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,088,650. The covered payroll (annual payroll of active employees covered by the plan) was \$23,139,049, and the ratio of the UAAL to the covered payroll was 39.28 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability 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 immediately following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the 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 4.25 percent investment rate of return (net of administrative expenses) based on the District's own investments; an annual healthcare cost trend rate of 8.58 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after 20 years for medical insurance. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization period at July 1, 2008 was 30 years.

## NOTE 7 – PENSION BENEFITS PLAN

### A. Plan Description

The District provides pension benefits to certain eligible employees through its Pension Benefits Plan, a single-employer defined benefit plan administered by the District. All pension benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. These benefits are summarized as follows:

**Teacher Pension Benefits** – Teachers hired before July 1, 1997 that meet certain years of service and/or age requirements are eligible to receive an additional retirement incentive benefit. Teachers accumulate 5 days of credit for each full year of service to the District (or a pro-rata benefit based on years of service working half of a full-time equivalent service or greater) up through the fiscal year in which the employee reaches the age of 55. The benefit is based on an employee's rate of pay during the fiscal year in which the employee reaches the age of 55, and is paid out in two equal payments due on May 31st of the calendar year in which the eligible employee retires and the following January 15th. Beneficiaries that continue to be employed by the District after the age of 55 do not accrue additional retirement incentive benefits. These benefits are accrued in the Internal Service Fund as they vest.

### B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements. The District is accounting for this obligation in its Severance and Pension Benefits Internal Service Fund.

### C. Annual Pension Cost and Net Pension Obligation

The District's annual pension cost (expense) is calculated based on ARC of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement Nos. 25, 27, and 50. The ARC represents a level 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 30 years. The following table shows the components of the District's annual pension cost for the year, the amount actually contributed to the plan, and the changes in the District's net pension obligation to the plan:

Annual required contribution	\$ 622,702
Interest on net pension obligation	–
Adjustment to annual required contribution	–
Annual pension cost (expense)	<u>622,702</u>
Contributions made	<u>344,692</u>
Increase in net pension obligation	278,010
Net pension obligation – beginning of year	<u>–</u>
Net pension obligation – end of year	<u><u>\$ 278,010</u></u>

The District's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for the year are as follows:

Fiscal Year Ended	Annual Pension Cost	Employer Contribution	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
June 30, 2009	\$ 622,702	\$ 344,692	55.4%	\$ 278,010

## **NOTE 7 – PENSION BENEFITS PLAN (CONTINUED)**

### **D. Funded Status and Funding Progress**

As of July 1, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$2,937,702, and the actuarial value of assets was \$0, resulting in a UAAL of \$2,937,702. The covered payroll (annual payroll of active employees covered by the plan) was \$10,236,150, and the ratio of the UAAL to the covered payroll was 28.70 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment and mortality. 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 immediately following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### **E. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the 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 4.25 percent investment rate of return (net of administrative expenses) based on the District's own investments and a 5.0 percent salary increase for all members. The UAAL is being amortized on a level dollar basis over an open period. The remaining amortization period at July 1, 2008 was 30 years.

## **NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

Substantially all employees of the District are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a state-wide basis. Disclosures relating to these plans are as follows:

### **Teachers' Retirement Association (TRA)**

#### **A. Plan Description**

All teachers employed by the District are covered by defined benefit plans administered by TRA. TRA members belong to either the Coordinated or 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. These plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

## NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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 Statutes and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on 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 per Year
<b>Basic Plan</b>		
	First 10 years	2.2 percent
	All years after	2.7 percent
<b>Coordinated Plan</b>		
	First 10 years if service years are prior to July 1, 2006	1.2 percent
	First 10 years if service years are July 1, 2006 or after	1.4 percent
	All other years of service if service years are prior to July 1, 2006	1.7 percent
	All other years of service if service years are July 1, 2006 or after	1.9 percent

With these provisions:

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

### Tier II

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan 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 4–5.5 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 member terminating service is eligible for a refund of their employee contributions plus interest.

## **NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not 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 presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website at [tra.state.mn.us](http://tra.state.mn.us). Alternatively, a copy of the report may be obtained by writing or calling TRA at Teachers' Retirement Association, 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-4000 or by calling (651) 296-6449 or (800) 657-3853.

### **B. Funding Policy**

Minnesota Statutes, Chapter 354 sets the rates for 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 Plan members was 5.5 percent and 9.5 percent for Basic Plan members. Total covered payroll salaries for all TRA members state-wide during fiscal year June 30, 2008 was approximately \$3.645 billion.

The District's contributions for the years ended June 30, 2009, 2008, and 2007 were \$934,511, \$923,579, and \$894,875, respectively, equal to the contractually required contributions for each year as set by state statutes.

### **Public Employees' Retirement Association (PERA)**

#### **A. Plan Description**

All non-teacher full-time and certain part-time employees of the District are covered by defined benefit plans administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the Public Employees' Retirement Fund (PERF), which is a cost-sharing, multi-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 or 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 statutes, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA'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 rate for Coordinated Plan members 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 members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.



## **NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

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 web at [mnpera.org](http://mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or (800) 652-9026.

### **B. 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 and Coordinated Plan members were required to contribute 9.1 percent and 6.0 percent, respectively, of their annual covered salary in 2008. The District is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members and 6.5 percent for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 6.75 percent, effective January 1, 2009. The District's contributions to PERF for the years ended June 30, 2009, 2008, and 2007 were \$344,900, \$334,672, and \$324,659, respectively, equal to the contractually required contributions for each year as set by state statutes.

## **NOTE 9 – FLEXIBLE BENEFIT PLAN**

The District has established a Flexible Benefit Plan (FBP). FBP is a "cafeteria plan" under § 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to FBP for healthcare and dependent care benefits.

Before the beginning of the FBP year, which is from January 1 to December 31, each participant designates a total amount of pre-tax dollars to be contributed to FBP during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the medical reimbursement portion of FBP, whether or not such contributions have been made.

The employee portion of insurance premiums (health, dental, life, and disability) is made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund.

Amounts withheld for medical reimbursement and dependent care are deposited into a separate district checking account on a monthly basis. Payments are made by the District to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the employee. The medical reimbursement and dependent care activity is included in the financial statements as an Employee Benefit Trust Fund.

## **NOTE 9 – FLEXIBLE BENEFIT PLAN (CONTINUED)**

All property of FBP and income attributable to that property is solely the property of FBP and is equal to that of general creditors of the District in an amount equal to the eligible healthcare and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

## **NOTE 10 – COMMITMENTS AND CONTINGENCIES**

### **A. Operating Lease – Fifth Avenue Plaza Shopping Center**

In September 2007, the District entered into an agreement to lease building space located in the Fifth Avenue Plaza Shopping Center for a three-year period ending September 30, 2010. The agreement calls for base rental payments of \$16,840 per month over the term of the lease. In addition, the District must pay a pro-rata share of certain expenses for the property, including real estate taxes and maintenance costs. During the year ended June 30, 2009, the District paid rent plus expenses of \$268,965 under this agreement and a previous agreement to lease the same space. Future minimum lease payments under this agreement are \$202,080 and \$50,520 for the years ending June 30, 2010 and 2011, respectively.

The District sublets portions of this property to other entities on a year to year basis. For the year ended June 30, 2009, the District received approximately \$84,157 under such sublease agreements.

### **B. Operating Lease – Inver Grove Heights Community Center and Armory**

In May 1995, the District entered into an agreement to lease space in the Inver Grove Heights Community Center and Armory from the City of Inver Grove Heights. The lease term runs for 20 years beginning December 1, 1995 and calls for annual rental of \$100,000 payable in two equal payments due July 15 and December 15 of each year beginning July 15, 1995. During the year ended June 30, 2009, the District paid rent of \$100,000 under this agreement.

### **C. Operating Lease – Inver Grove Heights Aquatic and Fitness Center**

In December 1999, the District entered into an agreement with the City of Inver Grove Heights to lease the use of space in the Inver Grove Heights Aquatic and Fitness Center. The lease term runs for 20 years commencing July 1, 2001 and calls for annual rental ranging from \$235,000 to \$350,000 due in two equal payments each July 15 and January 15 beginning July 15, 2001. During the year ended June 30, 2009, the District paid rent of \$242,000 under this agreement.

### **D. Federal and State Revenues**

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

### **E. Legal Claims**

The District has the usual and customary types of legal claims pending at year-end, mostly of a minor nature and usually covered by insurance carried for that purpose. The District's management believes that the District will not incur any material liabilities relating to these claims, and none have been accrued at year-end.

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REQUIRED SUPPLEMENTARY INFORMATION

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INDEPENDENT SCHOOL DISTRICT NO. 199

Required Supplementary Information  
Schedules of Funding Progress  
June 30, 2009

**Other Post-Employment Benefits Plan**  
**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2008	\$ 9,088,650	\$ —	\$ 9,088,650	—	\$ 23,139,049	39.3%

**Pension Benefits Plan**  
**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2008	\$ 2,937,702	\$ —	\$ 2,937,702	—	\$ 10,236,150	28.7%

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COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES



INDEPENDENT SCHOOL DISTRICT NO. 199

Nonmajor Governmental Funds  
Combining Balance Sheet  
as of June 30, 2009

	Special Revenue Funds		
	Food Service	Community Service	Totals
<b>Assets</b>			
Cash and temporary investments	\$ 761,794	\$ 621,849	\$ 1,383,643
Receivables			
Current taxes	—	132,929	132,929
Delinquent taxes	—	4,475	4,475
Accounts and interest	—	44,670	44,670
Due from other governmental units	—	53,777	53,777
Inventory	69,088	—	69,088
Prepaid items	—	730	730
	<u>—</u>	<u>730</u>	<u>730</u>
Total assets	<u>\$ 830,882</u>	<u>\$ 858,430</u>	<u>\$ 1,689,312</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Salaries and compensated absences payable	\$ —	\$ 37,077	\$ 37,077
Accounts and contracts payable	16,154	37,506	53,660
Due to other funds	821	1,389	2,210
Due to other governmental units	—	12,056	12,056
Property taxes levied for subsequent year	—	390,019	390,019
Deferred revenue – delinquent taxes	—	4,475	4,475
Unearned revenue	32,016	31,410	63,426
Total liabilities	<u>48,991</u>	<u>513,932</u>	<u>562,923</u>
<b>Fund balances</b>			
Reserved	—	342,687	342,687
Unreserved – undesignated	781,891	1,811	783,702
Total fund balances	<u>781,891</u>	<u>344,498</u>	<u>1,126,389</u>
Total liabilities and fund balances	<u>\$ 830,882</u>	<u>\$ 858,430</u>	<u>\$ 1,689,312</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Nonmajor Governmental Funds  
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances  
Year Ended June 30, 2009

	Special Revenue Funds		
	Food Service	Community Service	Totals
Revenue			
Local sources			
Property taxes	\$ —	\$ 215,327	\$ 215,327
Investment earnings	12,658	14,856	27,514
Other	1,008,210	1,523,403	2,531,613
State sources	83,753	185,526	269,279
Federal sources	630,773	—	630,773
Total revenue	1,735,394	1,939,112	3,674,506
Expenditures			
Current			
Food service	1,849,531	—	1,849,531
Community service	—	2,440,545	2,440,545
Capital outlay	8,895	52,545	61,440
Total expenditures	1,858,426	2,493,090	4,351,516
Excess (deficiency) of revenue over expenditures	(123,032)	(553,978)	(677,010)
Other financing sources			
Debt issuance	234,658	396,914	631,572
Net change in fund balances	111,626	(157,064)	(45,438)
Fund balances			
Beginning of year	670,265	501,562	1,171,827
End of year	\$ 781,891	\$ 344,498	\$ 1,126,389

## INDEPENDENT SCHOOL DISTRICT NO. 199

General Fund  
Comparative Balance Sheet  
as of June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Cash and temporary investments	\$ 6,806,923	\$ 6,268,484
Receivables		
Current taxes	3,904,902	4,100,865
Delinquent taxes	105,584	79,305
Accounts and interest	49,293	80,175
Due from other governmental units	4,641,549	4,153,459
Prepaid items	<u>83,303</u>	<u>88,000</u>
Total assets	<u><u>\$ 15,591,554</u></u>	<u><u>\$ 14,770,288</u></u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Salaries and compensated absences payable	\$ 1,623,909	\$ 1,604,920
Accounts and contracts payable	1,988,378	1,895,837
Due to other funds	29,598	—
Due to other governmental units	153,156	120,572
Property taxes levied for subsequent year	5,786,204	6,250,727
Deferred revenue – delinquent taxes	<u>105,584</u>	<u>79,305</u>
Total liabilities	9,686,829	9,951,361
<b>Fund balances (deficits)</b>		
Reserved for staff development	322,417	242,536
Reserved for deferred maintenance	539,250	310,561
Reserved for severance and health benefits	—	866,929
Reserved for operating capital	239,821	674,710
Reserved for safe schools	2,147	—
Unreserved		
Designated for separation and retirement benefits	1,083,225	—
Undesignated – health and safety “reserve” account deficit	(277,581)	(894,880)
Undesignated	<u>3,995,446</u>	<u>3,619,071</u>
Total fund balances	<u>5,904,725</u>	<u>4,818,927</u>
Total liabilities and fund balances	<u><u>\$ 15,591,554</u></u>	<u><u>\$ 14,770,288</u></u>

## INDEPENDENT SCHOOL DISTRICT NO. 199

General Fund  
Schedule of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2009  
(With Comparative Actual Amounts for the Year Ended June 30, 2008)

	2009			2008
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 7,451,359	\$ 7,323,012	\$ (128,347)	\$ 6,355,797
Investment earnings	125,000	99,051	(25,949)	254,638
Other	1,172,175	1,697,648	525,473	1,301,742
State sources	26,119,256	27,755,319	1,636,063	28,394,477
Federal sources	1,471,048	1,533,792	62,744	1,235,945
Total revenue	36,338,838	38,408,822	2,069,984	37,542,599
Expenditures				
Current				
Administration				
Salaries	1,152,895	1,117,644	(35,251)	1,044,334
Employee benefits	791,421	746,190	(45,231)	294,859
Purchased services	37,560	41,355	3,795	27,029
Supplies and materials	13,650	13,193	(457)	20,642
Other expenditures	34,800	31,653	(3,147)	61,427
Total administration	2,030,326	1,950,035	(80,291)	1,448,291
District support services				
Salaries	431,550	381,492	(50,058)	397,617
Employee benefits	313,534	281,708	(31,826)	135,423
Purchased services	392,842	320,485	(72,357)	357,433
Supplies and materials	21,225	23,759	2,534	23,543
Capital expenditures	200,000	153,103	(46,897)	152,212
Other expenditures	4,600	385	(4,215)	903
Total district support services	1,363,751	1,160,932	(202,819)	1,067,131
Elementary and secondary regular instruction				
Salaries	12,342,432	11,332,269	(1,010,163)	11,562,917
Employee benefits	8,236,657	8,357,748	121,091	3,384,773
Purchased services	326,326	449,843	123,517	416,394
Supplies and materials	701,519	928,348	226,829	880,441
Capital expenditures	7,000	4,033	(2,967)	24,265
Other expenditures	22,035	12,176	(9,859)	12,490
Total elementary and secondary regular instruction	21,635,969	21,084,417	(551,552)	16,281,280

(continued)

## INDEPENDENT SCHOOL DISTRICT NO. 199

General Fund  
Schedule of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual (continued)  
Year Ended June 30, 2009  
(With Comparative Actual Amounts for the Year Ended June 30, 2008)

	2009			2008
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	132,128	327,697	195,569	358,119
Employee benefits	143,369	137,721	(5,648)	32,466
Purchased services	—	206	206	1,762
Supplies and materials	—	20,759	20,759	18,462
Other expenditures	—	—	—	200
Total vocational education instruction	275,497	486,383	210,886	411,009
Special education instruction				
Salaries	4,594,003	4,723,908	129,905	4,637,808
Employee benefits	3,452,202	3,251,044	(201,158)	1,303,385
Purchased services	171,175	951,469	780,294	2,334,937
Supplies and materials	110,040	96,257	(13,783)	111,535
Capital expenditures	15,000	14,098	(902)	12,801
Other expenditures	1,300	1,424	124	1,178
Total special education instruction	8,343,720	9,038,200	694,480	8,401,644
Instructional support services				
Salaries	1,833,345	1,655,613	(177,732)	1,612,848
Employee benefits	1,127,554	1,035,674	(91,880)	389,049
Purchased services	244,900	395,569	150,669	383,944
Supplies and materials	58,752	48,169	(10,583)	32,962
Total instructional support services	3,264,551	3,135,025	(129,526)	2,418,803
Pupil support services				
Salaries	1,226,990	1,146,470	(80,520)	1,089,304
Employee benefits	860,779	800,841	(59,938)	347,370
Purchased services	1,373,425	1,491,726	118,301	1,334,691
Supplies and materials	92,850	81,319	(11,531)	100,772
Capital expenditures	95,000	112,937	17,937	80,042
Other expenditures	1,100	539	(561)	3,009
Total pupil support services	3,650,144	3,633,832	(16,312)	2,955,188

(continued)

## INDEPENDENT SCHOOL DISTRICT NO. 199

General Fund  
Schedule of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual (continued)  
Year Ended June 30, 2009  
(With Comparative Actual Amounts for the Year Ended June 30, 2008)

	2009			2008
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	1,199,850	1,185,388	(14,462)	1,200,032
Employee benefits	855,001	813,603	(41,398)	330,310
Purchased services	631,019	797,340	166,321	971,462
Supplies and materials	849,700	786,958	(62,742)	655,232
Capital expenditures	1,492,937	1,856,757	363,820	1,725,419
Other expenditures	300	6	(294)	489
Total sites and buildings	5,028,807	5,440,052	411,245	4,882,944
Fiscal and other fixed cost programs				
Purchased services	86,525	80,594	(5,931)	102,736
Debt service				
Principal	172,500	172,424	(76)	12,500
Interest and fiscal charges	38,594	34,958	(3,636)	9,281
Total debt service	211,094	207,382	(3,712)	21,781
Total expenditures	45,890,384	46,216,852	326,468	37,990,807
Excess (deficiency) of revenue over expenditures	(9,551,546)	(7,808,030)	1,743,516	(448,208)
Other financing sources (uses)				
Debt issuance	9,127,800	8,588,428	(539,372)	—
Discount on debt issuance	—	(92,200)	(92,200)	—
Capital lease	—	380,000	380,000	—
Proceeds from sales of capital assets	—	17,600	17,600	—
Total other financing sources (uses)	9,127,800	8,893,828	(233,972)	—
Net change in fund balances	\$ (423,746)	1,085,798	\$ 1,509,544	(448,208)
Fund balances				
Beginning of year		4,818,927		5,267,135
End of year		\$ 5,904,725		\$ 4,818,927

## INDEPENDENT SCHOOL DISTRICT NO. 199

Food Service Special Revenue Fund  
Comparative Balance Sheet  
as of June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Cash and temporary investments	\$ 761,794	\$ 668,937
Inventory	<u>69,088</u>	<u>51,679</u>
Total assets	<u><u>\$ 830,882</u></u>	<u><u>\$ 720,616</u></u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts and contracts payable	\$ 16,154	\$ 13,093
Due to other funds	821	—
Unearned revenue	<u>32,016</u>	<u>37,258</u>
Total liabilities	48,991	50,351
<b>Fund balances</b>		
Unreserved – undesignated	<u>781,891</u>	<u>670,265</u>
Total liabilities and fund balances	<u><u>\$ 830,882</u></u>	<u><u>\$ 720,616</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Food Service Special Revenue Fund  
Schedule of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2009  
(With Comparative Actual Amounts for the Year Ended June 30, 2008)

	2009			2008
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	\$ 18,300	\$ 12,658	\$ (5,642)	\$ 39,461
Other – primarily meal sales	1,020,640	1,008,210	(12,430)	980,304
State sources	82,346	83,753	1,407	82,131
Federal sources	569,676	630,773	61,097	571,278
Total revenue	<u>1,690,962</u>	<u>1,735,394</u>	<u>44,432</u>	<u>1,673,174</u>
Expenditures				
Current				
Salaries	562,358	591,604	29,246	606,740
Employee benefits	180,745	429,856	249,111	205,293
Purchased services	54,721	61,890	7,169	57,332
Supplies and materials	1,008,820	765,406	(243,414)	807,383
Other expenditures	2,772	775	(1,997)	1,774
Capital outlay	26,424	8,895	(17,529)	21,870
Total expenditures	<u>1,835,840</u>	<u>1,858,426</u>	<u>22,586</u>	<u>1,700,392</u>
Excess (deficiency) of revenue over expenditures	(144,878)	(123,032)	21,846	(27,218)
Other financing sources				
Debt issuance	–	234,658	234,658	–
Proceeds from sales of capital assets	–	–	–	8,878
Total other financing sources	<u>–</u>	<u>234,658</u>	<u>234,658</u>	<u>8,878</u>
Net change in fund balances	<u>\$ (144,878)</u>	111,626	<u>\$ 256,504</u>	(18,340)
Fund balances				
Beginning of year		<u>670,265</u>		<u>688,605</u>
End of year		<u>\$ 781,891</u>		<u>\$ 670,265</u>



## INDEPENDENT SCHOOL DISTRICT NO. 199

Community Service Special Revenue Fund  
Comparative Balance Sheet  
as of June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Cash and temporary investments	\$ 621,849	\$ 771,305
Receivables		
Current taxes	132,929	158,592
Delinquent taxes	4,475	4,212
Accounts and interest	44,670	65,478
Due from other governmental units	53,777	15,066
Prepaid items	<u>730</u>	<u>730</u>
Total assets	<u><u>\$ 858,430</u></u>	<u><u>\$ 1,015,383</u></u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Salaries and compensated absences payable	\$ 37,077	\$ 41,078
Accounts and contracts payable	37,506	41,542
Due to other funds	1,389	—
Due to other governmental units	12,056	11,693
Property taxes levied for subsequent year	390,019	386,857
Deferred revenue – delinquent taxes	4,475	4,212
Unearned revenue	<u>31,410</u>	<u>28,439</u>
Total liabilities	513,932	513,821
<b>Fund balances (deficits)</b>		
Reserved for community education programs	333,143	492,445
Reserved for early childhood family education programs	9,544	9,632
Unreserved		
Undesignated – school readiness “reserve” account deficit	(6,053)	(4,362)
Undesignated	<u>7,864</u>	<u>3,847</u>
Total fund balances	<u><u>344,498</u></u>	<u><u>501,562</u></u>
Total liabilities and fund balances	<u><u>\$ 858,430</u></u>	<u><u>\$ 1,015,383</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Community Service Special Revenue Fund  
Schedule of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2009  
(With Comparative Actual Amounts for the Year Ended June 30, 2008)

	2009			2008
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 319,094	\$ 215,327	\$ (103,767)	\$ 215,430
Investment earnings	20,900	14,856	(6,044)	41,860
Other – primarily tuition and fees	1,639,103	1,523,403	(115,700)	1,559,256
State sources	102,382	185,526	83,144	142,288
Total revenue	2,081,479	1,939,112	(142,367)	1,958,834
Expenditures				
Current				
Salaries	1,033,663	1,000,676	(32,987)	968,481
Employee benefits	243,601	622,023	378,422	221,189
Purchased services	697,643	742,342	44,699	736,760
Supplies and materials	61,675	70,382	8,707	75,209
Other expenditures	6,114	5,122	(992)	4,984
Capital outlay	7,850	52,545	44,695	17,559
Debt service				
Principal	10,800	–	(10,800)	16,111
Interest and fiscal charges	1,275	–	(1,275)	498
Total expenditures	2,062,621	2,493,090	430,469	2,040,791
Excess (deficiency) of revenue over expenditures	18,858	(553,978)	(572,836)	(81,957)
Other financing sources				
Debt issuance	–	396,914	396,914	–
Proceeds from sales of capital assets	–	–	–	21,000
Total other financing sources	–	396,914	396,914	21,000
Net change in fund balances	\$ 18,858	(157,064)	\$ (175,922)	(60,957)
Fund balances				
Beginning of year		501,562		562,519
End of year		\$ 344,498		\$ 501,562

INDEPENDENT SCHOOL DISTRICT NO. 199

Capital Projects – Building Construction Fund  
Comparative Balance Sheet  
as of June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Cash and temporary investments	<u>\$ 571,181</u>	<u>\$ 2,988,642</u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts and contracts payable	\$ 377,794	\$ 714,790
<b>Fund balances</b>		
Unreserved – undesignated	<u>193,387</u>	<u>2,273,852</u>
<b>Total liabilities and fund balances</b>	<u>\$ 571,181</u>	<u>\$ 2,988,642</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Capital Projects – Building Construction Fund  
Schedule of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2009  
(With Comparative Actual Amounts for the Year Ended June 30, 2008)

	2009			2008
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	\$ 22,000	\$ 20,468	\$ (1,532)	\$ 246,723
Expenditures				
Capital outlay				
Purchased services	50,000	233,408	183,408	257,400
Capital expenditures	2,813,900	1,867,525	(946,375)	8,825,158
Total expenditures	<u>2,863,900</u>	<u>2,100,933</u>	<u>(762,967)</u>	<u>9,082,558</u>
Net change in fund balances	<u>\$ (2,841,900)</u>	(2,080,465)	<u>\$ 761,435</u>	(8,835,835)
Fund balances				
Beginning of year		<u>2,273,852</u>		<u>11,109,687</u>
End of year		<u>\$ 193,387</u>		<u>\$ 2,273,852</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Debt Service Fund  
Comparative Balance Sheet  
as of June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
Cash and temporary investments	\$ 2,068,625	\$ 1,676,958
Receivables		
Current taxes	1,992,985	1,575,652
Delinquent taxes	37,479	30,486
Due from other governmental units	<u>31,468</u>	<u>24,244</u>
Total assets	<u><u>\$ 4,130,557</u></u>	<u><u>\$ 3,307,340</u></u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Property taxes levied for subsequent year	\$ 3,502,878	\$ 2,777,891
Deferred revenue – delinquent taxes	<u>37,479</u>	<u>30,486</u>
Total liabilities	<u>3,540,357</u>	<u>2,808,377</u>
<b>Fund balances</b>		
Unreserved – undesignated	<u>590,200</u>	<u>498,963</u>
Total liabilities and fund balances	<u><u>\$ 4,130,557</u></u>	<u><u>\$ 3,307,340</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Debt Service Fund  
Schedule of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2009  
(With Comparative Actual Amounts for the Year Ended June 30, 2008)

	2009			2008
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 2,655,542	\$ 2,657,911	\$ 2,369	\$ 2,536,779
Investment earnings	13,000	15,639	2,639	23,457
State sources	122,252	122,243	(9)	126,772
Total revenue	<u>2,790,794</u>	<u>2,795,793</u>	<u>4,999</u>	<u>2,687,008</u>
Expenditures				
Debt service				
Principal retirement	1,000,000	1,000,000	—	795,000
Interest	1,703,655	1,703,655	—	1,738,245
Fiscal charges and other	3,000	901	(2,099)	2,478
Total expenditures	<u>2,706,655</u>	<u>2,704,556</u>	<u>(2,099)</u>	<u>2,535,723</u>
Net change in fund balances	<u>\$ 84,139</u>	91,237	<u>\$ 7,098</u>	151,285
Fund balances				
Beginning of year		<u>498,963</u>		<u>347,678</u>
End of year		<u>\$ 590,200</u>		<u>\$ 498,963</u>

## INDEPENDENT SCHOOL DISTRICT NO. 199

Internal Service Funds  
Combining Statement of Net Assets  
as of June 30, 2009

	Severance and Pension Benefits Fund	Other Post-Employment Benefits Fund	Totals
Current assets			
Cash and temporary investments	\$ 1,777,821	\$ —	\$ 1,777,821
Due from other funds	—	31,808	31,808
Total current assets	<u>1,777,821</u>	<u>31,808</u>	<u>1,809,629</u>
Restricted assets – temporarily restricted			
Cash and cash equivalents	—	5,806,336	5,806,336
Investments	—	3,631,271	3,631,271
Total restricted assets – temporarily restricted	<u>—</u>	<u>9,437,607</u>	<u>9,437,607</u>
Total assets	1,777,821	9,469,415	11,247,236
Liabilities			
Current liabilities			
Severance benefits payable	441,982	—	441,982
Net pension obligation	278,010	—	278,010
Net OPEB obligation	—	31,808	31,808
Total current liabilities	<u>719,992</u>	<u>31,808</u>	<u>751,800</u>
Long-term liabilities			
Severance benefits payable	<u>1,011,867</u>	—	<u>1,011,867</u>
Total liabilities	1,731,859	31,808	1,763,667
Net assets			
Restricted for OPEB liabilities	—	9,437,607	9,437,607
Unrestricted	<u>45,962</u>	—	<u>45,962</u>
Total net assets	<u>\$ 45,962</u>	<u>\$ 9,437,607</u>	<u>\$ 9,483,569</u>

## INDEPENDENT SCHOOL DISTRICT NO. 199

Internal Service Funds  
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Year Ended June 30, 2009

	Severance and Pension Benefits Fund	Other Post-Employment Benefits Fund	Totals
Operating revenue			
Contributions from governmental funds	\$ 468,470	\$ 10,013,836	\$ 10,482,306
Operating expenses			
Severance benefits	95,482	—	95,482
Pension benefits	622,702	—	622,702
Other post-employment benefits	—	926,403	926,403
Total operating expenses	<u>718,184</u>	<u>926,403</u>	<u>1,644,587</u>
Operating income (loss)	(249,714)	9,087,433	8,837,719
Nonoperating revenue			
Investment earnings	<u>30,049</u>	<u>350,174</u>	<u>380,223</u>
Change in net assets	(219,665)	9,437,607	9,217,942
Net assets			
Beginning of year, as previously stated	265,627	(4,395,689)	(4,130,062)
Change in accounting principle	—	4,395,689	4,395,689
Beginning of year, as restated	<u>265,627</u>	<u>—</u>	<u>265,627</u>
End of year	<u>\$ 45,962</u>	<u>\$ 9,437,607</u>	<u>\$ 9,483,569</u>



## INDEPENDENT SCHOOL DISTRICT NO. 199

Internal Service Funds  
Combining Statement of Cash Flows  
Year Ended June 30, 2009

	Severance and Pension Benefits Fund	Other Post-Employment Benefits Fund	Totals
Cash flows from operating activities			
Receipts from assessments made to governmental funds	\$ 468,470	\$ 9,982,028	\$ 10,450,498
Benefit payments	(468,470)	(894,595)	(1,363,065)
Net cash provided (used) by operating activities	—	9,087,433	9,087,433
Cash flows from investing activities			
Purchase of investments	—	(3,635,082)	(3,635,082)
Interest on investments	30,050	353,985	384,035
Net cash provided (used) by investing activities	30,050	(3,281,097)	(3,251,047)
Net increase (decrease) in cash and cash equivalents	30,050	5,806,336	5,836,386
Cash and cash equivalents			
Beginning of year	1,747,771	—	1,747,771
End of year	\$ 1,777,821	\$ 5,806,336	\$ 7,584,157
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income (loss)	\$ (249,714)	\$ 9,087,433	\$ 8,837,719
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Changes in assets and liabilities			
Due from other funds	—	(31,808)	(31,808)
Net pension obligation	278,010	—	278,010
Net OPEB obligation	—	31,808	31,808
Severance benefits payable	(28,296)	—	(28,296)
Net cash provided (used) by operating activities	\$ —	\$ 9,087,433	\$ 9,087,433

**SECTION III**

**STATISTICAL SECTION**

**(UNAUDITED)**

## STATISTICAL SECTION (UNAUDITED)

This section of Independent School District No. 199, Inver Grove Heights, Minnesota's (the District) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

<b>Contents:</b>	<b><u>Page</u></b>
<b>Financial Trends</b>	<b>66</b>
These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	
<b>Revenue Capacity</b>	<b>76</b>
These schedules contain information to help the reader assess the District's most significant local revenue source, the property tax.	
<b>Debt Capacity</b>	<b>83</b>
These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	
<b>Demographic and Economic Information</b>	<b>89</b>
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	
<b>Operating Indicators</b>	<b>92</b>
These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides, and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the District's comprehensive annual financial report for the relevant year.

INDEPENDENT SCHOOL DISTRICT NO. 199

Net Assets by Component  
Last Seven Fiscal Years  
(Accrual Basis of Accounting)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Governmental activities							
Invested in capital assets, net of related debt	\$ 9,050,435	\$ 8,971,475	\$ 9,484,215	\$ 9,599,138	\$ 8,703,834	\$ 5,638,108	\$ 5,096,314
Restricted	4,558,185	4,570,916	4,276,132	3,507,716	2,757,107	2,403,846	2,367,912
Unrestricted	(17,764)	526,710	1,400,158	(676,123)	(788,222)	(668,081)	4,457,391
Total governmental activities net assets	\$13,590,856	\$14,069,101	\$15,160,505	\$12,430,731	\$10,672,719	\$ 7,373,873	\$11,921,617

Note: The District implemented GASB Statement No. 34 in fiscal 2003. This information is not available for previous fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. 199

Changes in Net Assets  
Last Seven Fiscal Years  
(Accrual Basis of Accounting)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Governmental activities							
Expenses							
Administration	\$ 1,395,438	\$ 1,506,222	\$ 1,476,669	\$ 1,744,068	\$ 1,568,141	\$ 1,267,400	\$ 1,568,100
District support services	812,396	867,658	960,767	969,215	1,028,908	1,026,514	1,028,899
Elementary and secondary regular instruction	14,435,976	15,519,245	14,925,614	16,438,321	15,941,838	16,638,409	16,499,940
Vocational education instruction	132,594	125,145	132,070	160,949	213,260	411,009	392,126
Special education instruction	6,558,636	6,840,966	6,798,512	7,189,364	7,738,399	8,388,707	7,398,059
Instructional support services	1,717,674	1,998,336	2,036,782	2,557,678	2,315,947	2,370,339	2,541,338
Pupil support services	2,614,115	2,654,854	2,861,403	2,935,944	2,861,214	2,971,179	3,189,324
Sites and buildings	4,267,917	4,014,781	3,673,839	4,743,900	7,337,423	8,226,708	5,583,255
Fiscal and other fixed cost programs	142,253	166,037	172,638	170,317	168,440	102,736	80,594
Food service	1,545,164	1,552,857	1,668,026	1,622,843	1,682,282	1,678,391	1,690,081
Community service	1,972,189	1,892,069	1,890,187	1,833,799	2,000,399	2,021,807	2,120,802
Unallocated depreciation	666,564	646,728	654,740	640,108	593,763	690,032	1,137,350
Interest and fiscal charges on debt	836,852	814,911	777,574	2,005,456	1,757,200	1,715,119	1,931,424
Total governmental activities expenses	37,097,768	38,599,809	38,028,821	43,011,962	45,207,214	47,508,350	45,161,292
Program revenues							
Charges for services	3,491,117	3,243,681	3,532,261	3,623,661	3,382,704	3,302,566	3,547,574
Operating grants and contributions	5,502,650	6,150,347	6,181,590	6,186,655	5,846,537	6,622,615	5,642,691
Capital grants and contributions	23,182	—	—	—	—	—	—
Total governmental activities program revenues	9,016,949	9,394,028	9,713,851	9,810,316	9,229,241	9,925,181	9,190,265
Net (expense) revenue	(28,080,819)	(29,205,781)	(28,314,970)	(33,201,646)	(35,977,973)	(37,583,169)	(35,971,027)
General revenues and other changes in net assets							
Taxes							
Property taxes, levied for general purposes	2,881,536	5,821,753	4,842,108	3,640,097	6,030,960	6,374,827	7,349,291
Property taxes, levied for community service	63,794	312,345	381,960	133,702	311,020	216,873	215,590
Property taxes, levied for debt service	1,520,846	1,104,525	1,301,087	391,896	2,344,447	2,548,573	2,664,904
Unrestricted grants and aids	23,520,147	21,633,328	21,971,430	24,040,267	23,347,968	24,160,613	24,939,865
Other general revenues	1,299,841	412,969	330,115	424,092	466,095	308,398	410,537
Investment earnings	421,443	399,106	556,395	1,741,818	1,719,471	675,039	542,895
Total general revenues and other changes in net assets	29,707,607	29,684,026	29,383,095	30,371,872	34,219,961	34,284,323	36,123,082
Change in net assets	\$ 1,626,788	\$ 478,245	\$ 1,068,125	\$ (2,829,774)	\$ (1,758,012)	\$ (3,298,846)	\$ 152,055

Note: The District implemented GASB Statement No. 34 in fiscal 2003. This information is not available for previous fiscal years.

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INDEPENDENT SCHOOL DISTRICT NO. 199

Governmental Activities Tax Revenues by Source and Levy Type  
Last Seven Fiscal Years  
(Accrual Basis of Accounting)

Fiscal Year	Property Tax			
	General Purpose	Community Service	Debt Service	Total
2003	\$ 2,881,536	\$ 63,794	\$ 1,520,846	\$ 4,466,176
2004	5,821,753	312,345	1,104,525	7,238,623
2005	4,842,108	381,960	1,301,087	6,525,155
2006	3,640,097	133,702	391,896	4,165,695
2007	6,030,960	311,020	2,344,447	8,686,427
2008	6,374,827	216,873	2,548,573	9,140,273
2009	7,349,291	215,590	2,664,904	10,229,785

Note: The District implemented GASB Statement No. 34 in fiscal 2003. This information is not available for previous fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. 199

Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Fund										
Reserved	\$ 2,084,438	\$ 2,852,144	\$ 3,361,512	\$ 3,342,260	\$ 3,784,571	\$ 3,511,886	\$ 2,579,813	\$ 2,277,612	\$ 2,094,736	\$ 1,103,635
Unreserved	653,514	1,378,800	2,872,646	4,024,153	2,867,159	2,903,381	2,914,956	2,989,523	2,724,191	4,801,090
Total General Fund	<u>\$ 2,737,952</u>	<u>\$ 4,230,944</u>	<u>\$ 6,234,158</u>	<u>\$ 7,366,413</u>	<u>\$ 6,651,730</u>	<u>\$ 6,415,267</u>	<u>\$ 5,494,769</u>	<u>\$ 5,267,135</u>	<u>\$ 4,818,927</u>	<u>\$ 5,904,725</u>
All other governmental funds										
Reserved	\$ 703,020	\$ 7,422,164	\$ 7,521,602	\$ 7,147,495	\$ 7,235,445	\$ 7,304,816	\$ 654,956	\$ 579,176	\$ 502,077	\$ 342,687
Unreserved, reported in										
Special revenue funds	818,463	914,002	857,210	988,125	1,018,890	988,125	962,888	671,948	699,750	783,702
Capital projects funds	—	—	—	—	—	—	31,541,268	11,109,687	2,273,852	193,387
Debt service funds	727,611	911,392	383,081	722,824	603,023	686,172	306,832	347,678	498,963	590,200
Total all other governmental funds	<u>\$ 2,249,094</u>	<u>\$ 9,247,558</u>	<u>\$ 8,761,893</u>	<u>\$ 8,858,444</u>	<u>\$ 8,857,358</u>	<u>\$ 8,979,113</u>	<u>\$ 33,465,944</u>	<u>\$ 12,708,489</u>	<u>\$ 3,974,642</u>	<u>\$ 1,909,976</u>



## INDEPENDENT SCHOOL DISTRICT NO. 199

Changes in Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(Modified Accrual Basis of Accounting)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenues										
Local sources										
Taxes	\$ 11,761,245	\$ 10,315,870	\$ 10,658,736	\$ 4,487,263	\$ 7,261,072	\$ 6,515,876	\$ 4,180,980	\$ 8,672,109	\$ 9,108,006	\$ 10,196,250
Investment earnings	276,221	407,393	494,518	421,443	399,106	524,619	1,676,304	1,637,890	606,139	162,672
Other	2,837,011	3,098,568	3,791,123	4,029,291	3,656,650	3,906,782	4,047,754	3,848,799	3,841,302	4,229,261
State sources	20,425,986	21,925,484	21,638,188	27,313,644	26,068,679	26,152,864	28,287,342	27,297,876	28,745,668	28,146,841
Federal sources	1,162,342	1,039,861	1,430,288	1,732,336	1,714,996	1,955,750	1,939,579	1,896,629	1,807,223	2,164,565
Total revenues	36,462,805	36,787,176	38,012,853	37,983,977	39,100,503	39,055,891	40,131,959	43,353,303	44,108,338	44,899,589
Expenditures										
Current										
Administration	1,674,181	1,514,229	1,360,390	1,428,714	1,504,648	1,488,699	1,475,273	1,640,986	1,448,291	1,950,035
District support services	749,223	781,882	758,460	807,796	865,114	957,265	958,308	1,031,478	1,067,131	1,160,932
Elementary and secondary regular instruction	13,786,513	13,376,250	13,157,193	14,789,762	15,278,136	15,564,164	15,203,414	15,438,015	16,281,280	21,084,417
Vocational education instruction	17,978	26,099	80,677	132,594	125,145	132,070	160,949	213,260	411,009	486,383
Special education instruction	6,209,951	6,074,175	6,040,174	6,456,673	6,926,654	6,924,290	7,252,145	7,762,976	8,401,644	9,038,200
Instructional support services	1,676,723	1,874,932	2,220,995	1,720,146	1,998,337	2,042,778	2,556,829	2,311,834	2,418,803	3,135,025
Pupil support services	2,552,584	2,495,315	2,517,802	2,556,416	2,614,666	2,799,914	2,996,724	2,878,685	2,955,188	3,633,832
Sites and buildings	3,265,810	3,408,861	3,707,003	4,733,126	4,164,862	3,687,982	4,789,336	4,796,627	4,882,944	5,440,052
Fiscal and other fixed cost programs	134,124	142,232	147,363	142,253	166,037	172,638	170,317	168,440	102,736	80,594
Food service	1,330,087	1,384,630	1,405,372	1,485,162	1,543,191	1,614,168	1,599,683	1,634,090	1,678,522	1,849,531
Community service	1,606,347	1,856,154	1,947,152	1,934,213	1,888,769	1,878,801	1,835,889	1,873,041	2,006,623	2,440,545
Capital outlay	16,269	7,870	162,797	76,025	3,834	88,981	2,568,122	22,083,398	9,121,987	2,162,373
Debt service										
Principal	1,396,606	1,346,606	2,040,871	1,014,842	1,039,800	1,093,187	643,917	724,855	823,611	1,172,424
Interest and fiscal charges	777,693	811,485	939,511	835,837	816,597	774,662	1,598,826	1,780,707	1,750,502	1,739,514
Total expenditures	35,194,089	35,100,720	36,485,760	38,113,559	38,935,790	39,219,599	43,809,732	64,338,392	53,350,271	55,373,857
Excess of revenues over (under) expenditures	1,268,716	1,686,456	1,527,093	(129,582)	164,713	(163,708)	(3,677,773)	(20,985,089)	(9,241,933)	(10,474,268)
Other financing sources (uses)										
Transfers out	—	—	—	—	(1,500,000)	—	—	—	—	—
Proceeds from sale of capital assets	—	—	—	826,666	450,000	—	—	—	29,878	17,600
Bonds issued	—	6,805,000	1,425,000	—	—	—	33,000,000	—	—	9,220,000
Capital leases	—	—	—	531,722	169,518	49,000	159,924	—	—	380,000
Premiums on bonds issued	—	—	—	—	—	—	784,182	—	—	—
Discounts on bonds issued	—	—	(26,680)	—	—	—	—	—	—	(92,200)
Payments to refunded bond escrow agent	—	—	(1,407,864)	—	—	—	(6,700,000)	—	—	—
Total other financing sources (uses)	—	6,805,000	(9,544)	1,358,388	(880,482)	49,000	27,244,106	—	29,878	9,525,400
Net change in fund balances	\$ 1,268,716	\$ 8,491,456	\$ 1,517,549	\$ 1,228,806	\$ (715,769)	\$ (114,708)	\$ 23,566,333	\$ (20,985,089)	\$ (9,212,055)	\$ (948,868)
Debt service as a percentage of noncapital expenditures	6.2%	6.1%	8.2%	4.9%	4.8%	4.8%	5.4%	5.9%	5.8%	5.5%

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INDEPENDENT SCHOOL DISTRICT NO. 199

General Governmental Tax Revenues by Source and Levy Type  
Last Ten Fiscal Years  
(Modified Accrual Basis of Accounting)

Fiscal Year	Property Tax				Total
	General Fund	Community Service Special Revenue Fund	Debt Service Fund		
2000	\$ 9,373,861	\$ 185,254	\$ 2,202,130	\$	11,761,245
2001	7,964,094	178,752	2,173,024		10,315,870
2002	8,336,747	211,676	2,110,313		10,658,736
2003	2,903,914	63,500	1,519,849		4,487,263
2004	5,838,866	312,550	1,109,656		7,261,072
2005	4,834,638	382,639	1,298,599		6,515,876
2006	3,649,858	133,282	397,840		4,180,980
2007	6,024,276	310,490	2,337,343		8,672,109
2008	6,355,797	215,430	2,536,779		9,108,006
2009	7,323,012	215,327	2,657,911		10,196,250

INDEPENDENT SCHOOL DISTRICT NO. 199

Tax Capacities and Estimated Market Values  
Last Ten Fiscal Years

For Taxes Collectible	Tax Capacities						Estimated Market Value	Percentage Total Tax Capacity of Estimated Market Value
	Agricultural	Non-Agricultural	Fiscal Disparities		Tax Increment	Total		
			Contribution	Distribution				
2000	\$ 60,791	\$ 22,183,257	\$ (2,565,626)	\$ 3,029,147	\$ (2,380,256)	\$ 20,327,313	\$ 1,267,680,100	1.60 %
2001	67,123	24,320,557	(3,016,520)	3,275,288	(2,723,769)	21,922,679	1,389,414,412	1.58
2002	59,308	18,823,552	(1,905,545)	2,031,010	(2,348,176)	16,660,149	1,530,821,500	1.09
2003	80,898	20,701,199	(2,031,456)	2,188,737	(2,797,214)	18,142,164	1,725,871,000	1.05
2004	78,201	23,037,037	(2,233,100)	2,381,264	(1,243,606)	22,019,796	1,957,405,600	1.12
2005	119,659	25,837,109	(2,381,465)	2,416,504	(1,367,636)	24,624,171	2,220,321,700	1.11
2006	135,971	29,650,251	(2,553,746)	2,615,750	(2,010,301)	27,837,925	2,554,381,600	1.09
2007	102,354	32,506,513	(2,750,325)	2,818,984	(2,206,874)	30,470,652	2,791,586,500	1.09
2008	90,937	33,970,218	(3,166,165)	3,303,563	(2,402,315)	31,796,238	2,885,381,800	1.10
2009	103,720	34,600,216	(3,502,411)	3,645,662	(2,494,099)	32,353,088	2,910,481,100	1.11

Note: Tax capacity is calculated by applying class rates for specific property classifications (residential, commercial, etc.) to the assessed market value. Class rates are periodically changed by the state.

Source: School Tax Report from Minnesota Department of Education

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INDEPENDENT SCHOOL DISTRICT NO. 199

Property Tax Rates  
Direct and Overlapping Governments  
Last Ten Fiscal Years

<u>Tax Collection Year</u>	<u>ISD No. 199</u>	<u>City of Inver Grove Heights</u>	<u>Dakota County</u>	<u>Other</u>	<u>Total</u>
2000	43.385	25.215	27.247	6.455	102.302
2001	44.570	25.098	25.320	6.378	101.366
2002	16.824	44.637	33.102	5.021	99.584
2003	14.565	40.890	32.463	5.225	93.143
2004	10.032	39.904	30.300	4.925	85.161
2005	7.793	37.347	28.267	4.907	78.314
2006	17.796	35.546	26.318	4.616	84.276
2007	16.607	36.514	25.127	4.416	82.664
2008	19.764	37.403	25.184	4.393	86.744
2009	19.303	37.878	25.821	4.328	87.330

Note 1: Tax rates are per one dollar of tax capacity.

Note 2: The tax capacity rate applied to an individual property is the sum of the applicable school district, city, county, and other taxing entity tax rates. The majority of the District is in the City of Inver Grove Heights, which is the rate used above. The “other” taxing entities include: Metropolitan Council, Mosquito Control, and Metropolitan Transit.

Note 3: District rates do not include the referendum, which is spread on the District’s referendum market value.

Source: Dakota County Auditor

INDEPENDENT SCHOOL DISTRICT NO. 199

Principal Taxpayers  
Current Year and Four Years Ago

Taxpayer	Type of Property	2009			2005		
		Tax Capacity	Rank	Percentage of Total Tax Capacity	Tax Capacity	Rank	Percentage of Total Tax Capacity
Great Northern Oil Company	Utility	\$ 1,470,988	1	4.55 %	\$ 1,058,790	1	4.08 %
Xcel Energy	Utility	993,624	2	3.07	997,814	2	3.84
Koch Refining Company (aka Flint Hills Resources)	Refining	827,638	3	2.56	367,873	4	1.42
I&G Southview, LLC	Apartments	425,000	4	1.31	368,750	3	1.42
PHM Inver Grove, Inc.	Apartments	360,784	5	1.12	337,568	6	1.30
Lake Cove Village Partnership	Apartments	359,732	6	1.11	339,072	5	1.31
Vansouth Limited Partnership	Distribution center	306,694	7	0.95	209,348	9	0.81
Farmers Union Central Exchange	Farm supplies/services	303,470	8	0.94	274,670	7	1.06
Brentwood Hills Limited Partnership	Apartments	275,000	9	0.85	—	—	—
Salem Green Limited Partnership	Apartments	262,501	10	0.81	225,000	8	0.87
Private Individual	Apartments	—	—	—	193,750	10	0.75
Total		<u>\$ 5,585,431</u>		<u>17.27 %</u>	<u>\$ 4,372,635</u>		<u>16.86 %</u>

Note: Information for year prior to 2005 is not available.

Source: Dakota County

INDEPENDENT SCHOOL DISTRICT NO. 199

Property Tax Levies and Receivables  
Last Ten Fiscal Years

For Taxes Collectible	Original Levy				Uncollected Taxes Receivable as of June 30, 2009			
	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread	Delinquent		Current	
					Amount	Percent	Amount	Percent
2000	\$ 7,953,399	\$ 2,296,548	\$ 2,207,386	\$ 12,457,333	\$ —	— %	\$ —	— %
2001	8,596,275	1,919,023	2,432,666	12,947,964	—	—	—	—
2002	3,751,972	773,437	240,333	4,765,742	—	—	—	—
2003	5,488,978	597,307	214,413	6,300,698	12,304	0.20	—	—
2004	5,136,766	848,349	168,742	6,153,857	3,777	0.06	—	—
2005	4,982,993	652,842	132,781	5,768,616	3,471	0.06	—	—
2006	8,003,938	602,565	264,830	8,871,333	12,760	0.14	—	—
2007	8,174,214	924,175	237,347	9,335,736	30,744	0.33	—	—
2008	9,162,565	1,004,943	265,601	10,433,109	84,482	0.81	—	—
2009	9,173,510	1,206,349	265,601	10,645,460	—	—	6,030,816	56.65
					<u>\$ 147,538</u>		<u>\$ 6,030,816</u>	

Note 1: A portion of the total spread levy is paid through various property tax credits for residential homestead properties, which are paid through state aids.

Note 2: Beginning with the levy collectible in 2002, the general education levy was eliminated

Note 3: Delinquent taxes are written off after seven years.

Source: State of Minnesota School Tax Report



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INDEPENDENT SCHOOL DISTRICT NO. 199

Outstanding Debt by Type  
Last Ten Fiscal Years

Year Ended June 30,	Governmental Activities			Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	General Obligation Bonds	Capital Leases	Other			
2000	\$ 13,025,000	\$ —	\$ 296,563	\$ 13,321,563	1.45 %	\$ 437
2001	18,500,000	—	279,957	18,779,957	1.96	631
2002	16,505,000	—	251,222	16,756,222	1.68	555
2003	15,700,000	344,366	228,736	16,273,102	1.59	540
2004	14,850,000	346,570	206,250	15,402,820	1.46	502
2005	13,955,000	209,883	193,750	14,358,633	1.28	462
2006	39,805,000	188,390	181,250	40,174,640	3.36	1,248
2007	39,105,000	176,035	168,750	39,449,785	3.07	1,188
2008	38,310,000	159,924	156,250	38,626,174	2.80	1,149
2009	46,530,000	380,000	143,750	47,053,750	3.38	1,387

(1) See the Schedule of Demographic and Economic Statistics for personal income and population data.

Note: Details regarding the District's outstanding debt can be found in the notes to basic financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 199

Ratio of Net General Obligation Bonded Debt  
to Tax Capacity and Net General Obligation Bonded Debt per Capita  
Last Ten Fiscal Years

<u>Year Ended June 30,</u>	<u>Gross Bonded Debt</u>	<u>Less Debt Service Funds on Hand</u>	<u>Net Bonded Debt</u>	<u>Tax Capacity</u>	<u>Percentage of Net Debt to Tax Capacity</u>	<u>Estimated Population</u>	<u>Net Bonded Debt per Capita</u>
2000	\$ 13,025,000	\$ 727,611	\$ 12,297,389	\$ 20,327,313	60.50 %	30,500	\$ 403
2001	18,500,000	7,668,558	10,831,442	21,922,679	49.41	29,751	364
2002	16,505,000	7,166,359	9,338,641	16,660,149	56.05	30,201	309
2003	15,700,000	7,504,447	8,195,553	18,142,164	45.17	30,150	272
2004	14,850,000	7,382,990	7,467,010	22,019,796	33.91	30,708	243
2005	13,955,000	7,515,590	6,439,410	24,624,171	26.15	31,053	207
2006	39,805,000	306,832	39,498,168	27,837,925	141.87	32,193	1,227
2007	39,105,000	347,678	38,757,322	30,470,652	127.20	33,195	1,168
2008	38,310,000	498,963	37,811,037	31,796,238	118.92	33,608	1,125
2009	46,530,000	590,200	45,939,800	32,353,088	142.00	33,917	1,354

Sources: Tax capacity information – School Tax Report from Minnesota Department of Education  
Population estimates for the City of Inver Grove Heights’ comprehensive annual financial report

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INDEPENDENT SCHOOL DISTRICT NO. 199

Direct and Overlapping Debt  
June 30, 2009

<u>Governmental Unit</u>	<u>Gross Bonded Debt Outstanding</u>	<u>Percent Allocable to ISD No. 199</u>	<u>Portion Allocable to ISD No. 199</u>
Independent School District No. 199	\$ 46,530,000	100.00 %	\$ 46,530,000
Overlapping debt			
Dakota County	110,425,000	6.64	7,332,220
City of Inver Grove Heights	47,415,592	77.48	36,737,601
City of Rosemount	26,285,000	6.15	1,616,528
City of South St. Paul	16,430,000	0.65	106,795
Metropolitan Council	33,209,110	6.66	2,211,727
Total overlapping debt			<u>48,004,870</u>
Total direct and overlapping debt			<u>\$ 94,534,870</u>

Source: Dakota County

INDEPENDENT SCHOOL DISTRICT NO. 199

Legal Debt Margin Information  
Last Ten Fiscal Years

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Debt limit	\$ 190,152,015	\$ 208,412,162	\$ 229,623,225	\$ 258,880,650	\$ 293,610,840	\$ 333,048,255	\$ 383,157,240	\$ 418,737,975	\$ 432,807,270	\$ 436,572,165
Total net debt applicable to limit	12,297,389	10,831,442	9,338,641	8,195,553	7,467,010	6,439,410	39,498,168	38,757,322	37,811,037	45,939,800
Legal debt margin	<u>\$ 177,854,626</u>	<u>\$ 197,580,720</u>	<u>\$ 220,284,584</u>	<u>\$ 250,685,097</u>	<u>\$ 286,143,830</u>	<u>\$ 855,178,153</u>	<u>\$ 343,659,072</u>	<u>\$ 379,980,653</u>	<u>\$ 394,996,233</u>	<u>\$ 390,632,365</u>
Total net debt applicable to the limit as a percentage of debt limit	6.47%	5.20%	4.07%	3.17%	2.54%	1.93%	10.31%	9.26%	8.74%	10.52%

Legal Debt Margin Calculation for Fiscal Year 2009

Market value	\$ 2,910,481,100
Debt limit (15% of market value)	436,572,165
Debt applicable to limit	
General obligation bonds	46,530,000
Less amount set aside for repayment of general obligation debt	(590,200)
Total net debt applicable to limit	<u>45,939,800</u>
Legal debt margin	<u>\$ 390,632,365</u>

Note: Under state finance law, the District's outstanding general obligation debt should not exceed 15 percent of total market property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

Source: Market value – School Tax Report from the Minnesota Department of Education

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INDEPENDENT SCHOOL DISTRICT NO. 199

Demographic and Economic Statistics  
Last Ten Fiscal Years

ISD No. 199 Fiscal Year Ended June 30,	City of Inver Grove Heights (1)				School Enrollment
	Population	Personal Income	Per Capita Personal Income	Unemployment Rate	
2000	30,500	\$ 920,917,000	\$ 30,194	1.9 %	4,167
2001	29,751	958,904,481	32,231	2.4	4,080
2002	30,201	998,414,859	33,059	3.3	4,028
2003	30,150	1,021,934,250	33,895	3.9	3,951
2004	30,708	1,053,130,860	34,295	4.3	3,888
2005	31,053	1,120,330,134	36,078	3.9	3,821
2006	32,193	1,196,420,652	37,164	3.5	3,774
2007	33,195	1,286,339,445	38,751	3.6	3,813
2008	33,608	1,379,070,672	41,034	4.2	3,742
2009	33,917	1,391,750,178 (2)	41,034 (2)	5.0	3,812

(1) The source is the City of Inver Grove Heights' comprehensive annual financial reports. Date is from the calendar year ending within the District's indicated fiscal year.

(2) New data is not available; used most recent numbers available.



INDEPENDENT SCHOOL DISTRICT NO. 199

Principal Employers  
Current Year and Four Years Ago

Employer	2009			2005		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Cenex/CHS Cooperatives	1,000	1	4.88 %	1,000	1	5.02 %
Independent School District No. 199	458	2	2.23	469	2	2.35
Travel Tags	430	3	2.10	350	3	1.76
Inver Hills Community College	425	4	2.07	343	4	1.72
Evergreen Industries	300	5	1.46	300	5	1.50
Wal-Mart	270	6	1.31	270	6	1.36
Allied Waste Services (aka BFI Waste Services)	140	7	0.68	140	7	0.70
Southview Chevrolet	135	8	0.66	135	8	0.68
Lofton Label, Inc.	133	9	0.65	—	—	—
City of Inver Grove Heights	132	10	0.64	130	9	0.65
Inver Grove Ford	—	—	—	100	10	0.50
Total	3,423		16.68 %	3,237		16.24 %

Note: Information prior to 2005 is not available.

Source: Minnesota Department of Employment and Economic Development

INDEPENDENT SCHOOL DISTRICT NO. 199

Employees by Classification  
Last Eight Fiscal Years

Employees (1)	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
District directors/superintendent	1	1	1	1	1	1	1	1
Principals	8	8	7	7	7	7	7	7
Teachers	250	248	254	256	257	255	254	248
Coordinators, supervisors, specialists, and technical support	50	50	48	48	48	48	48	47
Paraprofessionals	75	65	72	79	79	81	83	84
Food service	29	29	29	28	27	27	22	24
Custodians	26	26	26	26	26	26	25	23
Community education leads and assistants	34	36	28	27	24	24	24	24
Total	<u>473</u>	<u>463</u>	<u>465</u>	<u>472</u>	<u>469</u>	<u>469</u>	<u>464</u>	<u>458</u>

(1) This schedule is a head count based on contract groups; if an employee has multiple contract groups, they are reflected multiple times. Full and part-time employees count the same.

Note: Information prior to 2002 is not readily available.

Source: The District's Human Resources Department

INDEPENDENT SCHOOL DISTRICT NO. 199

Operating Indicators  
Standardized Testing and Graduation Rates  
Last Seven Fiscal Years

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
<b>Standardized tests</b>							
<b>MCA reading (1)</b>							
Grade 3	80 %	75 %	81 %	81 %	82 %	76 %	82 %
Grade 5	87	77	83	78	78	81	81
Grade 7	Not tested	69	74	57	67	59	58
Grade 10	85	87	85	69	73	74	33
<b>MCA math (1)</b>							
Grade 3	73	74	79	75	76	75	81
Grade 5	83	77	82	60	64	73	69
Grade 7	Not tested	63	75	46	60	61	60
Grade 11	91	81	88	39	44	51	50
<b>ACT</b>							
Average composite score	21.9	22.6	21.5	22.0	22.3	22.7	23.1
<b>Graduation data</b>							
District graduation rates	96	98	97	97	97	97	98
State graduation rate	88	89	90	N/A	N/A	N/A	N/A
<b>Post graduation student survey</b>							
Four-year college/university	47	48	48	46	47	52	50
Two-year college	23	23	19	31	27	25	28
Vocational/technical college	20	18	16	14	16	15	14
Employment	7	4	7	5	5	2	1
Military	3	2	3	2	2	1	3
No response/undecided	—	5	7	2	3	5	4
	100 %	100 %	100 %	100 %	100 %	100 %	100 %

N/A – Not available

(1) Percent of students scoring at or above proficiency on the Minnesota Comprehensive Assessment Test.

Note: Information prior to 2003 is not readily available.

Source: State graduation rate obtained from the Minnesota Department of Education

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INDEPENDENT SCHOOL DISTRICT NO. 199

School Facilities  
as of June 30, 2009

<u>Facility</u>	<u>Year Constructed</u>	<u>Years of Addition</u>	<u>Grades Housed</u>	<u>Square Footage</u>
Simley High School	1971	1998	7–12	192,836
Inver Grove Heights Middle School	1959	1962 1967 1980 1990 1997 2009	6–8	180,558
Hilltop Elementary School	1964	1968 2007	K–5	83,611
Pine Bend Elementary School	1958	1960 1991 2009	K–5	73,425
Salem Hills Elementary School	1953	1964 1986 1987 1988 2009	K–5	51,596

Source: The District's Buildings and Grounds Department

INDEPENDENT SCHOOL DISTRICT NO. 199

Expenditures per Student (Average Daily Membership)  
Last Ten Fiscal Years

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Administration	\$ 402	\$ 371	\$ 338	\$ 362	\$ 387	\$ 390	\$ 391	\$ 430	\$ 387	\$ 512
District support services	180	192	188	204	223	251	254	271	285	305
Elementary and secondary regular instruction	3,308	3,278	3,266	3,743	3,930	4,073	4,028	4,049	4,351	5,531
Vocational education instruction	4	6	20	34	32	35	43	56	110	128
Special education instruction	1,490	1,489	1,500	1,634	1,782	1,812	1,922	2,036	2,245	2,371
Instructional support services	402	460	551	435	514	535	677	606	646	822
Pupil support services	613	612	625	647	672	733	794	755	790	953
Sites and buildings	784	836	920	1,198	1,071	965	1,269	1,258	1,305	1,427
Fiscal and other fixed cost programs	32	35	37	36	43	45	45	44	27	21
Food service	319	339	349	376	397	422	424	429	449	485
Community service	385	455	483	490	486	492	486	491	536	640
Capital outlay	4	2	40	19	1	23	680	5,792	2,438	567
Debt service	522	529	740	468	477	489	594	657	688	764
Total expenditures	<u>\$ 8,446</u>	<u>\$ 8,603</u>	<u>\$ 9,058</u>	<u>\$ 9,647</u>	<u>\$ 10,014</u>	<u>\$ 10,264</u>	<u>\$ 11,608</u>	<u>\$ 16,873</u>	<u>\$ 14,257</u>	<u>\$ 14,526</u>
Average daily membership	<u>4,167</u>	<u>4,080</u>	<u>4,028</u>	<u>3,951</u>	<u>3,888</u>	<u>3,821</u>	<u>3,774</u>	<u>3,813</u>	<u>3,742</u>	<u>3,812</u>

Note: Includes all governmental fund expenditures.

Source: Average daily membership – the District’s ADM Summary Report from the Minnesota Department of Education

INDEPENDENT SCHOOL DISTRICT NO. 199

Demographic Statistics – Student Enrollment  
Last Ten Fiscal Years

Year Ended June 30,	Average Daily Membership (ADM) (for Students Served and Tuition Paid)					Total Pupil Units
	Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	
2000	38.83	251.07	1,873.11	2,004.30	4,167.31	4,826.11
2001	48.80	239.00	1,790.70	2,001.32	4,079.82	4,737.17
2002	46.68	235.54	1,727.30	2,018.64	4,028.16	4,686.34
2003	52.82	204.24	1,647.48	2,046.35	3,950.89	4,625.64
2004	55.96	262.87	1,641.44	1,927.26	3,887.53	4,498.28
2005	47.54	231.75	1,659.18	1,882.03	3,820.50	4,434.85
2006	53.07	254.66	1,617.59	1,848.33	3,773.65	4,364.85
2007	59.41	206.90	1,672.27	1,874.39	3,812.97	4,442.62
2008	62.32	219.58	1,662.39	1,797.82	3,742.11	4,350.75
2009	61.40	237.74	1,739.35	1,773.51	3,812.00	4,414.29

Note 1: Enrollment information from the District's ADM Summary Report by the Minnesota Department of Education. ADM is estimated for the most recent year.

Note 2: Beginning in 2004, the ADM that can be generated by a single student for general education aid is capped at 1.0 ADM. Enrollment for 2003 and earlier is presented under the "old law" (capped at 1.5 ADM per student).

Note 3: ADM is weighted as follows in computing pupil units:

	Pre-Kindergarten	Handicapped Kindergarten	Kindergarten	Elementary 1-3	Elementary 4-6	Secondary
Fiscal 2000 through 2007	1.250	1.000	0.557	1.115	1.060	1.300
Fiscal 2008 and 2009	1.250	1.000	0.612	1.115	1.060	1.300

INDEPENDENT SCHOOL DISTRICT NO. 199

Food Service Meals Served and Pricing  
Last Ten Fiscal Years

Year Ended June 30,	Lunches Served to Students				Lunches Served to Adults
	Regular Priced Lunches	Reduced Price Lunches	Free Lunches	Total	
2000	361,646	31,991	59,639	453,276	11,160
2001	341,604	31,684	52,304	425,592	10,170
2002	332,807	31,118	61,604	425,529	9,243
2003	313,604	28,705	70,348	412,657	9,926
2004	300,887	30,584	79,048	410,519	10,808
2005	305,327	27,769	80,901	413,997	10,740
2006	298,181	25,547	88,633	412,361	10,974
2007	306,726	30,683	97,896	435,305	10,679
2008	314,251	31,132	101,052	446,435	11,984
2009	307,039	31,513	113,241	451,793	10,282

Year Ended June 30,	Student Regular Lunch Prices			
	Regular Priced Lunches		Reduced Price Lunches	Adult Lunches
	Elementary	Secondary		
2000	\$ 1.40	\$ 1.50/1.55	\$ 0.40	\$ 2.55
2001	1.40	1.50/1.55	0.40	2.55
2002	1.40	1.50/1.55	0.40	2.55
2003	1.40	1.50/1.55	0.40	2.55
2004	1.40	1.50/1.55	0.40	2.55
2005	1.40	1.50/1.55	0.40	2.55
2006	1.40	1.50/1.55	0.40	2.55
2007	1.50	1.60/1.65	0.40	2.70
2008	1.50	1.60/1.65	0.40	2.70
2009	1.65	1.75/1.80	0.40	2.85

Source: The District's Food Service Department



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INDEPENDENT SCHOOL DISTRICT NO. 199  
INVER GROVE HEIGHTS, MINNESOTA

Extracurricular Student Activity Accounts  
Financial Statements

Year Ended  
June 30, 2009



#### PRINCIPALS

Kenneth W. Malloy, CPA  
Thomas M. Montague, CPA  
Thomas A. Karnowski, CPA  
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### INDEPENDENT AUDITOR'S REPORT

To the School Board, advisors, and students of  
Independent School District No. 199  
Inver Grove Heights, Minnesota

We have audited the statements of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District No. 199, Inver Grove Heights, Minnesota (the District) as of and for the year ended June 30, 2009. These financial statements are the responsibility of the District's extracurricular student activity accounts management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the design of the accounting system relating to cash receipts and the nature of student activities, we were only able to audit cash collections as recorded. It was not practical for us to extend our audit of such cash collections beyond the amounts recorded.

Because these financial statements are prepared on the basis of cash receipts and disbursements, revenue is recorded when received rather than when earned, and expenses are recognized when paid rather than when the obligations are incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the cash transactions of the District's extracurricular student activity accounts for the year ended June 30, 2009, and the cash balances at that date.

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*

November 16, 2009

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

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INDEPENDENT SCHOOL DISTRICT NO. 199

Extracurricular Student Activity Accounts  
Statement of Cash Receipts and Disbursements – Simley High School  
Year Ended June 30, 2009

	Balance – June 30, 2008	Receipts and Transfers In	Disbursements and Transfers Out	Balance – June 30, 2009
Art activities	\$ 328	\$ 503	\$ 263	\$ 568
Band activity supplies	934	4,954	4,941	947
Choir – vocal	20	995	751	264
Debate	2,138	–	3	2,135
Drama	2,003	12,747	7,832	6,918
Drumline	411	–	3	408
German Club	–	1,204	1,012	192
HEAR	3,322	4,613	3,652	4,283
Homecoming	5,987	5,537	7,757	3,767
Industrial tech	457	3,450	3,305	602
Letterpersons' Club	7,918	25,463	22,321	11,060
National Honor Society	3,321	5,103	4,819	3,605
Newspaper	1,074	236	1,366	(56)
Prom	7,135	14,473	16,443	5,165
Random Acts	–	1,502	1,502	–
SADD	–	7,620	3,875	3,745
School store	104	7,616	5,937	1,783
Simley Excellence	25,623	300	25,923	–
Spanish Club	604	3,805	1,921	2,488
Student Council	721	7,377	6,892	1,206
Work Program	624	2,652	2,504	772
Yearbook/newspaper	3,747	11,664	1,737	13,674
	<u>\$ 66,471</u>	<u>\$ 121,814</u>	<u>\$ 124,759</u>	<u>\$ 63,526</u>

See note to extracurricular student activity accounts financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Extracurricular Student Activity Accounts  
Statement of Cash Receipts and Disbursements – Inver Grove Heights Middle School  
Year Ended June 30, 2009

	<u>Balance – June 30, 2008</u>	<u>Receipts and Transfers In</u>	<u>Disbursements and Transfers Out</u>	<u>Balance – June 30, 2009</u>
Student Council – YES Day	<u>\$ 20,993</u>	<u>\$ 16,428</u>	<u>\$ 11,730</u>	<u>\$ 25,691</u>

See note to extracurricular student activity accounts financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Extracurricular Student Activity Accounts  
Statement of Cash Receipts and Disbursements – Hilltop Elementary School  
Year Ended June 30, 2009

	Balance – June 30, 2008	Receipts and Transfers In	Disbursements and Transfers Out	Balance – June 30, 2009
Student activity	\$ 692	\$ 1	\$ 17	\$ 676
Student Council	776	6,394	6,397	773
	<u>\$ 1,468</u>	<u>\$ 6,395</u>	<u>\$ 6,414</u>	<u>\$ 1,449</u>

See note to extracurricular student activity accounts financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Extracurricular Student Activity Accounts  
Statement of Cash Receipts and Disbursements – Pine Bend Elementary School  
Year Ended June 30, 2009

	<u>Balance – June 30, 2008</u>	<u>Receipts and Transfers In</u>	<u>Disbursements and Transfers Out</u>	<u>Balance – June 30, 2009</u>
Snack shop	\$ 818	\$ 4,102	\$ 3,156	\$ 1,764
Student Council	<u>6,481</u>	<u>6,370</u>	<u>10,380</u>	<u>2,471</u>
	<u>\$ 7,299</u>	<u>\$ 10,472</u>	<u>\$ 13,536</u>	<u>\$ 4,235</u>

See note to extracurricular student activity accounts financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Extracurricular Student Activity Accounts  
Statement of Cash Receipts and Disbursements – Salem Hills Elementary School  
Year Ended June 30, 2009

	Balance – June 30, 2008	Receipts and Transfers In	Disbursements and Transfers Out	Balance – June 30, 2009
Pop Fund	\$ 359	\$ 1,340	\$ 1,328	\$ 371
Student services	234	–	20	214
Student support	412	871	908	375
	<u>\$ 1,005</u>	<u>\$ 2,211</u>	<u>\$ 2,256</u>	<u>\$ 960</u>

See note to extracurricular student activity accounts financial statements



INDEPENDENT SCHOOL DISTRICT NO. 199

Note to Extracurricular Student Activity Accounts Financial Statements  
June 30, 2009

Extracurricular student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by the students, under the guidance of a staff member or other adult.

Extracurricular student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fundraising events.

The accounts of Independent School District No. 199, Inver Grove Heights, Minnesota's extracurricular student activity accounts are maintained, and the accompanying financial statements have been prepared, on the cash basis of accounting. Consequently, receipts are recorded when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

#### OTHER REQUIRED REPORTS



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### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the School Board, advisors, and students of  
Independent School District No. 199  
Inver Grove Heights, Minnesota

We have audited the statements of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District No. 199, Inver Grove Heights, Minnesota (the District) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 16, 2009. Our report was qualified for a restriction on the scope of our audit resulting from the accounting system relating to cash receipts, which allows us only to audit cash collections that are recorded. Further, because the financial statements are prepared on a basis of cash receipts and disbursements, the financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education.

The *Manual for Activity Fund Accounting* provides uniform financial accounting and reporting standards for student activities. Compliance with student activity laws and regulations is the responsibility of the District's extracurricular student activity accounts management. We have performed auditing procedures to test compliance with the provisions of this manual. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the District's extracurricular student activity accounts complied, in all material respects, with the provisions referred to in the preceding paragraph, except as described in the Schedule of Findings and Corrective Action.

This report is intended solely for the information and use of the School Board, advisors and students, and the state of Minnesota and is not intended to be, and should not be, used by anyone other than these specified parties.

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*

November 16, 2009

INDEPENDENT SCHOOL DISTRICT NO. 199

Extracurricular Student Activity Accounts  
Schedule of Findings and Corrective Action  
June 30, 2009

**FINDINGS AND CORRECTIVE ACTION**

**2009-1 INACTIVE ACCOUNTS**

**Condition** – We noted certain activity accounts that were inactive during the year ended June 30, 2009 which need to be closed. This is a current year and prior year finding.

**Criteria** – *Manual for Activity Fund Accounting.*

**Recommendation** – It is our recommendation that Independent School District No. 199, Inver Grove Heights, Minnesota (the District) assure all inactive student activity accounts are closed and any residual balances transferred to another active student activity account.

**Corrective Action** – The District understands and agrees with the finding, and is working on an ongoing basis to ensure that inactive student activity accounts are properly dissolved in accordance with the provisions of the *Manual for Activity Fund Accounting*. The planned completion date for this corrective action plan is June 30, 2010. The district representative responsible for monitoring this corrective action plan is Bruce Rimstad, Business Manager.

**2009-2 RECEIPTS**

**Condition** – Certain cash receipts tested were either not deposited in a timely manner, or lacked sufficient supporting documentation to determine whether they were deposited in a timely manner. This is a current year and prior year finding.

**Criteria** – *Manual for Activity Fund Accounting.*

**Recommendation** – It is our recommendation that individuals in charge of student activity accounts should make regular deposits as required by the *Manual for Activity Fund Accounting*, and adequate documentation should be kept to facilitate the tracking of all receipts related to an individual bank deposit.

**Corrective Action** – The District understands and agrees with the finding, and has provided a *Manual for Activity Fund Accounting* to all individuals in charge of student activity accounts. The guidelines for determining proper receipts, and the requirements for depositing these funds, will be reviewed with all these individuals. The planned completion date for this corrective action plan is June 30, 2010. The district representative responsible for monitoring this corrective action plan is Bruce Rimstad, Business Manager.

INDEPENDENT SCHOOL DISTRICT NO. 199

Extracurricular Student Activity Accounts  
Schedule of Findings and Corrective Action (continued)  
June 30, 2009

**FINDINGS AND CORRECTIVE ACTION (CONTINUED)**

**2009-3 DISBURSEMENTS**

**Condition** – Certain cash disbursements tested that were accounted for in student activity accounts should have been made out of the District's General Fund. Also, several disbursements tested lacked proper backup documentation, lacked documentation of approval by student activity treasurers, or lacked documentation of approval by the appropriate district representatives. This is a current year and prior year finding.

**Criteria** – *Manual for Activity Fund Accounting.*

**Recommendation** – It is our recommendation that the District continue to review the propriety of disbursements being made through its student activity accounts, to assure they are allowable under the guidelines for disbursements in the *Manual for Activity Fund Accounting*. Also, individuals in charge of issuing student activity disbursements should be instructed not to do so unless the disbursement is supported by proper documentation and approvals.

**Corrective Action** – The District understands and agrees with the finding, and has provided a *Manual for Activity Fund Accounting* to all individuals in charge of student activity accounts, which provides the guidelines to determine whether a receipt would be deemed proper. These guidelines for determining proper disbursements, and the requirements for the documentation and approval of disbursements, will be reviewed with all these individuals. The planned completion date for this corrective action plan is June 30, 2010. The district representative responsible for monitoring this corrective action plan is Bruce Rimstad, Business Manager.

**2009-4 NEGATIVE BALANCE ACCOUNTS**

**Condition** – We noted one of the District's student activity accounts that had a deficit balance at June 30, 2009. Per the *Manual for Activity Fund Accounting*, accounts may not go into deficit balances.

**Criteria** – *Manual for Activity Fund Accounting.*

**Recommendation** – It is our recommendation that the District assure all student activity accounts have a positive account balance or close the respective account.

**Corrective Action** – The District will make sure all student activity accounts have a positive balance as well as inform activity account advisors of their balance to eliminate deficit spending. If the problem persists the District will eliminate the respective account. The planned completion date for this corrective action plan is June 30, 2010. The district representative responsible for monitoring this corrective action plan is Bruce Rimstad, Business Manager.

INDEPENDENT SCHOOL DISTRICT NO. 199  
INVER GROVE HEIGHTS, MINNESOTA

Special Purpose Audit Reports

Year Ended  
June 30, 2009

INDEPENDENT SCHOOL DISTRICT NO. 199

Special Purpose Audit Reports  
Year Ended June 30, 2009

**Table of Contents**

	Page
Independent Auditor's Report on Schedule of Expenditures of Federal Awards	1
Schedule of Expenditures of Federal Awards	2
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	3-4
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	5-6
Independent Auditor's Report on Compliance With Minnesota State Laws and Regulations	7
Schedule of Findings and Questioned Costs	8-11
Independent Auditor's Report on Uniform Financial Accounting and Reporting Standards Compliance Table	12
Uniform Financial Accounting and Reporting Standards Compliance Table	13-14



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INDEPENDENT AUDITOR'S REPORT ON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the School Board of  
Independent School District No. 199  
Inver Grove Heights, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 199, Inver Grove Heights, Minnesota (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 16, 2009. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the District taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*

November 16, 2009



## INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Education</b>		
Direct		
Indian Education – Grants to Local Education Agencies	84.060	\$ 7,034
Passed through Minnesota Department of Education		
Special education cluster		
Special Education – Grants to States	84.027	730,009
Special Education – Preschool Grants	84.173	<u>28,679</u>
Total special education cluster		758,688
Title I – Grants to Local Educational Agencies	84.010	412,202
Safe and Drug-Free Schools and Communities – State Grants	84.186	7,308
Innovative Education Program Strategies	84.298	5,658
Education Technology State Grants	84.318	73
English Language Acquisition Grants	84.365	6,644
Improving Teacher Quality – State Grants	84.367	214,557
Passed through Intermediate School District No. 917		
Special Education – Grants for Infants and Families With Disabilities	84.181	21,470
<b>U.S. Department of Agriculture</b>		
Passed through Minnesota Department of Education		
Child nutrition cluster		
School Breakfast Program	10.553	108,697
National School Lunch Program	10.555	509,583
Special Milk Program for Children	10.556	1,605
Summer Food Service Program for Children	10.559	<u>6,710</u>
Total child nutrition cluster		<u>626,595</u>
Total federal awards		<u>\$ 2,060,229</u>

Note 1: This Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the District's financial statements.

Note 2: Non-monetary assistance of \$61,083 is reported in this schedule at the fair market value of commodities received and disbursed through the U.S. Department of Agriculture National School lunch Program (CFDA No. 10.555).



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the School Board of  
Independent School District No. 199  
Inver Grove Heights, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 199, Inver Grove Heights, Minnesota (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2009-1 and 2009-2 to be significant deficiencies in internal control over financial reporting.

(continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described previously as items 2009-1 and 2009-2 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management at the District in a separate letter dated November 16, 2009.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the School Board, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Malloy, Montague, Kaniowski, Radosevich & Co., P.A.*

November 16, 2009



#### PRINCIPALS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the School Board of  
Independent School District No. 199  
Inver Grove Heights, Minnesota

### **Compliance**

We have audited the compliance of Independent School District No. 199, Inver Grove Heights, Minnesota (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

### **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

(continued)

A control deficiency in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the School Board, management of the District, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Malloy, Montague, Karnowski, Nadasewich & Co., P.A.*

November 16, 2009



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### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH MINNESOTA STATE LAWS AND REGULATIONS

To the School Board of  
Independent School District No. 199  
Inver Grove Heights, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 199, Inver Grove Heights, Minnesota (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 16, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Governments*, promulgated by the Office of the State Auditor pursuant to Minnesota Statute § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Governments* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the District complied with the material terms and conditions of applicable legal provisions.

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

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*

November 16, 2009

INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2009

**A. SUMMARY OF AUDIT RESULTS**

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific questions regarding the audit of federal awards.

**Financial Statements**

What type of auditor's report is issued?

Unqualified	<u>  X  </u>	
Qualified	<u>      </u>	
Adverse	<u>      </u>	
Disclaimer	<u>      </u>	

Internal control over financial reporting:

Are there significant deficiencies disclosed? Yes   X   No       

Are any of these significant deficiencies a material weakness? Yes   X   No        N/A       

Noncompliance material to the financial statements:

Are there findings material to the financial statements? Yes        No   X  

**Federal Awards**

Internal controls over major federal award programs:

Are there significant deficiencies disclosed? Yes        No   X  

Are any of these significant deficiencies a material weakness? Yes        No        N/A   X  

Major federal award program compliance:

What type of auditor's report is issued?

Unqualified	<u>  X  </u>
Qualified	<u>      </u>
Adverse	<u>      </u>
Disclaimer	<u>      </u>

Are there audit findings relative to the major programs? Yes        No   X  

Programs tested as major programs:

<u>Program or Cluster</u>	<u>CFDA No.</u>
The U.S. Department of Education special education cluster consisting of:	
– Special Education – Grants to States	84.027
– Special Education – Preschool Grants	84.173
Title I – Grants to Local Educational Agencies	84.010
Threshold for distinguishing type A and B programs.	<u>\$ 300,000</u>
Does the auditee qualify as a low-risk auditee?	Yes <u>      </u> No <u>  X  </u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2009

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**MATERIAL WEAKNESSES**

**2009-1 Segregation of Duties**

**Criteria** – Internal control over financial reporting.

**Condition** – Independent School District No. 199, Inver Grove Heights, Minnesota (the District) has limited segregation of duties in several areas, including the processing of general disbursements, payroll transactions, and journal entries.

**Questioned Costs** – Not applicable.

**Context** – This is a current year and prior year finding.

**Cause** – The limited segregation of duties is primarily caused by the limited size of the District's business office staff.

**Effect** – One important element of internal accounting controls is an adequate segregation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the District to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

**Recommendation** – We recommend that the District continue its efforts to segregate duties as best it can within the limits of what the District considers to be cost beneficial.

**Corrective Action Plan**

**Actions Planned** – The District continues to make efforts to segregate incompatible duties. The District is presently reviewing and revising accounting records and documentation to assure they are properly designed and maintained. All written accounting records and documentation will be reviewed by the School Board Finance Committee, and will be forwarded to the School Board Policy Committee.

The District is investigating a periodic rotation of duties among employees which would allow the business manager or superintendent of schools to observe if there is any noticeable change while another person is performing the duties.

The District understands that to have proper segregation of duties it must have in place a complete and up-to-date accounting and procedures manual.

The School Board Finance Committee, business manager, and superintendent of schools are responsible for developing, establishing, and maintaining segregation of duties.

**Official Responsible** – Bruce Rimstad, Business Manager.



INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2009

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

**MATERIAL WEAKNESSES (CONTINUED)**

**2009-1 Segregation of Duties (continued)**

**Corrective Action Plan (continued)**

Planned Completion Date – June 30, 2010.

Disagreement With or Explanation of Finding – The District has no disagreement with the finding.

Plan to Monitor – Bruce Rimstad, Business Manager, and Dr. Deirdre Wells, Superintendent, will work with the School Board Policy Committee in the development of a segregation of duties policy for the District.

**2009-2 Documentation of Internal Controls**

**Criteria** – Internal control over financial reporting.

**Condition** – Management has provided us with descriptions of the internal control policies and procedures in place at the District. Through our audit testing, we were able to review and observe many of these controls to assure they are implemented and functioning as designed. However, we noted that many of these policies and procedures are not documented in writing, particularly governance-level controls such as policies for fraud-risk identification or monitoring of controls by the School Board. Inadequate documentation of the components of internal controls is considered a deficiency in the design of internal controls.

**Questioned Costs** – Not applicable.

**Context** – This is a current year and prior year finding.

**Cause** – The District does not have a comprehensive set of written internal control policies and procedures.

**Effect** – Implied or verbal policies and procedures are subject to greater variation of meaning and the likelihood of misinterpretation increases when a policy is not written.

**Recommendation** – We recommend that the District establish written internal control policies and procedures for the District, including governance-level controls over the control environment, risk assessment, information and communication, and monitoring.

**Corrective Action Plan**

Actions Planned – Dr. Deirdre Wells, Superintendent, has developed an outline named “ACCOUNTING STANDARDS – INTERNAL CONTROLS.” The purpose of this procedure is to outline the internal control communication process, key control points, and sources of information to be used in communicating the financial status of the District and financial reporting.

INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2009

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)**

**MATERIAL WEAKNESSES (CONTINUED)**

**2009-2 Documentation of Internal Controls (continued)**

**Corrective Action Plan (continued)**

In addition, the District will establish written internal policies and procedures for the District's internal control as required by Statement of Auditing Standards No. 112. Specifically, the written internal control policies and procedures will address the control environment, risk assessment, and monitoring process as it relates to internal controls.

Official Responsible – Bruce Rimstad, Business Manager.

Planned Completion Date – December 31, 2009.

Disagreement With or Explanation of Finding – The District has no disagreement with the finding.

Plan to Monitor – The District has prepared an Administrative Procedures Manual documenting internal control policies and procedures which will be approved by the School Board prior to December 31, 2009.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

None.

**D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT**

None.

**E. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – MAJOR FEDERAL AWARD  
PROGRAMS AUDIT**

None.



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### INDEPENDENT AUDITOR'S REPORT ON UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE

To the School Board of  
Independent School District No. 199  
Inver Grove Heights, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 199, Inver Grove Heights, Minnesota (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 16, 2009. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was performed for the purpose of forming opinions on the basic financial statements of the District taken as a whole. The accompanying Uniform Financial Accounting and Reporting Standards Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*

November 16, 2009

## INDEPENDENT SCHOOL DISTRICT NO. 199

Uniform Financial Accounting and Reporting Standards  
Compliance Table  
June 30, 2009

		Audit	UFARS	Audit – UFARS
<b>General Fund</b>				
Total revenue		\$ 38,408,822	\$ 38,408,822	\$ –
Total expenditures		\$ 46,216,852	\$ 46,216,851	\$ 1
Reserved				
403	Staff development	\$ 322,417	\$ 322,417	\$ –
405	Deferred maintenance	\$ 539,250	\$ 539,250	\$ –
406	Health and safety	\$ (277,581)	\$ (277,581)	\$ –
407	Capital projects levy	\$ –	\$ –	\$ –
408	Cooperative revenue	\$ –	\$ –	\$ –
411	Severance pay	\$ –	\$ –	\$ –
414	Operating debt	\$ –	\$ –	\$ –
416	Levy reduction	\$ –	\$ –	\$ –
417	Taconite building maintenance	\$ –	\$ –	\$ –
419	Encumbrances	\$ –	\$ –	\$ –
423	Certain teacher programs	\$ –	\$ –	\$ –
424	Operating capital	\$ 239,821	\$ 239,821	\$ –
426	\$25 taconite	\$ –	\$ –	\$ –
427	Disabled accessibility	\$ –	\$ –	\$ –
428	Learning and development	\$ –	\$ –	\$ –
434	Area learning center	\$ –	\$ –	\$ –
435	Contracted alternative programs	\$ –	\$ –	\$ –
436	State approved alternative program	\$ –	\$ –	\$ –
438	Gifted and talented	\$ –	\$ –	\$ –
441	Basic skills programs	\$ –	\$ –	\$ –
445	Career and technical programs	\$ –	\$ –	\$ –
446	First grade preparedness	\$ –	\$ –	\$ –
449	Safe school crime	\$ 2,147	\$ 2,147	\$ –
450	Pre-kindergarten	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
453	Unfunded severance and retirement levy	\$ –	\$ –	\$ –
Unreserved				
418	Severance – insurance premiums	\$ 1,083,225	\$ 1,083,225	\$ –
422	Unreserved – undesignated	\$ 3,995,446	\$ 3,995,446	\$ –
<b>Food Service</b>				
Total revenue		\$ 1,735,394	\$ 1,735,394	\$ –
Total expenditures		\$ 1,858,426	\$ 1,858,426	\$ –
Reserved				
411	Severance pay	\$ –	\$ –	\$ –
419	Encumbrances	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
Unreserved				
418	Severance – insurance premiums	\$ –	\$ –	\$ –
422	Unreserved – undesignated	\$ 781,891	\$ 781,891	\$ –
<b>Community Service</b>				
Total revenue		\$ 1,939,112	\$ 1,939,111	\$ 1
Total expenditures		\$ 2,493,090	\$ 2,493,089	\$ 1
Reserved				
411	Severance	\$ –	\$ –	\$ –
419	Encumbrances	\$ –	\$ –	\$ –
426	\$25 taconite	\$ –	\$ –	\$ –
431	Community education	\$ 333,143	\$ 333,143	\$ –
432	ECFE	\$ 9,544	\$ 9,544	\$ –
444	School readiness	\$ (6,053)	\$ (6,053)	\$ –
447	Adult basic education	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
Unreserved				
418	Severance – insurance premiums	\$ –	\$ –	\$ –
422	Unreserved – undesignated	\$ 7,864	\$ 7,864	\$ –
<b>Building Construction</b>				
Total revenue		\$ 20,468	\$ 20,468	\$ –
Total expenditures		\$ 2,100,933	\$ 2,100,933	\$ –
Reserved				
407	Capital projects levy	\$ –	\$ –	\$ –
409	Alternative facility program	\$ –	\$ –	\$ –
413	Project funded by COP	\$ –	\$ –	\$ –
419	Encumbrances	\$ –	\$ –	\$ –
Unreserved				
422	Unreserved – undesignated	\$ 193,387	\$ 193,387	\$ –

## INDEPENDENT SCHOOL DISTRICT NO. 199

Uniform Financial Accounting and Reporting Standards  
Compliance Table (continued)  
June 30, 2009

		Audit	UFARS	Audit – UFARS
<b>Debt Service</b>				
Total revenue		\$ 2,795,793	\$ 2,795,793	\$ –
Total expenditures		\$ 2,704,556	\$ 2,704,555	\$ 1
Reserved				
425	Bond refundings	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
Unreserved				
422	Unreserved – undesignated	\$ 590,200	\$ 590,200	\$ –
<b>Trust</b>				
Total revenue		\$ 239,826	\$ 239,826	\$ –
Total expenditures		\$ 239,803	\$ 239,803	\$ –
Reserved				
419	Encumbrances	\$ –	\$ –	\$ –
Unreserved				
422	Unreserved – undesignated	\$ 12,398	\$ 12,398	\$ –
<b>Agency</b>				
Unreserved				
422	Unreserved – undesignated	\$ –	\$ –	\$ –
<b>Internal Service</b>				
Total revenue		\$ 498,519	\$ 498,520	\$ (1)
Total expenditures		\$ 718,184	\$ 718,184	\$ –
Reserved				
419	Encumbrances	\$ –	\$ –	\$ –
Unreserved				
422	Unreserved – undesignated	\$ 45,962	\$ 45,962	\$ –
<b>OPEB Revocable Trust</b>				
Total revenue		\$ 10,364,010	\$ 10,364,010	\$ –
Total expenditures		\$ 926,403	\$ 926,403	\$ –
Reserved				
419	Encumbrances	\$ –	\$ –	\$ –
Unreserved				
422	Unreserved – undesignated	\$ 9,437,607	\$ 9,437,607	\$ –
<b>OPEB Irrevocable Trust</b>				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
Reserved				
Unreserved				
422	Unreserved – undesignated	\$ –	\$ –	\$ –
<b>OPEB Debt Service</b>				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
Reserved				
425	Bond refundings	\$ –	\$ –	\$ –
Unreserved				
422	Unreserved – undesignated	\$ –	\$ –	\$ –

Note 1: The amounts reported above under “Debt Service” and “OPEB Debt Service” are presented as a single Debt Service Fund for financial statement purposes.

Note 2: The District may report certain additional reserved and designated fund balances for financial reporting purposes that are reported to the Minnesota Department of Education as unreserved for purposes of this table.

Note 3: Statutory reserve deficits are reported in the financial statements in unreserved fund balances in accordance with accounting principles generally accepted in the United States of America.

**Unaudited Data Reporting Elements****Fiscal Year 2009 Safe School Maintenance of Effort**

## Total expenditures

## FTE

\$ 611,260  
10.12

**Fiscal Year 2009 Operating Capital Transfer**

## Per pupil amount

## Adjusted marginal cost pupil unit

\$ –

## Total transfer

\$ –

Management Report

for

Independent School District No. 199  
Inver Grove Heights, Minnesota  
June 30, 2009



#### PRINCIPALS

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To the School Board of  
Independent School District No. 199  
Inver Grove Heights, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 199, Inver Grove Heights, Minnesota's (the District) financial statements for the year ended June 30, 2009. The purpose of this report is to communicate information relevant to the financing of public education in Minnesota and to provide comments resulting from our audit process. We have organized this report into the following sections:

- Audit Summary
- Funding Public Education in Minnesota
- Financial Trends of Your District
- Accounting and Auditing Updates
- Legislative Summary

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

This report is intended solely for the information and use of those charged with governance, the School Board, management, and those who have responsibility for oversight of the financial reporting process and is not intended to be, and should not be, used by anyone other than these specified parties.

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*

November 16, 2009

## **AUDIT SUMMARY**

We hereby provide you with the following summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the School Board, administration, or those charged with governance of the District.

### **OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND THE U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2009. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the U.S. Office of Management and Budget Circular A-133; as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our engagement letter dated June 10, 2009. Professional standards also require that we communicate to you the following information related to our audit.

### **PLANNED SCOPE AND TIMING OF THE AUDIT**

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

### **AUDIT OPINION AND FINDINGS**

Based on our audit of the District's financial statements for the year ended June 30, 2009:

- We have issued an unqualified opinion on the District's annual financial statements.
- We have reported two deficiencies involving the District's internal control over financial reporting that we consider to be material weaknesses.
  - 1) Due to the limited size of the District's business office staff, the District has limited segregation of duties in several areas.
  - 2) The District has a lack of documentation with regard to certain components of its internal controls, particularly in governance-level controls such as having written fraud risk assessment and monitoring processes.
- The results of our testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
- We noted that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.
- The results of our tests indicate that the District has complied, in all material respects, with the requirements applicable to each major federal program.
- We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses in our testing of major federal programs.
- We have reported no findings based on our testing of the District's compliance with Minnesota laws and regulations.



## **FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

As a part of our audit of the District's financial statements for the year ended June 30, 2009, we performed procedures to follow-up on the findings and recommendations that resulted from our prior year audit. The following is a summary of these findings and recommendations along with the results of our follow-up:

- We reported that for one construction contract in excess of \$75,000 awarded during the year ended June 30, 2008, the District did not obtain contractor performance or payment bonds as required by state statutes. There were no instances of noncompliance noted during our testing of contracts awarded in the current year.
- During our testing of the District's disbursements for the year ended June 30, 2008, we noted that two transactions tested were not paid within 35 days of the receipt of the goods or services or the invoice for goods or services, as required by state statute. All disbursements selected for testing in the current year were paid within the required 35-day time period.

## **EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS**

In accordance with Minnesota Statutes, the District's School Board has elected not to exercise control over the transactions of the extracurricular student activity accounts maintained at various district sites. Consequently, the cash receipts and disbursements of the District's extracurricular student activity accounts are reported in a separate set of financial statements, rather than being reported within the District's General Fund. We have issued an opinion on these separate financial statements, stating that they fairly present the recorded cash transactions of these accounts for the year ended June 30, 2009.

We also issued a report on compliance with the MDE *Manual for Activity Fund Accounting*, in which we reported the following findings:

- Certain accounts of the District's extracurricular student activities are inactive and should be closed.
- Certain activities accounted for by the District as student activity receipts should have been recorded in the District's General Fund. Also, some receipts tested were not being deposited in a timely manner or were not traceable to an individual deposit.
- Certain activities accounted for by the District as student activity disbursements should be made out of district funds, others did not contain proper backup documentation, and others did not contain approval by student activity leaders or appropriate district personnel.
- One of the District's student activity accounts had a deficit balance at June 30, 2009. Per the *Manual for Activity Fund Accounting*, accounts may not go into deficit balances.

## **SIGNIFICANT ACCOUNTING POLICIES**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 of the notes to basic financial statements.

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions," during the year ended June 30, 2009. This statement provides new guidance on accounting and financial reporting for "other post-employment benefits" (OPEB) accounted for in the financial statements of plan sponsors or employers. As a result of this change in accounting principle, the District's government-wide and Other Post-Employment Benefits Internal Service Fund net assets as of the beginning of the year (July 1, 2008) were restated, increasing by \$4,395,689 due to the removal of the estimate the District had previously reported for these OPEB liabilities.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

## **ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a state-wide database—MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for fiscal year 2009 is not finalized until well into fiscal year 2010. General education revenue and certain other revenues are computed using preliminary information on the number of students served in the resident district and also utilizing some estimates, particularly in the area of enrollment options.

Special education state aid includes an adjustment related to tuition billings to and from other school districts for special education services which are computed using formulas derived by the MDE. Because of the timing of the calculations, this adjustment for fiscal 2009 is not finalized until after the District has closed its financial records for the fiscal period. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the District.

The District has recorded a liability in the Statement of Net Assets for separation benefits payable for which it is probable employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting), the potential use of accumulated sick leave prior to termination, and the age at which such employees are likely to retire.

The District has recorded expenditures and assets/liabilities for pension benefits and other post-employment benefits (OPEB). These obligations are calculated using actuarial methodologies described in Governmental Accounting Standards Board (GASB) Statements No. 27 and 45, as applicable. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, and employee turnover.

The depreciation of capital assets involves estimates pertaining to useful lives.

Management expects any differences between estimates and actual amounts of these estimates to be insignificant. We evaluated the key factors and assumptions used by management in the areas discussed above in determining that they are reasonable in relation to the financial statements taken as a whole.

## **CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Where applicable, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management, when applicable, were material, either individually or in the aggregate, to the financial statements taken as a whole.

## **DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

## **DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## **OTHER AUDIT FINDINGS OR ISSUES**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## **MANAGEMENT REPRESENTATIONS**

We have requested certain representations from management that are included in the management representation letter dated November 16, 2009.

## FUNDING PUBLIC EDUCATION IN MINNESOTA

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this report. The last section of this report, which contains a summary of legislative changes affecting school districts, gives an indication of how complicated the funding system is. The following section provides some state-wide funding and financial trend information.

### BASIC GENERAL EDUCATION REVENUE

The largest single funding source for Minnesota school districts is basic general education aid. Each year, the Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to average daily membership (ADM). Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

The table below presents a summary of the formula allowance for the past decade and as approved for the next two fiscal years. We have adjusted the percentage change from year to year for non-comparable changes such as referendum reduction and aids that were previously separately funded and subsequently “rolled-in” or “rolled-out” to general education revenue.

School Year	Formula Allowance	
	Amount	Percent Increase
1999–2000	\$ 3,740	4.7 % (1)
2000–2001	\$ 3,964	4.2 % (1)
2001–2002	\$ 4,068	2.6 %
2002–2003	\$ 4,601	2.6 % (1)
2003–2004	\$ 4,601	– %
2004–2005	\$ 4,601	– %
2005–2006	\$ 4,783	4.0 %
2006–2007	\$ 4,974	4.0 %
2007–2008	\$ 5,074	2.0 %
2008–2009	\$ 5,124	1.0 %
2009–2010	\$ 5,124	– %
2010–2011	\$ 5,124	– %

(1) Percentage adjusted to eliminate changes caused by referendum reduction and rolled-in (out) aids which do not affect total district revenue.

As noted in the table above, current legislation has frozen the basic formula allowance at the 2008–2009 fiscal year level for the next two fiscal years. In general, the moderate increases in the formula allowance have forced districts to continually cut expenditure budgets or increase referendum revenue in order to maintain programs.

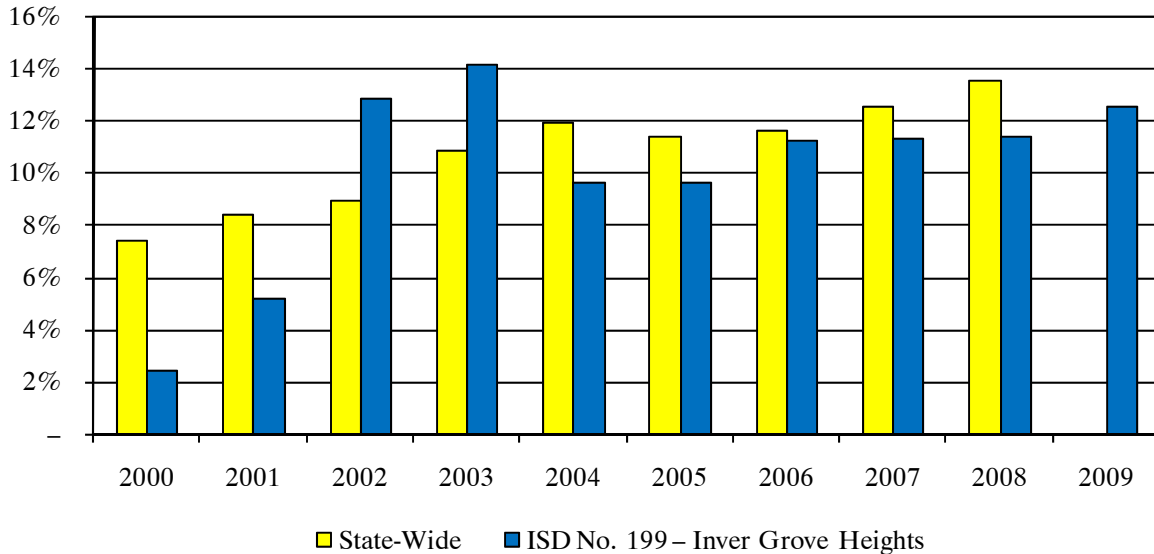
The table above does not reflect temporary funding changes such as the \$51 per pupil unit one-time additional general education aid school districts and charter schools received in 2008–2009, or the technology and operating capital aid received by school districts and charter schools in 2007–2008 (\$40 per pupil unit) and 2008–2009 (\$55 per pupil unit).

The table also does not reflect a one-time reduction to general education aid in 2009–2010 that will be offset by federal fiscal stabilization funds. The reduction, which will be allocated to school districts and charter schools based on their 2007–2008 general education revenue, amounts to approximately 8.7 percent of this revenue. The reduction will be offset dollar-for-dollar by federal stimulus funds used by the state for fiscal stabilization.

## STATE-WIDE SCHOOL DISTRICT FINANCIAL HEALTH

One of the most common and comparable statistics used to evaluate school district financial health is the unreserved operating fund balance as a percentage of operating expenditures.

State-Wide Unreserved Operating Fund Balance  
as a Percentage of Operating Expenditures



Note: State-wide information is not available for fiscal 2009.

The calculation above reflects only the unreserved fund balance of the General Fund, and the corresponding expenditures, which is the same method which the state now uses for the calculation of statutory operating debt (SOD). We have also included the comparable percentages for your district.

Even with limited funding increases, school districts have maintained a relatively stable unreserved fund balance on a state-wide basis in recent years. This stability may be the result of districts adapting to funding restrictions, effective cost containment measures, in some cases community support in the way of operating referendums, and other factors.

As of June 30, 2008, this ratio was 11.4 percent for the District, as compared to a state-wide average of 13.5 percent. The District's unreserved operating fund balance as a percentage of operating expenditures was 12.5 percent at the end of the current year.

The table below shows a comparison of total revenue per ADM received by Minnesota school districts and the District. Revenues for all governmental funds are included, except for: the Capital Projects – Building Construction Fund; proceeds from sales of real property and equipment; insurance recoveries; and sales of bonds, loans, and interfund transfers.

Revenue per Student (ADM) Served								
	State-Wide		Seven-County Metro Area		ISD No. 199 – Inver Grove Heights			
	2007	2008	2007	2008	2007	2008	2009	
General Fund								
Property taxes	\$ 1,020	\$ 1,160	\$ 1,365	\$ 1,527	\$ 1,580	\$ 1,698	\$ 1,921	
Other local sources	504	487	414	417	446	416	471	
State	7,490	7,833	7,613	8,029	7,069	7,586	7,281	
Federal	444	456	464	492	356	330	402	
Total General Fund	9,458	9,936	9,856	10,465	9,451	10,030	10,075	
Special revenue funds								
Food Service	415	433	418	434	448	447	455	
Community Service	445	474	538	570	500	523	509	
Debt Service Fund	938	993	1,032	1,114	658	718	733	
Total revenue	<u>\$ 11,256</u>	<u>\$ 11,836</u>	<u>\$ 11,844</u>	<u>\$ 12,583</u>	<u>\$ 11,057</u>	<u>\$ 11,718</u>	<u>\$ 11,772</u>	
ADM served and tuition paid					<u>3,813</u>	<u>3,742</u>	<u>3,812</u>	
Note: Excludes the Capital Projects – Building Construction Fund and fiduciary funds.								
Source of state-wide and seven-county metro area data: School District Profiles Report published by the MDE								

The mix of local and state revenues vary from *year to year* primarily based on funding formulas and the state's financial condition. The mix of revenue components from *district to district* varies due to factors such as the strength of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered, and countless other criteria.

The District's total revenue for 2009 collected in the governmental funds included above were \$54 higher per student than the previous year. Revenue from property taxes increased by about \$1,088,000 (\$285 per student), mainly in the General Fund, due to increases in capital-related levies for health and safety, building leases, and a lease levy passed through to Intermediate School District No. 917 (the Intermediate District) for a new cooperative facility. State aid revenue was almost \$599,000 (\$157 per student) lower than last year. The decrease was due to a change in the billing of special education services provided to district resident students by the Intermediate District. In prior years, the District was billed directly for these services. Beginning in 2009, the state took over the billing, and this tuition is now collected through an adjustment reducing state special education aid paid to the District. This change reduces both the special education revenue and expenditures reported by the District.

The table below reflects comparative data available from the MDE for all expenditures, excluding the Capital Projects – Building Construction Fund:

<b>Expenditures per Student (ADM) Served</b>								
	State-Wide		Seven-County Metro Area		ISD No. 199 – Inver Grove Heights			
	2007	2008	2007	2008	2007	2008	2009	
General Fund								
Administration	\$ 395	\$ 412	\$ 380	\$ 405	\$ 430	\$ 387	\$ 512	
District support services	385	399	392	412	232	245	264	
Elementary and secondary regular instruction	4,362	4,528	4,523	4,730	4,049	4,344	5,530	
Vocational education instruction	131	142	127	141	56	110	128	
Special education instruction	1,649	1,703	1,815	1,904	2,032	2,242	2,367	
Instructional support services	425	461	481	536	606	646	822	
Pupil support services	784	835	857	914	731	768	924	
Sites and buildings and other	782	811	737	778	878	877	1,016	
Total General Fund expenditures (excluding capital)	8,913	9,291	9,312	9,820	9,014	9,619	11,563	
General Fund capital expenditures	451	505	435	494	490	533	562	
Special revenue funds								
Food Service	415	437	416	432	516	454	488	
Community Service	446	470	539	564	528	545	654	
Debt Service Fund	1,077	1,064	1,253	1,015	654	678	709	
Total expenditures	<u>\$ 11,302</u>	<u>\$ 11,767</u>	<u>\$ 11,955</u>	<u>\$ 12,325</u>	<u>\$ 11,202</u>	<u>\$ 11,829</u>	<u>\$ 13,976</u>	
ADM served and tuition paid					<u>3,813</u>	<u>3,742</u>	<u>3,812</u>	
Note: Excludes the Capital Projects – Building Construction Fund and fiduciary funds.								
Source of state-wide and seven-county metro area data: School District Profiles Report published by the MDE								

Expenditure patterns also vary from district to district for various reasons. Factors affecting the comparison include the growth cycle or maturity of the district, average employee experience, availability of funding, population density, and even methods of allocating costs.

Total district expenditures in the governmental funds included above for 2009 were \$2,147 higher per student than the previous year. The majority of the increase was in the area of employee benefits, as \$9.22 million (\$2,419 per student) of OPEB bonds issued by the District were passed through the General Fund and special revenue funds and contributed to a revocable trust established to finance the District's OPEB liability.

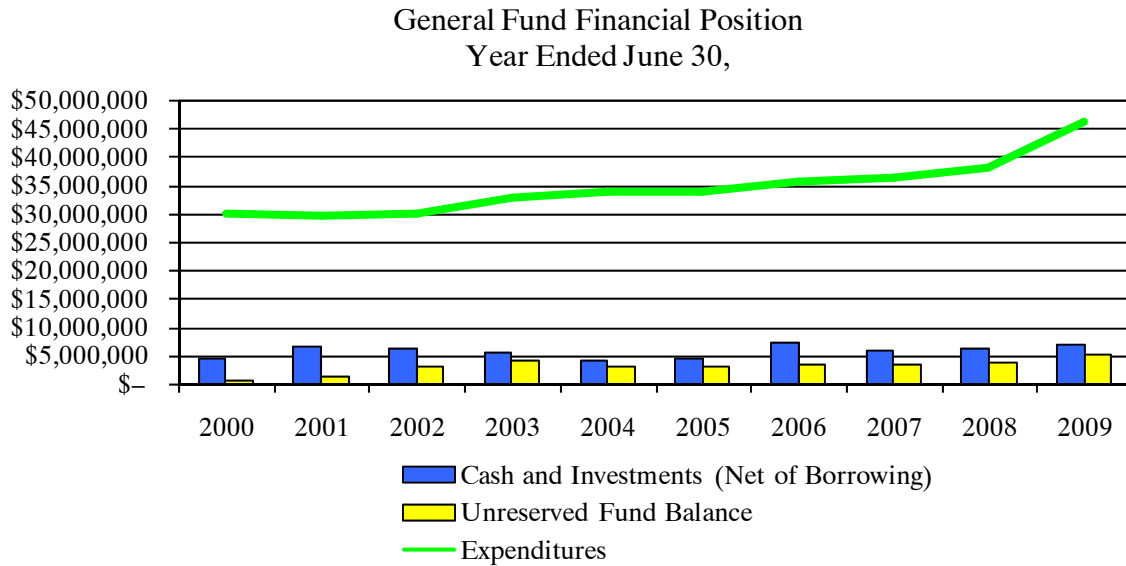
## SUMMARY

The funding for and financial position of Minnesota school districts has fluctuated significantly over the past several years due to a number of factors, including those discussed above. This situation has created a challenge for administrators and management of these districts in providing the best education with the limited resources available in a climate of unknown future funding levels.

## FINANCIAL TRENDS OF YOUR DISTRICT

### GENERAL FUND FINANCIAL POSITION

The following graph displays the District's General Fund trends of financial position and changes in the volume of financial activity. Unreserved fund balance and cash balance are typically used as indicators of financial health or equity, while annual expenditures are often used to measure the size of the operation.



The District's General Fund ended fiscal year 2009 with an unreserved fund balance of \$5,078,671 (excluding the \$277,581 deficit in the statutory reserve for health and safety reported as unreserved, undesignated), an increase of \$1,459,600 from the prior year. In total, fund balances in the General Fund increased by \$1,085,798 in fiscal year 2009, as compared to a budgeted fund balance reduction of \$423,746. General Fund reserved fund balances were reduced by \$373,802 in 2009, mainly due to the elimination of the reserve for severance and health benefits now classified as unreserved but designated for separation and retirement benefits. The District ended fiscal year 2009 with a General Fund cash balance of \$6,806,923, an increase of \$538,439 from the prior year.

The following table presents the components of the General Fund balance for the past five years:

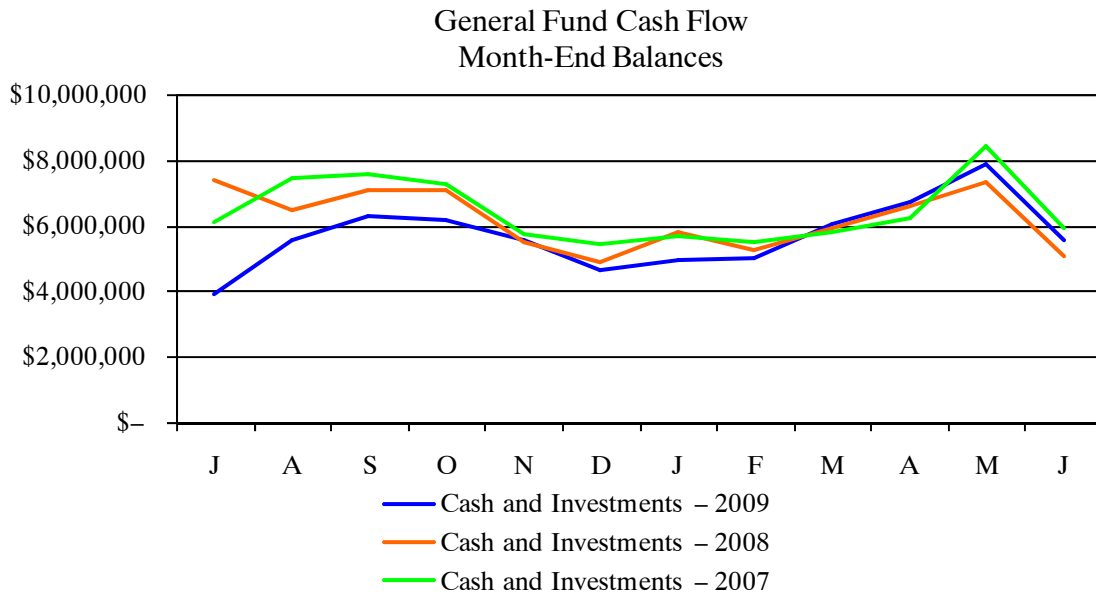
	Year Ended June 30,				
	2005	2006	2007	2008	2009
Reserved fund balance	\$ 3,511,886	\$ 2,102,841	\$ 1,706,238	\$ 1,199,856	\$ 826,054
Unreserved fund balance	2,903,381	3,391,928	3,560,897	3,619,071	5,078,671 *
<b>Total fund balance</b>	<b>\$ 6,415,267</b>	<b>\$ 5,494,769</b>	<b>\$ 5,267,135</b>	<b>\$ 4,818,927</b>	<b>\$ 5,904,725</b>
Unreserved fund balance as a percentage of expenditures	8.5%	9.5%	9.8%	9.5%	11.0%

\* Includes \$1,083,225 designated for separation and retirement benefits as discussed above.

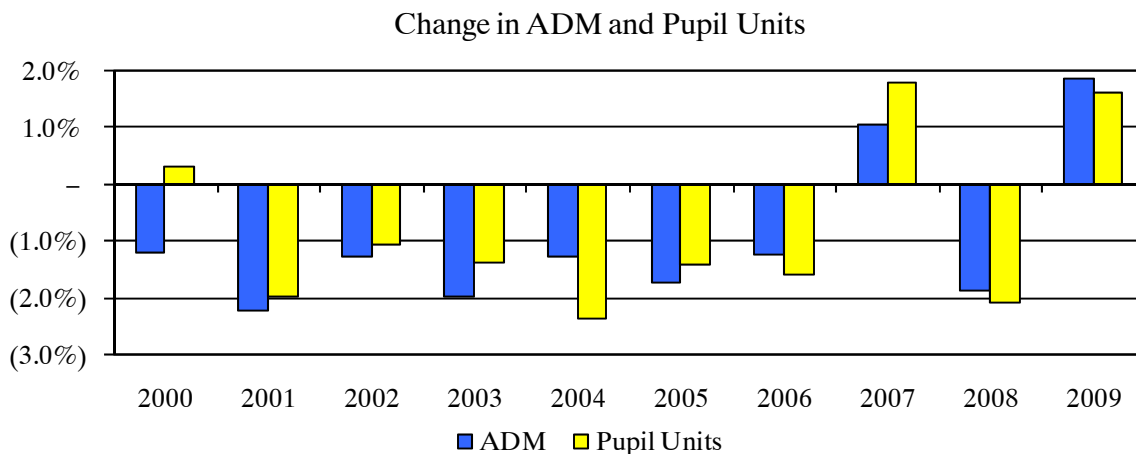
The table above reflects the total General Fund unreserved fund balance and percentages, which may be different from those used in the previous discussion of state-wide fund balances, which are based on a state formula. The resources represented by this fund balance are critical to a district's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls. At June 30, 2009, unreserved fund balance in the General Fund represented 11.0 percent of annual expenditures, or about six weeks of operations, assuming level spending throughout the year.



The level of cash and investments varies considerably during the year due to the timing of various revenues and expenditures. The following graph summarizes the level of cash and investments over the past three years:

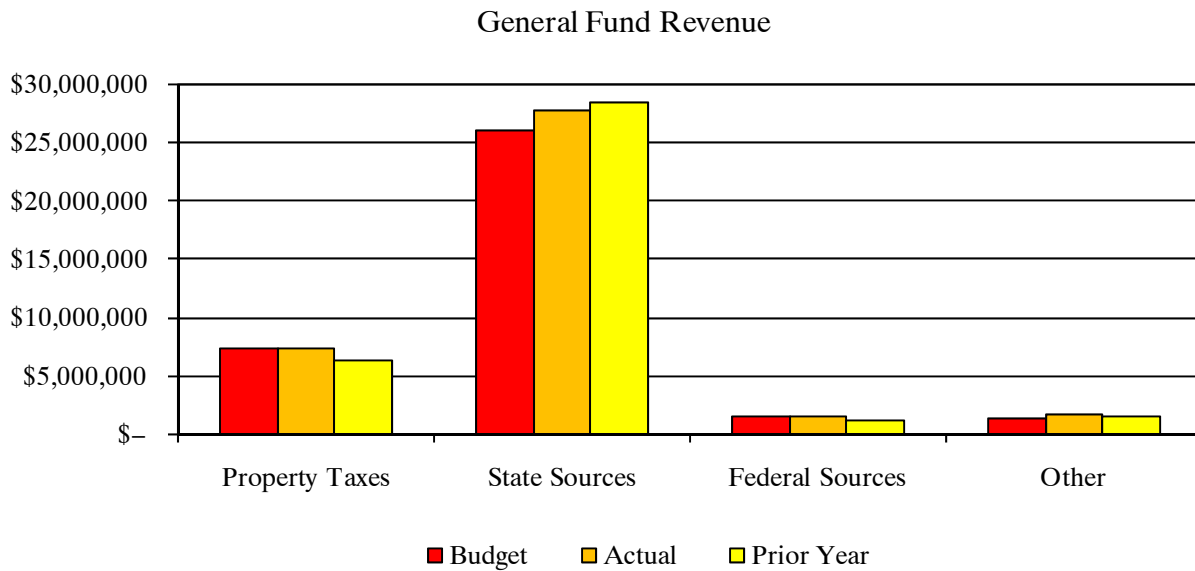


The graph above shows the peaks and valleys of the General Fund cash and investments balance (net of borrowing) on a monthly basis. The swing between its high and low month-end cash balances is about \$3.9 million. The District's cash flow needs will increase significantly in fiscal 2010, with the change in the metering of state aid payments that will reduce the percentage of estimated aid paid to districts by June 30 from 90 percent to 73 percent. This change could potentially reduce cash payments of state aids to the District by about \$4.7 million in 2010, based on 2009 state aid levels.



ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes, the impact of the prior year final adjustments which affect this year's revenue, and also the final adjustments caused by open enrollment gains and losses. The District served an estimated ADM of 3,812 in 2009, an increase of about 70 ADM (1.9 percent) from the prior year.

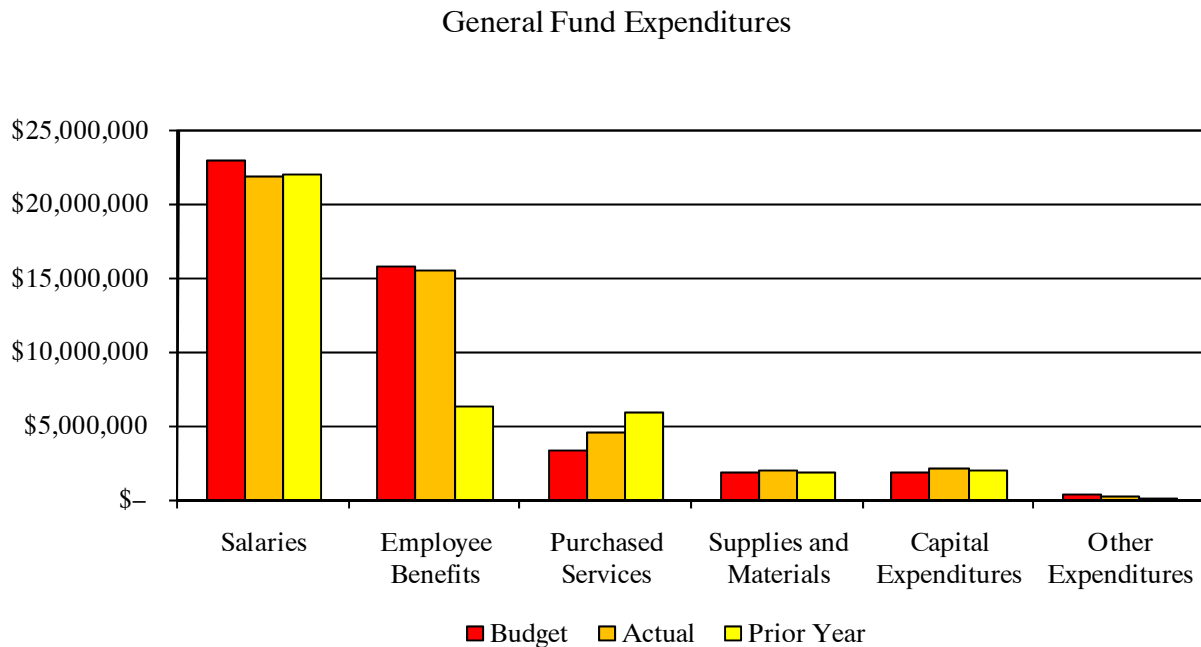
The following graph summarizes the District's General Fund revenue for 2009:



Total General Fund revenues for 2009 were \$38,408,822, an increase of approximately \$866,000 from the prior year. Tax revenue was about \$967,000 higher than last year, mainly due to increases several capital-related levies, as discussed earlier. State aid revenue was \$639,000 lower than last year in total. General education state aid was actually \$644,000 higher than last year, due to the increases in the funding formula and the number of students served by the District. However, special education state aid was \$1,303,000 lower than the prior year, due to the change in tuition now being collected through an adjustment to state special education aid.

Revenues for 2009 exceeded budget by almost \$2,070,000. Most of the variance was in state aids, which were \$1,636,000 higher than expected. General education state aid was about \$884,000 over budget due to an unexpected increase in the number of students served by the District. State special education revenue was also \$776,000 over budget, as the District earned more aid for purchased service costs for special education than anticipated. Revenues from other local sources such as student fees, gifts, and medical assistance reimbursements also exceeded budget by more than \$525,000.

The following graph summarizes the District's General Fund expenditures for 2009:

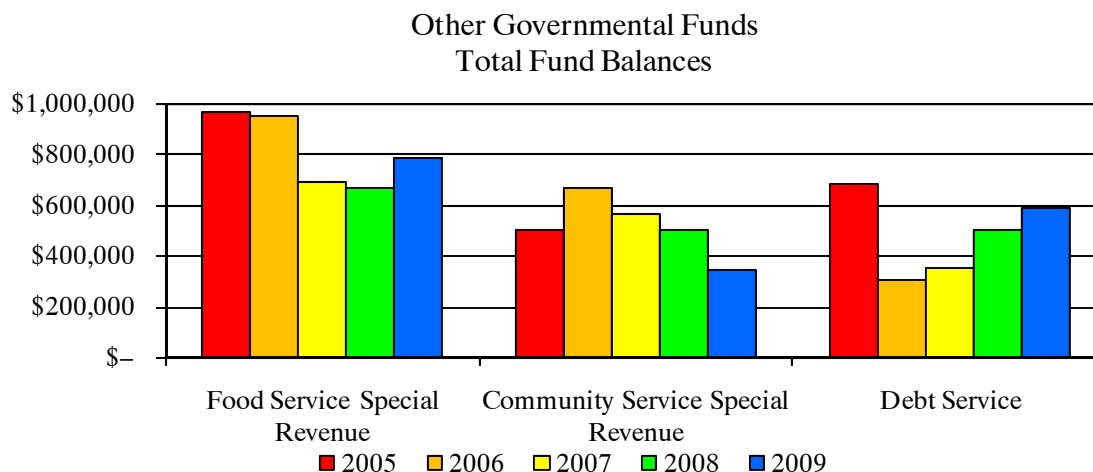


Total General Fund expenditures for 2009 were \$46,216,852, an increase of about \$8,226,000 from the prior year. Employee benefit costs were almost \$9,207,000 higher, mainly due to the OPEB bond proceeds that were contributed to a revocable trust accounted for in the OPEB Internal Service Fund. Expenditures for purchased services decreased by \$1,402,000 from the prior year, mainly due to the change in special education tuition billing.

Total General Fund expenditures exceeded budget more than \$326,000 in 2009. Purchased service costs were over budget by almost \$1,265,000, mainly in special education and special education transportation. Salaries were about \$1,043,000 under budget, as instructional salaries did not increase as expected. Capital expenditures were also \$331,000 over budget, due to \$380,000 of expenditures related to equipment purchased through a capital lease, for which the offsetting expenditure and other financing source were not included in the budget.

## OTHER FUNDS OF THE DISTRICT

The following graph presents fund balances for the District's Food Service Special Revenue, Community Service Special Revenue, and Debt Service Funds for the last five years.



### Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund ended the year with an unreserved fund balance of \$781,891, an increase of \$111,626 from the prior year, compared to a budgeted decrease of \$144,878. Revenues exceeded budget by \$44,432, as federal aid earned for free and reduced price meals were greater than expected. Expenditures were over budget by \$22,586 in total. However, that variance includes the pass-through of \$234,658 of OPEB bond proceeds for which the offsetting expenditure and other financing source were not included in the budget. Food service expenditures exclusive of the OPEB pass-through were about \$212,000 under budget, mainly in supplies and materials (principally food) costs.

### Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended the year with a total fund balance of \$344,498, a decrease of \$157,064, as compared to a budgeted increase of \$18,858. Revenues fell short of budget by \$142,367, mainly in tuition, fees, and property taxes. Expenditures exceeded budget by \$430,469. However, here again the variance is mainly due to the pass-through of \$396,914 of OPEB bond proceeds for which the offsetting expenditure and other financing source were not included in the budget.

It is critical that the Food Service and Community Service Special Revenue Funds be self-sustaining, so as not to place an additional burden on the General Fund. As the graph above indicates, the District has been successful in maintaining the fiscal health of these two funds in recent years.

### Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund (not pictured) has a fund balance of \$193,387 at June 30, 2009, which represents the remaining unspent proceeds from the District's 2005 building bonds, which are being used for a variety of facility improvement projects. The District completed over \$2.1 million of construction projects during 2009.

### Debt Service Fund

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. At June 30, 2009, the Debt Service Fund had a fund balance of \$590,200 available for future debt service.

## **Internal Service Funds**

The District maintains two internal service funds (also not pictured) established to finance the costs of its severance, pension, and retiree health (OPEB) benefits as they accrue.

At June 30, 2009, the Severance and Pension Benefits Internal Service Fund had accumulated almost \$1.8 million of cash and investments available to pay estimated future severance benefits of \$1.5 million and a net pension obligation of \$278,000. The net pension obligation liability at year-end does not represent the District's full OPEB liability, which was estimated to be \$2.9 million in the most recent actuarial study done for the District. Instead, it represents the cumulative excess of the actuarially determined annual required contributions necessary to amortize the pension liability through the current year-end and the actual pension costs paid by the District to date. The remaining unrestricted net assets balance of \$45,962 at year-end is available to finance future benefits costs.

The District's OPEB Internal Service Fund ended the year with cash and investments of \$9.4 million and net assets of \$9.4 million available to pay future OPEB benefits. The proceeds of the District's \$9.2 million OPEB bonds were contributed into this fund from the District's governmental funds. The assets in this fund are being held in a revocable trust account the District established to finance its OPEB liabilities, and can only be used to pay OPEB costs. However, because the District elected to make the trust revocable (meaning that under certain specific and very restrictive circumstances the District may take the assets back out of the trust and use them for other purposes) these assets must be accounted for in an internal service fund, which is included in the District's government-wide financial statements. The net OPEB obligation liability of \$32,000 at year-end does not represent the District's full OPEB liability, which was estimated to be \$9.1 million in the most recent actuarial study done for the District. Instead, it represents the cumulative excess of the actuarially determined annual required contributions necessary to amortize the OPEB liability through the current year-end and the actual OPEB costs paid by the District to date.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the District's current assets to finance its current liabilities. The Governmental Accounting Standards Board (GASB) Statement No. 34 reporting model also requires the inclusion of two government-wide financial statements designed to present a clear picture of the District as a single, unified entity. These government-wide statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net assets represent the resources the District has leftover to use for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how some of those resources can be used. Therefore, the statement divides the net assets into three components: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The following table presents a summarized conversion of the District's governmental fund balances (as discussed earlier) to net assets and the separate components for the last three years:

	June 30,		
	2007	2008	2009
Net assets – governmental activities			
Total fund balances – governmental funds	\$ 17,975,624	\$ 8,763,569	\$ 7,814,701
Capital assets, less accumulated depreciation	37,638,282	42,553,332	42,930,064
Long-term liabilities	(45,365,616)	(44,504,007)	(48,507,599)
Other	424,429	560,979	9,684,451
Total net assets – governmental activities	<u>\$ 10,672,719</u>	<u>\$ 7,373,873</u>	<u>\$11,921,617</u>
Net assets			
Invested in capital assets, net of related debt	\$ 8,703,834	\$ 5,638,108	\$ 5,096,314
Restricted	2,757,107	2,403,846	2,367,912
Unrestricted	<u>(788,222)</u>	<u>(668,081)</u>	<u>4,457,391</u>
Total net assets	<u>\$ 10,672,719</u>	<u>\$ 7,373,873</u>	<u>\$11,921,617</u>

Some of the District's fund balances translate into restricted net assets by virtue of external restrictions (statutory reserves) or by the nature of the fund they are in (e.g. unreserved Food Service Special Revenue Fund balance can only be spent for food service program costs). The unrestricted net assets category consists mainly of the General Fund unreserved fund balances, offset against non-capital long-term obligations such as vacation or severance payable. Consequently, many Minnesota school districts have accumulated deficits in this component of net assets.

Total net assets increased by \$4.5 million during fiscal 2009. This is mainly due to the change in accounting principle for the District adopting GASB Statement No. 45 this year.

## **ACCOUNTING AND AUDITING UPDATES**

### **GASB STATEMENT NO. 51 – ACCOUNTING AND FINANCIAL REPORTING FOR INTANGIBLE ASSETS**

Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements in this statement improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets. These inconsistencies will be reduced through the clarification that intangible assets subject to the provisions of this statement should be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009.

### **GASB STATEMENT NO. 53 – ACCOUNTING AND FINANCIAL REPORTING FOR DERIVATIVE INSTRUMENTS**

The guidance in this statement improves financial reporting by requiring governments to measure derivative instruments at fair value in their economic resources measurement focus financial statements. These improvements should allow users of those financial statements to more fully understand a government's resources available to provide services. The disclosures provide a summary of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009.

### **GASB STATEMENT NO. 54 – FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS**

The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The definitions of the General Fund, special revenue, capital projects, debt service, and permanent fund types are clarified by the provisions in this statement. The requirements are also intended to enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010.

## LEGISLATIVE SUMMARY

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the MDE.

**Basic General Education Revenue** – The basic general education formula allowance for fiscal year (FY) 2009 increased by \$50 (1 percent) per adjusted marginal cost pupil unit (AMCPU) and will remain at this amount for FY 2010 and FY 2011.

**One-Time General Education Revenue Increase – FY 2009 Only** – Provided additional general education aid for FY 2009 only equal to \$51 times the school district or charter school's AMCPU. This is equivalent to a 1 percent increase in the general education formula, except that this one-time increase is not linked to other formulas that use the general education formula allowance.

**FY 2010 One-Time General Education Aid Reduction Offset by Federal Fiscal Stabilization Funds** – Reduces the FY 2010 general education aid entitlement by \$500 million. The reduction is allocated among school districts and charter schools. This one-time reduction is offset on a dollar-for-dollar basis by federal fiscal stabilization funds.

**Temporary Suspension of Reserved Revenue for Staff Development** – Temporarily suspends the staff development reserve for FY 2010 and FY 2011. The staff development reserve is equal to 2 percent of the district's basic general education revenue.

**Federal Recovery Act** – The American Recovery and Reinvestment Act (ARRA) of 2009 will provide additional federal funds to districts in the form of stabilization funds and additional grants. The ARRA mandates that there be an unprecedented level of oversight and transparency around the spending of these funds, including added audit and internal control requirements. In addition to increased accountability, districts will also encounter new reporting requirements for ARRA funds.

**Compensatory Revenue Payments to Cooperatives** – Directs MDE to pay compensatory revenue directly to cooperatives, and to exclude compensatory revenue from the special education tuition adjustment calculations for cooperatives.

**Alternative Teacher Compensation Revenue (Q Comp)** – Clarification of change made reducing the basic Q Comp aid from 73.1 percent to 65 percent effective for FY 2010 and later. This results in a decrease in the basic aid, with a corresponding increase in the equalized levy revenue.

**Operating Capital Reserve Account Transfers** – Allows districts to transfer up to \$51 per AMCPU from the operating capital reserved fund balance to its unreserved General Fund balance for FY 2009 and FY 2010. This is in addition to the transfer already allowed for FY 2008.

**Repeal of the Endowment Fund Reduction** – Beginning in FY 2010, districts will no longer receive a reduction in their general education aid by the amount of endowment payments received. This will have the effect of increasing general education aid by \$36 per resident ADM for FY 2010.

**School Technology and Operating Capital Aid** – Qualifies all school districts for technology and operating capital aid equal to \$55 per AMCPU for FY 2009. This aid entitlement is no longer available in FY 2010. The aid must be used only for the purposes authorized for operating capital revenue.

**State Aid Payment Deferral** – For FY 2010 and FY 2011 only, all state aids normally paid on a 90-10 schedule will be changed to a 73-27 schedule.

**Final Payment for Districts in SOD** – Districts in SOD as of June 30th of the previous year will receive a reduced deferral amount.



**Property Tax Revenue Recognition Change** – Several changes affecting the recognition of property tax revenue were enacted in FY 2009 legislation including the following:

- Beginning in FY 2011, school districts will encounter a change in how tax revenue is recognized for the May, June, and July tax settlements compared to past practice.
- In the absence of new legislation, this change will be permanent, creating a large increase in the amount of property taxes recognized by school districts as revenue during FY 2011. For FY 2012 and later, the impact of this change will be smaller, but still significant.

**One-Time Aid Adjustment for Property Tax Revenue Recognition Change** – For FY 2011 only, state aid payments during FY 2011 will be reduced by the difference in revenue recognized under the new tax revenue policy compared to the amount under the old policy.

**Truth in Taxation Hearing** – Removes the requirement that school districts hold a separate truth in taxation hearing. Instead, the district is required to discuss the levy and budget at a regularly scheduled board meeting and allow the public to speak. This section is effective for taxes payable 2010 and later.

**Safe Schools Levy** – Beginning for taxes payable in 2008 (revenue in FY 2009), the safe schools levy is increased from \$27 to \$30 per AMCPU. Districts that are members of an intermediate district can levy \$10 per AMCPU, which is then passed on to the intermediate district. Districts are required to set aside \$3 per AMCPU for specific costs and annual certifications on spending are required beginning in FY 2010.

**Safe Schools Levy – Maintenance of Effort (MOE)** – Beginning in FY 2010, districts are required to maintain effort at FY 2009 levels for licensed school support staff, including guidance counselors, nurses, social workers, and others from all funding sources other than the safe schools levy. This also modifies existing law requiring MOE to be calculated in terms of total spending. This provision adds a second option allowing districts to meet the MOE requirement in terms of number of full-time equivalent staff instead.

**Start of School Year Before Labor Day – Cooperating Districts** – The change codifies the existing practice of allowing school districts that have entered pairing and sharing agreements to adjust their calendars to accommodate a school construction project in one of the cooperating districts.

**Wind Energy Conversion Systems** – Authorizes a school board to become a partner, member, or shareholder in a company that is formed for the sole purpose of constructing, acquiring, owning, or financing a wind energy conversion system. Prohibits a school board from selling, transmitting or distributing electrical energy at retail.

**Equalization Factors** – Directs the commissioner to adjust the equalizing factors in statute for changes enacted by the legislature to the definition of referendum market value. This would neutralize the effect of a tax base change on school district aid and levy revenues.

**Telecommunications/Internet Access Equity Aid** – Clarifies that intermediate school districts are eligible to receive telecommunications/internet access equity aid. Appropriates \$3.75 million for equity in telecommunications access aid for FY 2010 and for FY 2011 (versus \$8.7 million in FY 2009).

**Review and Comment** – Several changes enacted affecting review and comment, including an increase in the cap on school construction projects that are subject to review and comment by the commissioner of education from \$500,000 to \$1.4 million for all school districts except those with outstanding capital loans.

**Notification of Resident District** – Removes language in statute holding nonresident districts liable for tuition for not notifying the district of residence that they are serving a nonresident pupil.

**Pay Differential of Reserve on Active Duty** – Clarifies payment of a pay differential for school district employees who are ordered into active military service.

**Charter Schools** – Makes numerous revisions with a focus on increased accountability to state charter school laws (Minnesota Statutes, Sections 124D.10 and 124D.11), including those recommended by the Office of the Legislative Auditor in its 2008 report.

**Background Check Required** – Allows a school hiring authority to pay the costs of conducting a discretionary criminal history background check on school volunteers, independent contractors, and student employees.

**Contracting Threshold Limits** – Effective August 1, 2008 the requirement to obtain sealed bids on contracts is increased from \$50,000 to \$100,000. The thresholds for contracts that require a sealed bid or by direct negotiation after receiving two or more quotes is increased from the current law on those estimated between \$10,000 and \$50,000 to \$25,000 and \$100,000. The current law for a contract to be made either upon quotation or in the open market is increased for contracts estimated to be of \$10,000 or less to \$25,000 or less.

**Other Post-Employment Benefit (OPEB) Bonding and Levies** – New legislation approved in 2009 impacted existing legislation regarding OPEB in the following ways:

- Clarifies that districts may only levy for costs of employees who retired between July 1, 1992, and July 1, 1998, if the district has a sunset clause in their current bargaining agreement.
- Creates a new levy for districts to fund annual costs associated with OPEB expenses conditional on certain requirements, including a sunset clause in effect. Limits the total amount of this new levy to not more the \$9.242 million for taxes payable in 2010, \$29.863 million for taxes payable in 2011, and an amount equal to the previous year's levy plus \$14 million for taxes payable in 2012 and later.
- Amends existing statutes to require voter approval for any bonds to pay OPEB issued after October 1, 2009.

**Accounting for Separation and Retirement Benefits** – Clarifies accounting requirements for reserved and designated for separation and retirement benefits with the following:

- Designated for separation and retirement benefit account includes compensated absences, termination benefits, pension benefits, and OPEB not accounted for elsewhere.
- Designated account will no longer be limited to 50 percent of the amount necessary to meet obligations for the portion of severance pay that constitutes compensation for accumulated sick leave.
- MDE will eliminate the reserve for severance account beginning with FY 2010 reporting.

**Form of Budget Notification** – Allows districts to publish a summary of its budget information in the newspaper instead of publishing the full document. The district is required to publish the full document on its website.