

Independent School District 199 Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2010



COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2010

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

INDEPENDENT SCHOOL DISTRICT NO. 199

Table of Contents

	Page
INTRODUCTORY SECTION	
Letter of Transmittal	i–viii
Organizational Chart	ix
School Board and Administration	x
ASBO Certificate of Excellence	xi
FINANCIAL SECTION	
INDEPENDENT AUDITOR’S REPORT	1–2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3–13
BASIC FINANCIAL STATEMENTS	
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	27–49
REQUIRED SUPPLEMENTARY INFORMATION	
Schedules of Funding Progress	
Other Post-Employment Benefits Plan	50
Pension Benefits Plan	50
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES	
Nonmajor Governmental Funds	
Combining Balance Sheet	51
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	52
General Fund	
Comparative Balance Sheet	53
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	54–56

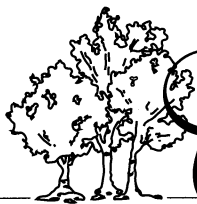
INDEPENDENT SCHOOL DISTRICT NO. 199

Table of Contents (continued)

	Page
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES (CONTINUED)	
Food Service Special Revenue Fund	
Comparative Balance Sheet	57
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	58
Community Service Special Revenue Fund	
Comparative Balance Sheet	59
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	60
Capital Projects – Building Construction Fund	
Comparative Balance Sheet	61
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	62
Debt Service Fund	
Comparative Balance Sheet	63
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	64
Internal Service Funds	
Combining Statement of Net Assets	65
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	66
Combining Statement of Cash Flows	67
 STATISTICAL SECTION (UNAUDITED)	
Net Assets by Component	68–69
Changes in Net Assets	70–71
Governmental Activities Tax Revenues by Source and Levy Type	72
Fund Balances of Governmental Funds	73–74
Changes in Fund Balances of Governmental Funds	75–76
General Governmental Tax Revenues by Source and Levy Type	77
Tax Capacities and Estimated Market Values	78–79
Property Tax Rates – Direct and Overlapping Governments	80
Principal Taxpayers	81–82
Property Tax Levies and Receivables	83–84
Outstanding Debt by Type	85
Ratio of Net General Obligation Bonded Debt to Tax Capacity and Net General Obligation Bonded Debt per Capita	86–87
Direct and Overlapping Debt	88
Legal Debt Margin Information	89–90
Demographic and Economic Statistics	91
Principal Employers	92–93
Employees by Classification	94
Operating Indicators – Standardized Testing and Graduation Rates	95
School Facilities	96
Expenditures per Student (Average Daily Membership)	97–98
Demographic Statistics – Student Enrollment	99
Food Service Meals Served and Pricing	100

SECTION I

INTRODUCTORY SECTION



Inver Grove Heights

Community Schools

Independent School District 199

October 29, 2010

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

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, 2010 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, 2010 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, 2010 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 3,859 students for the 2009–2010 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:

- Hilltop Elementary was one of nine schools in Minnesota to be named a 2009 Governor’s Fit School.
- The varsity girls’ basketball team won the Simley Invitational over the holiday break. The team defeated North Branch 49–42 in the championship game.
- The girls’ hockey team won first place at the Schwan’s Cup tournament at the U of M’s Ridder Arena.
- Vincent Richardson participated in the State Track and Field competition in the 110-meter hurdles and 300-meter hurdles.
- John Atkins, a junior at Simley High School, was selected to PARADE magazine’s All-American High School Service Team.
- The Simley Spartan Choir sang the Star Spangled Banner before a game at Target Field.
- Caroline Labat and Jonathan Nath were Simley’s co-Valedictorians.
- Simley High School was named one of Newsweek magazine’s “Best High Schools in America” for the third consecutive year.
- Hilltop Elementary School reduced energy use by approximately 30 percent during the first quarter of 2010, saving the school \$11,000.
- Qwest awarded the District with a Teachers and Technology grant that will help expand the use of technology at the elementary level.
- More than 10 professionals visited with students at Inver Grove Heights Middle School to describe their jobs during Career Day.
- Four Simley wrestlers were named Guillotine Academic All-State wrestlers. Kurtis Julson and Tommy Glenn were selected as first team members, and Dylan Wright and Dan Dick were honored with a third team selection.
- One hundred and twenty-two students participated in Simley’s blood drive.
- Simley High School senior Eleanor Pearson was awarded a corporate-sponsored National Merit Scholarship.
- Freshman Kaila Lavoie was selected as a recipient of the Congress Bundestag Youth Exchange Scholarship. She is studying in Germany during the entire 2010–2011 school year.
- Simley High School’s student council advisor, Catherine Ford, was named the Capital Division’s Advisor of the Year.
- *Let’s Dish* restaurant named Natalie Giese Teacher of the Year.
- A group of students from Salem Hills Elementary finished in first place at the Regional Math Masters of Minnesota Challenge. Team members were Kendra Sandkamp, Ben Flanagan, Olivia Ahern, Reed Boucher, and Arunima Bhattacharya.
- Pine Bend Elementary School’s Club de Español (Spanish Club) hosted a Cinco de Mayo celebration.

- Students from Inver Grove Heights Middle School and Simley High School attended the Festival of Nations at the St. Paul RiverCenter.
- Salem Hills Elementary School partnered with the City of Inver Grove Heights to create a community garden.
- Inver Grove Heights Middle School's Destination ImagiNation team captured first place honors at the state competition.
- Pine Bend Elementary raised the most money in the state for Jump Rope for Heart.
- Janelle Jackson, Briana Olson, and Marissa Trudeau all had pieces of art on display in the Les Farrington Best 100 Art Show in St. Paul.
- Jon and Sarah Nath were selected "Best of Site" at the Minnesota State High School League Region 3AA Solo and Ensemble music competition.
- Students from Simley, Inver Grove Heights Middle School, and Salem Hills participated in an H2O for Life water walk to raise money to benefit a school in Guatemala.
- Inver Grove Heights Middle School science teacher Dan Gaisbauer was selected as KS95's Teacher of the Week.
- The Simley wrestling team won its third consecutive state championship.
- Simley's boys swimming and diving team finished second at state.
- Simley's boys soccer team placed third at state.
- Dr. Dan Glenn was awarded the section 4AA assistant wrestling coach of the section.
- Deana Walsh was named the State Class A Gymnastics Coach of the Year.
- Noel Quinn was named the section Boys Soccer Coach of the Year.
- Lynn Newton was named the State Class A Swimming and Diving Coach of the Year.
- Jim and Will Short were named the State Wrestling Coaches of the Year.
- Hilltop Elementary celebrated Read Across America Day with *The Cat in the Hat*.
- Students throughout the District assisted with Haiti earthquake relief by packaging meals for children abroad at Feed My Starving Children.
- The District hosted "Internet and Cell Phone Safety Night."
- The Simley girls' volleyball team was awarded a gold academic team award from the Minnesota State High School Coaches Association for posting a collective GPA higher than 3.6. The girls' soccer team received a silver academic award.
- Hilltop Elementary received a visit from the Minnesota Zoomobile.
- Pine Bend music teacher Micah Klotz returned from a tour in Iraq.
- Hilltop Elementary School's fifth-graders participated in a kindness retreat with Simley seniors.
- Natalie Walseth was named Simley's Athena Award winner, awarded to the best female athlete in the school.
- Natalie Walseth scored her 1,000th basketball point, joining only a handful of other girls who have accomplished that feat.
- Eighth-grader Samantha Tinucci won the Inver Grove Heights Middle School Geography Bee.
- The Saint Paul Area Council of Churches honored Clayton Short, a senior at Simley High School, as an emerging leader in the community at its Martin Luther King, Jr. Day breakfast.
- Senior Jonathan Nath was selected to the University of Minnesota's High School Honor Band.
- Students at Salem Hills participated in student-led conferences.
- A Spanish-speaking only luncheon via videoconference took place between students at Pine Bend Elementary and Salem Hills Elementary.
- Hilltop Music Teacher Steve Vogel was published in *Music K-8* magazine.
- Jacob Elafandi won the Inver Grove Heights Middle School spelling bee.
- Seventh-graders learned CPR and AED procedures.
- Simley students donated more than 1,700 articles of clothing to Neighbors, Inc. during charity week. Middle School students collected nearly 600 pounds of food to donate.
- Ecolab workers assisted students with various science projects at Pine Bend Elementary.
- Action-research project involving iPods started at the elementary level. The iPods were used to increase reading fluency.

- Eighth-grader Indrasari Mursid had an essay featured in the *Pioneer Press*. The topic was “What is it like being a young American in 2010?”
- EMID programs, Lovin’ the Skin I’m In and Quest, began at Simley High School.
- Project Lead the Way was introduced to seventh-graders.
- Pine Bend Elementary students gathered school supplies to donate to schools in Guatemala.

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. Recent economic conditions have resulted in challenges for many residents of the District. In the 2009–2010 school year the District served to its students 26,860 more free lunches than the prior year, an increase of 24 percent.

Officials at the City of Inver Grove Heights anticipate that the city is poised for future residential and commercial development over the next decade due to the availability of nine square miles of developable land in the city's northwest region. To facilitate this development, the city is extending water and sewer service to the area in phases over the next several years. Income indices for the District exceed state medians but are average for the Twin Cities region.

The unemployment rate for Dakota County is currently 7.0 percent, which is an increase from a rate of 6.1 percent a year ago. This compares favorably to both state and national average unemployment rates of 7.3 percent and 9.7 percent, respectively.

Estimated taxable market value in the District decreased from \$2,910,481,100 to \$2,697,857,700; a decline of 7.31 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 \$5.8 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 CAP x 1.1774 Inflation = \$1,524). The referendum formula determines the amount of the referendum that is state aid as compared to local levy. For fiscal year 2011, 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 \$680 below the referendum cap established by the Minnesota Legislature. About 89 percent of this revenue is provided from property taxes. The District's budget reductions for fiscal year 2011 amounted to \$857,700. Due to declining enrollment and increasing costs, the District is anticipating a \$1 million shortfall for fiscal year 2012.

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 \$196,933 as compared to \$542,895 for the previous year. Interest rates decreased from an average of 1.72 percent in fiscal year 2009 to an average rate of 0.38 percent in fiscal year 2010. The bulk of the investment earnings (83 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, 2010, the unreserved fund balance in the General Fund represented 16.4 percent of annual expenditures or about eight weeks of operations, assuming level spending throughout the year.

RISK MANAGEMENT

The District contracts with HealthPartners 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 120 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

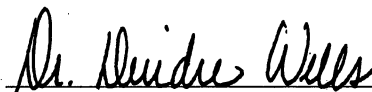
The District was one of the few of the 344 school districts in Minnesota to be awarded the ASBO Certificate of Excellence in Financial Reporting for the preparation and issuance of a high-quality CAFR for the fiscal year ending June 30, 2009. This was the fourth time the District submitted its CAFR for 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,



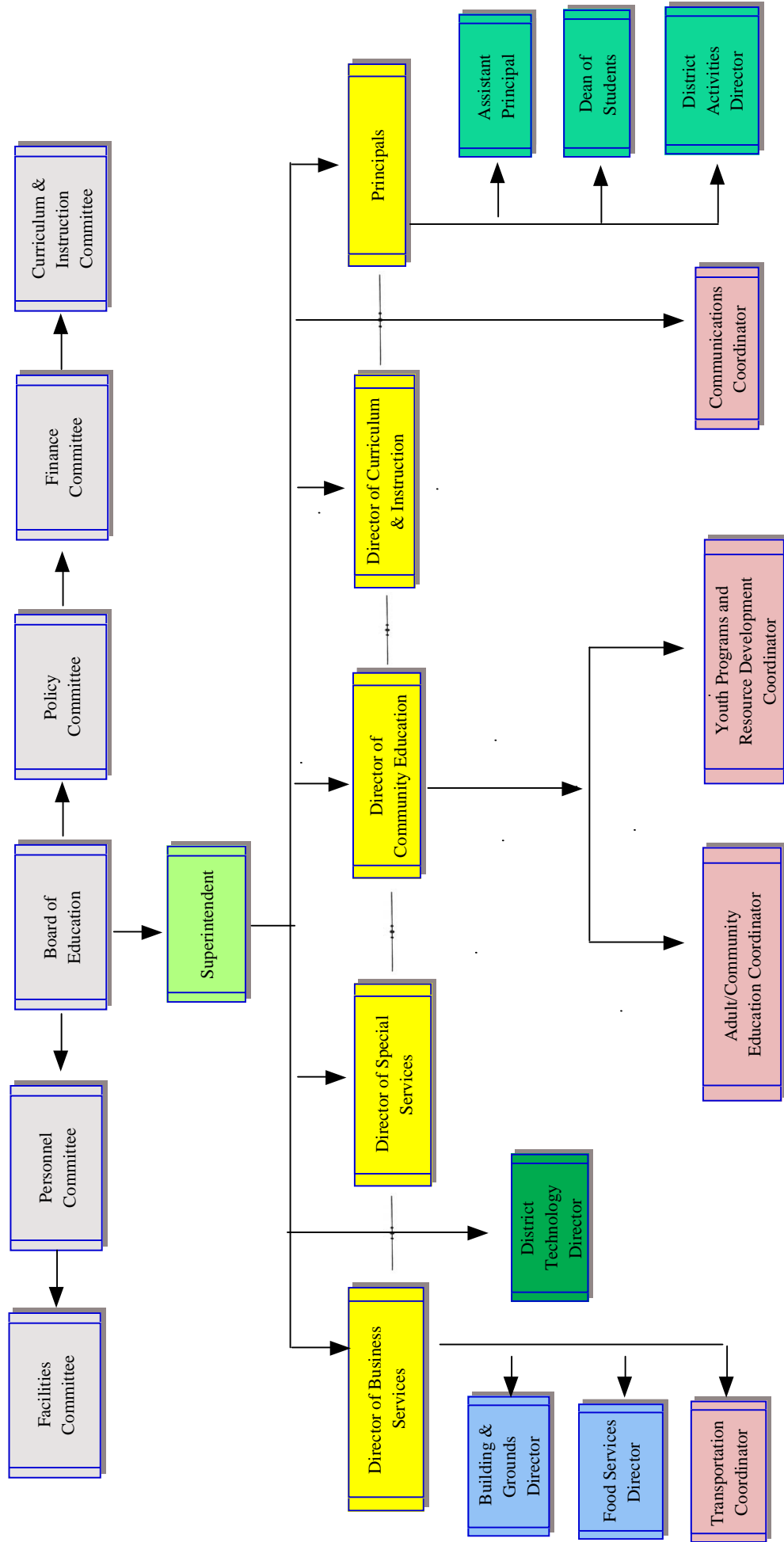
Dr. Deirdre Wells
Superintendent



Bruce Rimstad
Business Manager

Organizational Chart
ISD 199

Advisory



INDEPENDENT SCHOOL DISTRICT NO. 199

School Board and Administration
Year Ended June 30, 2010

SCHOOL BOARD

Position on School Board
During 2009–2010

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

ADMINISTRATION

Dr. Deirdre Wells	Superintendent
Bruce Rimstad	Business Manager

**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, 2009

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

Erin Green

President

John D. Russo

Executive Director

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, 2010, 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 financial statements for the year ended June 30, 2009, and in our report dated November 16, 2009, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, 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, 2010, 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.

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, 2009, from which it was derived.

(continued)

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2010 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress for the Other Post-Employment Benefits Plan, and the Schedule of Funding Progress for the Pension Benefits Plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory and statistical sections 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, Radosevich & Co., P.A.

October 29, 2010

INDEPENDENT SCHOOL DISTRICT NO. 199

Management's Discussion and Analysis Fiscal Year Ended June 30, 2010

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, 2010. 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, 2010 by \$13,703,434 (net assets). The unrestricted portion of assets was \$5,311,127. The District also had \$3,382,349 of net assets available to meet its ongoing obligations, but restricted for specific uses. Total net assets increased by \$1,781,817 from current year activities.

At June 30, 2010, the District's governmental funds reported a combined ending fund balance of \$9,776,651, an increase of \$1,961,950 from the prior year. This increase was primarily the result of three major factors: 1) the final adopted General Fund budget had a positive balance of \$909,890; 2) an unexpected, higher than projected student enrollment produced an additional \$425,000 in General Fund revenue; and 3) federal revenue exceeded budget by \$579,644 due to increased federal stimulus funding under the American Recovery and Reinvestment Act (ARRA) available in fiscal 2010.

The District's General Fund, its primary operating fund, closed the fiscal year with an unreserved fund balance of \$5,774,808, which represents approximately 15.8 percent of annual General Fund expenditures, based on fiscal 2010 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:

Table 1		
Summary of Net Assets		
as of June 30, 2010 and 2009		
	<u>2010</u>	<u>2009</u>
Assets		
Current and other assets	\$ 34,862,741	\$ 33,428,669
Capital assets, net of depreciation	<u>41,770,830</u>	<u>42,930,064</u>
Total assets	<u>\$ 76,633,571</u>	<u>\$ 76,358,733</u>
Liabilities		
Current and other liabilities	\$ 15,308,442	\$ 15,619,699
Long-term liabilities, including due within one year	<u>47,621,695</u>	<u>48,817,417</u>
Total liabilities	<u>\$ 62,930,137</u>	<u>\$ 64,437,116</u>
Net assets		
Invested in capital assets, net of related debt	\$ 5,009,958	\$ 5,096,314
Restricted	3,382,349	2,367,912
Unrestricted	<u>5,311,127</u>	<u>4,457,391</u>
Total net assets	<u>\$ 13,703,434</u>	<u>\$ 11,921,617</u>

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 \$1,781,817 during the year ended June 30, 2010. As presented in the table above, restricted net assets and the unrestricted portion of net assets experienced an increase over the prior year, while invested in capital assets, net of related debt decreased due to depreciation.

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

	<u>2010</u>	<u>2009</u>
Revenues		
Program revenues		
Charges for services	\$ 3,358,561	\$ 3,547,574
Operating grants and contributions	6,286,933	5,642,691
General revenues		
Property taxes	10,611,634	10,229,785
General grants and aids	24,903,135	24,939,865
Other	715,133	953,432
Total revenues	<u>45,875,396</u>	<u>45,313,347</u>
Expenses		
Administration	1,410,292	1,568,100
District support services	996,250	1,028,899
Elementary and secondary regular instruction	16,389,973	16,499,940
Vocational education instruction	389,560	392,126
Special education instruction	7,313,624	7,398,059
Instructional support services	2,361,213	2,541,338
Pupil support services	3,293,788	3,189,324
Sites and buildings	4,511,048	5,583,255
Fiscal and other fixed cost programs	86,525	80,594
Food service	1,716,313	1,690,081
Community service	2,240,630	2,120,802
Unallocated depreciation	1,130,667	1,137,350
Interest and fiscal charges	2,253,696	1,931,424
Total expenses	<u>44,093,579</u>	<u>45,161,292</u>
Change in net assets	<u>\$ 1,781,817</u>	<u>\$ 152,055</u>

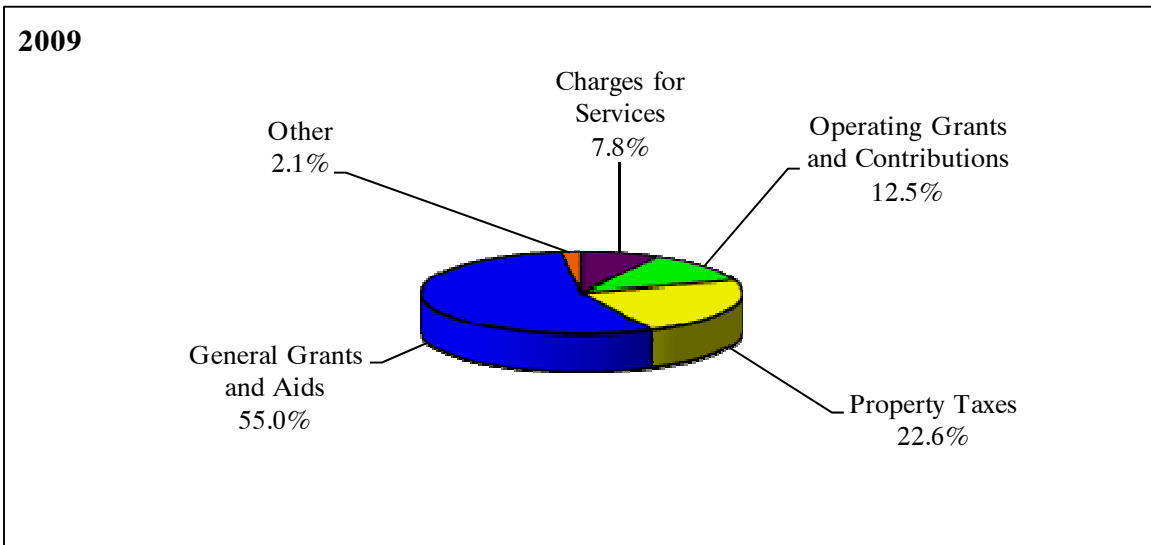
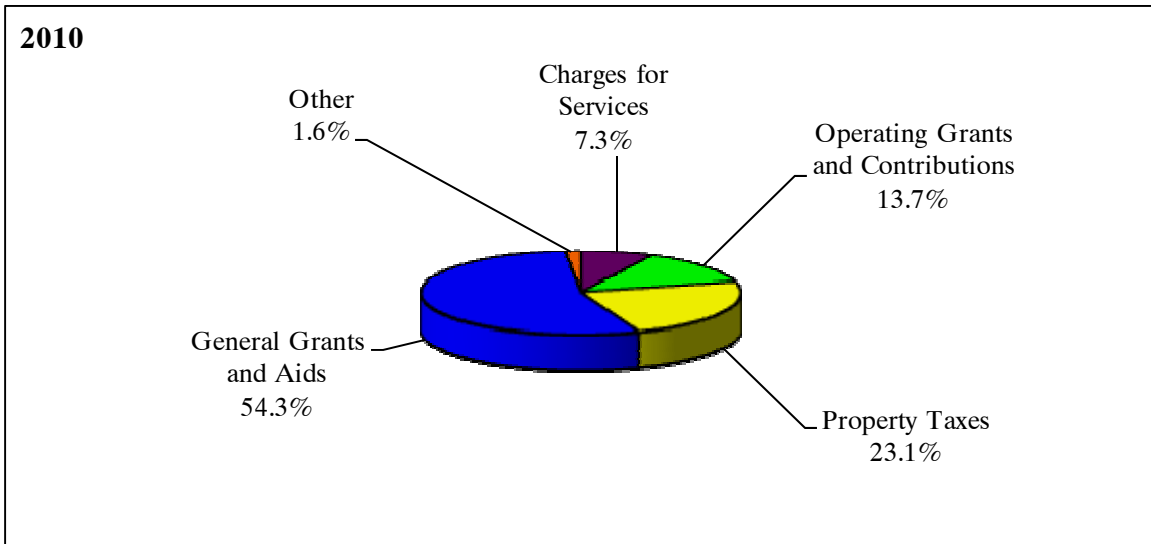
This statement is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

Revenues in fiscal year 2010 increased \$562,049. Most of the increase was in operating grants and contributions which were \$644,242 more than last year, mainly due to the additional federal ARRA grant entitlements earned this year. Property taxes also increased by \$381,849 due to an increase in debt service levies, including a new levy for the District's taxable other post-employment benefit (OPEB) bonds issued in 2009.

Total expenses for fiscal year 2010 decreased by \$1,067,713 or 2.4 percent from the previous year. The most significant change was a decrease of \$1,072,207 in sites and buildings program costs, as the District had a number of significant non-capitalized repair and maintenance projects in the prior year. Conversely, the District's interest and fiscal charges expense increased by \$322,272 due to the District making the first interest payments on its \$9.22 million taxable OPEB bonds issued in 2009.

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

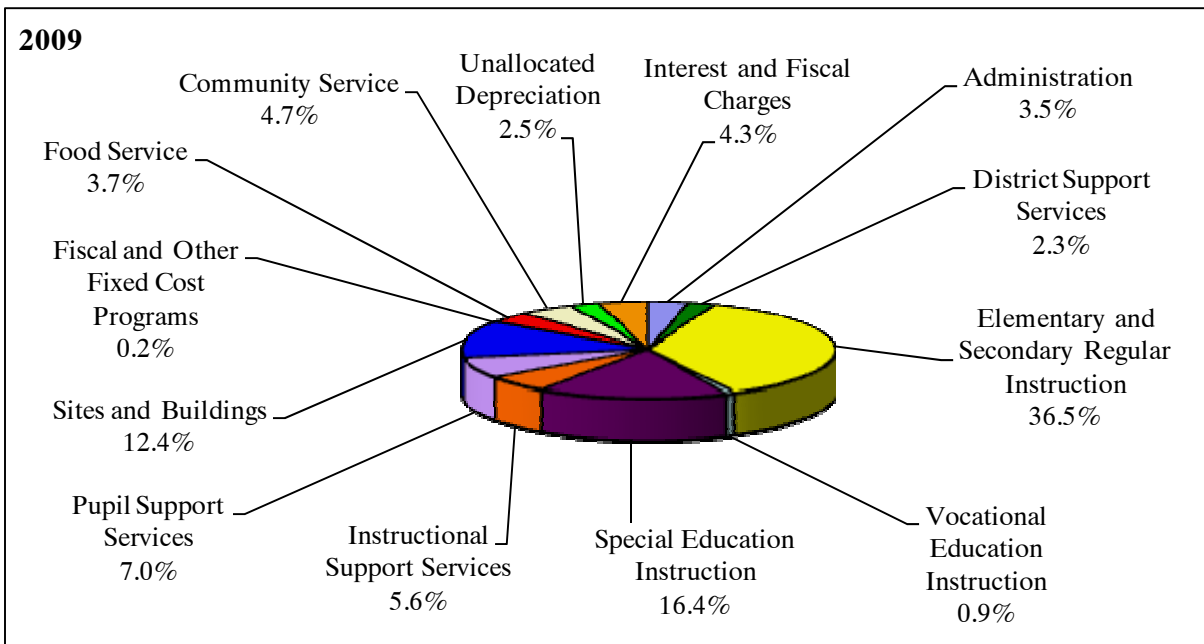
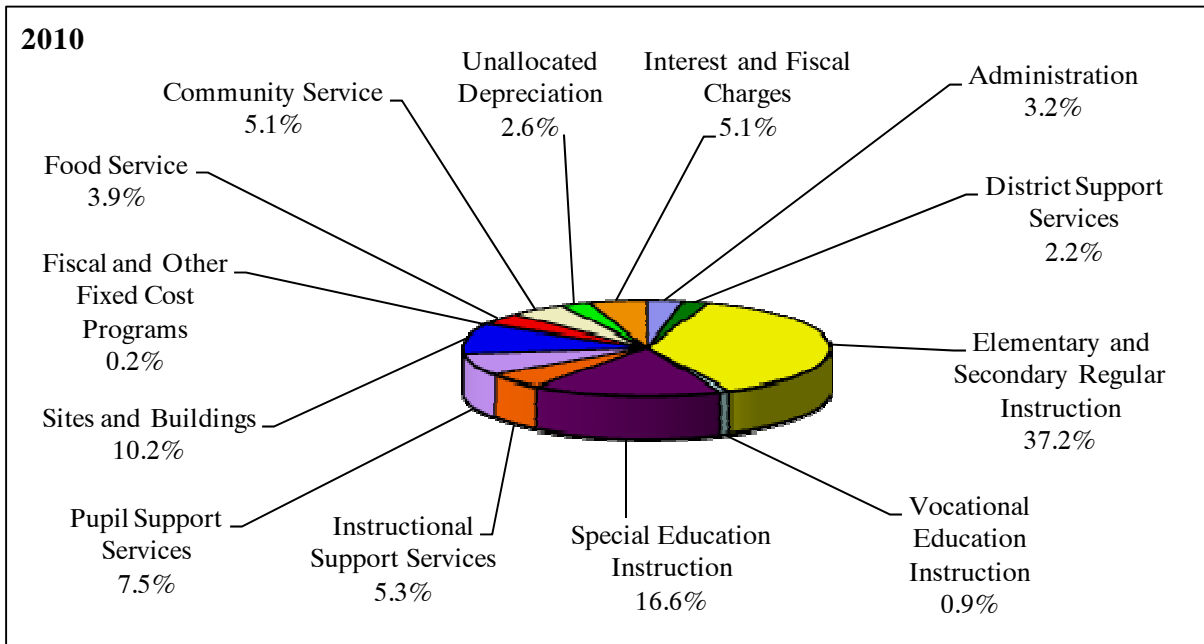
Figure A – Sources of Revenue for Fiscal Years 2010 and 2009



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.

Revenues from property taxes increased due to the levy increases discussed earlier. Operating grants and contributions were higher in fiscal 2010 due mainly to the increased federal ARRA stimulus funding available in fiscal 2010.

Figure B – Expenses for Fiscal Years 2010 and 2009



The District's expenses are predominately related to educating students. Approximately 67.5 percent of the District's 2010 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:

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>Total Percent Change</u>
Major funds				
General	\$ 7,920,440	\$ 5,904,725	\$ 2,015,715	34.1%
Capital Projects –				
Building Construction	166,822	193,387	(26,565)	(13.7%)
Debt Service	623,086	590,200	32,886	5.6%
Nonmajor funds				
Food Service Special Revenue	941,688	781,891	159,797	20.4%
Community Service Special Revenue	124,615	344,498	(219,883)	(63.8%)
Total governmental funds	<u>\$ 9,776,651</u>	<u>\$ 7,814,701</u>	<u>\$ 1,961,950</u>	25.1%

The increase in the General Fund was attributable to: 1) the adopted budget having a positive balance of \$909,890, 2) the budget being under spent by \$120,471, 3) the District's enrollment being higher than expected, and 4) increased federal stimulus funding (ARRA).

Analysis of the General Fund

Table 4 summarizes the amendments to the General Fund budget:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase (Decrease)</u>	<u>Percent Budget</u>
Revenue	<u>\$ 37,861,312</u>	<u>\$ 36,995,836</u>	<u>\$ (865,476)</u>	<u>(2.3%)</u>
Expenditures	<u>\$ 38,329,520</u>	<u>\$ 36,638,261</u>	<u>\$ (1,691,259)</u>	<u>(4.4%)</u>
Other sources	<u>\$ 552,315</u>	<u>\$ 552,315</u>	<u>\$ –</u>	<u>–</u>

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 decreased its budgeted revenues and expenditures in the General Fund in fiscal 2010 to more accurately reflect the amount of federal awards entitlements used, and for retiree insurance benefits to be paid from the OPEB revocable trust established with the issuance of OPEB bonds in fiscal year 2009.

Table 5 summarizes the operating results of the General Fund:

	<u>2010 Actual</u>	<u>Over (Under) Final Budget</u>		<u>Over (Under) Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Revenue	\$ 38,373,601	\$ 1,377,765	3.7%	\$ (35,221)	(0.1%)
Expenditures	36,517,790	\$ (120,471)	(0.3%)	\$ (9,699,062)	(21.0%)
Other financing sources (uses)	<u>159,904</u>	\$ (392,411)	(71.0%)	\$ (8,733,924)	(98.2%)
Net change in fund balances	<u><u>\$ 2,015,715</u></u>				

General Fund revenues exceeded the final budget for fiscal year 2010 by \$1,377,765. State aid revenue exceeded budget by \$424,913, which was attributable to the higher enrollment. Federal revenue exceeded budget by \$579,644 due to increased federal stimulus funding under the ARRA available in fiscal 2010. Revenue from other local sources, including gifts, reimbursements from other districts, and medical assistance reimbursements, were \$335,061 higher than budget.

General Fund expenditures and other financing sources both decreased significantly in 2010 due to the District issuing \$9.2 million of taxable OPEB bonds in 2009. The proceeds of these bonds were allocated to the District's General Fund and special revenue funds in 2009. The contributions were reflected as employee benefits expenditures in the governmental fund financial statements. Expenditures were under budget due to salaries coming in lower than projected.

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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>	Increase (Decrease)
Land	\$ 421,200	\$ 421,200	\$ -
Buildings and improvements	56,212,325	56,212,325	-
Furniture and equipment	2,192,744	2,161,858	30,886
Less accumulated depreciation	<u>(17,055,439)</u>	<u>(15,865,319)</u>	<u>(1,190,120)</u>
Total	<u>\$ 41,770,830</u>	<u>\$ 42,930,064</u>	<u>\$ (1,159,234)</u>
Depreciation expense	<u>\$ 1,232,670</u>	<u>\$ 1,255,170</u>	<u>\$ (22,500)</u>

There was little change in the District's capital assets in 2010, other than the usual depreciation.

Long-Term Liabilities

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

	<u>2010</u>	<u>2009</u>	Increase (Decrease)
General obligation bonds payable	\$ 45,380,000	\$ 46,530,000	\$ (1,150,000)
Special assessments payable	131,250	143,750	(12,500)
Capital leases payable	469,622	380,000	89,622
Net OPEB obligation	81,849	31,808	50,041
Net pension obligation	98,062	278,010	(179,948)
Severance payable	<u>1,460,912</u>	<u>1,453,849</u>	<u>7,063</u>
Total	<u>\$ 47,621,695</u>	<u>\$ 48,817,417</u>	<u>\$ (1,195,722)</u>

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 2010.

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)

District’s market value	\$ 2,697,857,700
Limit rate	<u>15.0%</u>
Legal debt limit	<u><u>\$ 404,678,655</u></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 (\$5,124) for all Minnesota school districts was not increased in fiscal 2010 and will remain at this level for fiscal 2011. The state of Minnesota will begin its next biennium budget period (2012–2014) with a projected deficit of \$5.8 billion. 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 school districts bordering the District all have more excess operating referendum dollars, and two of them are going to ask their constituents/taxpayers for additional excess operating dollars in November 2010. If “increased excess operating referendum dollars” equals “increased quality educational program offerings” and if the two neighboring school districts are successful in their November 2010 election, then it will become even more difficult in the future for the District to compete with these neighboring school districts.

The District has undertaken an Elementary School Study in fiscal year 2010–2011. The purpose of the study is to improve the educational delivery system and improve student achievement.

The large annual increases in health insurance premiums have finally stabilized. In 2010–2011 the District will receive no increase in health insurance premiums and in 2011–2012 the premiums will be capped at a 3 percent increase.

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.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Net Assets
as of June 30, 2010
(With Partial Comparative Information as of June 30, 2009)

	Governmental Activities	
	2010	2009
Assets		
Cash and temporary investments	\$ 10,011,449	\$ 12,608,193
Receivables		
Current taxes	6,303,201	6,030,816
Delinquent taxes	149,784	147,538
Accounts and interest	76,402	93,963
Due from other governmental units	8,917,208	4,726,794
Inventory	56,013	69,088
Prepaid items	90,303	84,033
Unamortized discounts and issue costs	209,987	230,637
Restricted assets – temporarily restricted		
Cash and investments for other post-employment benefits	9,048,394	9,437,607
Capital assets		
Not depreciated	421,200	421,200
Depreciated, net	41,349,630	42,508,864
Total capital assets, net of depreciation	<u>41,770,830</u>	<u>42,930,064</u>
Total assets	<u>\$ 76,633,571</u>	<u>\$ 76,358,733</u>
Liabilities		
Salaries and compensated absences payable	\$ 1,613,803	\$ 1,660,986
Accounts and contracts payable	1,922,462	2,419,832
Accrued interest payable	946,497	1,001,618
Due to other governmental units	105,284	165,212
Property taxes levied for subsequent year	10,068,231	9,679,101
Unearned revenue	61,850	63,426
Unamortized premiums	590,315	629,524
Long-term liabilities		
Due within one year	1,638,917	1,604,482
Due in more than one year	45,982,778	47,212,935
Total long-term liabilities	<u>47,621,695</u>	<u>48,817,417</u>
Total liabilities	62,930,137	64,437,116
Net assets		
Invested in capital assets, net of related debt	5,009,958	5,096,314
Restricted for		
Capital asset acquisition	2,147,385	694,877
Other post-employment benefits	–	217,607
Other purposes	1,234,964	1,455,428
Unrestricted	5,311,127	4,457,391
Total net assets	<u>13,703,434</u>	<u>11,921,617</u>
Total liabilities and net assets	<u>\$ 76,633,571</u>	<u>\$ 76,358,733</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Activities
 Year Ended June 30, 2010
 (With Partial Comparative Information for the Year Ended June 30, 2009)

Functions/Programs	2010			2009	
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	\$ 1,410,292	\$ -	\$ -	\$ (1,410,292)	\$ (1,568,100)
District support services	996,250	-	-	(996,250)	(1,028,899)
Elementary and secondary regular instruction	16,389,973	144,052	-	(16,245,921)	(16,342,544)
Vocational education instruction	389,560	-	-	(389,560)	(392,126)
Special education instruction	7,313,624	429,820	4,805,658	(2,078,146)	(2,531,689)
Instructional support services	2,361,213	-	291,037	(2,070,176)	(2,242,879)
Pupil support services	3,293,788	147,858	178,246	(2,967,684)	(2,844,368)
Sites and buildings	4,511,048	161,396	-	(4,349,652)	(5,407,413)
Fiscal and other fixed cost programs	86,525	-	-	(86,525)	(80,594)
Food service	1,716,313	953,106	871,324	108,117	32,425
Community service	2,240,630	1,522,329	140,668	(577,633)	(496,066)
Unallocated depreciation	1,130,667	-	-	(1,130,667)	(1,137,350)
Interest and fiscal charges	2,253,696	-	-	(2,253,696)	(1,931,424)
Total governmental activities	\$ 44,093,579	\$ 3,358,561	\$ 6,286,933	(34,448,085)	(35,971,027)
General revenues					
Taxes					
Property taxes, levied for general purposes				6,928,603	7,349,291
Property taxes, levied for community service				322,935	215,590
Property taxes, levied for debt service				3,360,096	2,664,904
General grants and aids				24,903,135	24,939,865
Other general revenues				518,200	410,537
Investment earnings				196,933	542,895
Total general revenues				36,229,902	36,123,082
Change in net assets				1,781,817	152,055
Net assets – beginning				11,921,617	11,769,562
Net assets – ending				\$ 13,703,434	\$ 11,921,617

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Balance Sheet
Governmental Funds
as of June 30, 2010

(With Partial Comparative Information as of June 30, 2009)

	General Fund	Capital Projects – Building		Nonmajor Funds	Total Governmental Funds	
		Construction Fund	Debt Service Fund		2010	2009
Assets						
Cash and temporary investments	\$ 4,698,996	\$ 172,786	\$ 2,083,088	\$ 1,271,951	\$ 8,226,821	\$ 10,830,372
Receivables						
Current taxes	4,097,016	–	2,044,766	161,419	6,303,201	6,030,816
Delinquent taxes	102,174	–	44,018	3,592	149,784	147,538
Accounts and interest	48,973	–	–	27,429	76,402	93,963
Due from other governmental units	8,793,359	–	62,660	61,189	8,917,208	4,726,794
Inventory	–	–	–	56,013	56,013	69,088
Prepaid items	90,303	–	–	–	90,303	84,033
Total assets	\$ 17,830,821	\$ 172,786	\$ 4,234,532	\$ 1,581,593	\$ 23,819,732	\$ 21,982,604
Liabilities and Fund Balances						
Liabilities						
Salaries and compensated absences payable	\$ 1,576,594	\$ –	\$ –	\$ 37,209	\$ 1,613,803	\$ 1,660,986
Accounts and contracts payable	1,867,558	5,964	–	48,940	1,922,462	2,419,832
Due to other funds	119,457	–	–	2,210	121,667	31,808
Due to other governmental units	82,992	–	–	22,292	105,284	165,212
Property taxes levied for subsequent year	6,161,606	–	3,567,428	339,197	10,068,231	9,679,101
Deferred revenue – delinquent taxes	102,174	–	44,018	3,592	149,784	147,538
Unearned revenue	–	–	–	61,850	61,850	63,426
Total liabilities	9,910,381	5,964	3,611,446	515,290	14,043,081	14,167,903
Fund balances						
Reserved	2,145,632	–	–	117,264	2,262,896	1,446,322
Unreserved – designated	1,283,225	–	–	–	1,283,225	1,083,225
Unreserved – undesignated						
Reported in major funds	4,491,583	166,822	623,086	–	5,281,491	4,501,452
Reported in special revenue funds	–	–	–	949,039	949,039	783,702
Total fund balances	7,920,440	166,822	623,086	1,066,303	9,776,651	7,814,701
Total liabilities and fund balances	\$ 17,830,821	\$ 172,786	\$ 4,234,532	\$ 1,581,593	\$ 23,819,732	\$ 21,982,604

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Reconciliation of the Balance Sheet to the
Statement of Net Assets
as of June 30, 2010
(With Partial Comparative Information as of June 30, 2009)

	<u>2010</u>	<u>2009</u>
Total fund balances – governmental funds	\$ 9,776,651	\$ 7,814,701
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	58,826,269	58,795,383
Less accumulated depreciation	(17,055,439)	(15,865,319)
Long-term liabilities are included in net assets, but are excluded from fund balances until due and payable.		
General obligation bonds payable	(45,380,000)	(46,530,000)
Special assessments payable	(131,250)	(143,750)
Capital leases payable	(469,622)	(380,000)
Internal service funds are 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.		
	9,313,866	9,483,569
Accrued interest payable is included in net assets, but is excluded from fund balances until due and payable.		
	(946,497)	(1,001,618)
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.		
	(380,328)	(398,887)
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>149,784</u>	<u>147,538</u>
Total net assets – governmental activities	<u>\$ 13,703,434</u>	<u>\$ 11,921,617</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, 2010
 (With Partial Comparative Information for the Year Ended June 30, 2009)

	General Fund	Capital Projects –	Debt Service Fund	Nonmajor Funds	Total Governmental Funds	
		Building Construction Fund			2010	2009
Revenue						
Local sources						
Property taxes	\$ 6,932,013	\$ –	\$ 3,353,557	\$ 323,818	\$ 10,609,388	\$ 10,196,250
Investment earnings	18,880	598	1,889	5,657	27,024	162,672
Other	1,772,486	–	–	2,475,435	4,247,921	4,229,261
State sources	25,400,140	–	146,910	234,618	25,781,668	28,146,841
Federal sources	4,250,082	–	–	787,158	5,037,240	2,164,565
Total revenue	<u>38,373,601</u>	<u>598</u>	<u>3,502,356</u>	<u>3,826,686</u>	<u>45,703,241</u>	<u>44,899,589</u>
Expenditures						
Current						
Administration	1,381,411	–	–	–	1,381,411	1,950,035
District support services	982,611	–	–	–	982,611	1,160,932
Elementary and secondary regular instruction	16,383,527	–	–	–	16,383,527	21,084,417
Vocational education instruction	383,786	–	–	–	383,786	486,383
Special education instruction	7,159,504	–	–	–	7,159,504	9,038,200
Instructional support services	2,331,760	–	–	–	2,331,760	3,135,025
Pupil support services	3,259,511	–	–	–	3,259,511	3,633,832
Sites and buildings	4,468,467	–	–	–	4,468,467	5,440,052
Fiscal and other fixed cost programs	86,525	–	–	–	86,525	80,594
Food service	–	–	–	1,646,175	1,646,175	1,849,531
Community service	–	–	–	2,164,896	2,164,896	2,440,545
Capital outlay	–	27,163	–	79,536	106,699	2,162,373
Debt service						
Principal	72,782	–	1,150,000	–	1,222,782	1,172,424
Interest and fiscal charges	7,906	–	2,319,470	–	2,327,376	1,739,514
Total expenditures	<u>36,517,790</u>	<u>27,163</u>	<u>3,469,470</u>	<u>3,890,607</u>	<u>43,905,030</u>	<u>55,373,857</u>
Excess (deficiency) of revenue over expenditures	1,855,811	(26,565)	32,886	(63,921)	1,798,211	(10,474,268)
Other financing sources (uses)						
Debt issuance	–	–	–	–	–	9,220,000
Discount on debt issuance	–	–	–	–	–	(92,200)
Capital lease	149,904	–	–	–	149,904	380,000
Sale of capital assets	10,000	–	–	3,835	13,835	17,600
Total other financing sources (uses)	<u>159,904</u>	<u>–</u>	<u>–</u>	<u>3,835</u>	<u>163,739</u>	<u>9,525,400</u>
Net change in fund balances	2,015,715	(26,565)	32,886	(60,086)	1,961,950	(948,868)
Fund balances						
Beginning of year	<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>
End of year	<u>\$ 7,920,440</u>	<u>\$ 166,822</u>	<u>\$ 623,086</u>	<u>\$ 1,066,303</u>	<u>\$ 9,776,651</u>	<u>\$ 7,814,701</u>

See notes to basic financial statements

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, 2010

(With Partial Comparative Information for the Year Ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
Total net change in fund balances – governmental funds	\$ 1,961,950	\$ (948,868)
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	88,186	1,644,319
Depreciation expense	(1,232,670)	(1,255,170)
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. Only the sale proceeds are included in the change in fund balances.		
	(14,750)	(12,417)
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.		
	(149,904)	(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 funds is included in the governmental activities in the Statement of Activities.		
	(169,703)	9,217,942
Repayment of long-term debt principal does not effect the change in net assets; however, it reduces fund balances.		
General obligation bonds payable	1,150,000	1,000,000
Special assessments payable	12,500	12,500
Capital leases payable	60,282	159,924
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.		
	55,121	(263,725)
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.		
	18,559	164,015
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>2,246</u>	<u>33,535</u>
Change in net assets – governmental activities	<u>\$ 1,781,817</u>	<u>\$ 152,055</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 General Fund
 Year Ended June 30, 2010

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
Revenue				
Local sources				
Property taxes	\$ 6,887,746	\$ 6,862,746	\$ 6,932,013	\$ 69,267
Investment earnings	100,000	50,000	18,880	(31,120)
Other	1,343,735	1,437,425	1,772,486	335,061
State sources	25,100,127	24,975,227	25,400,140	424,913
Federal sources	4,429,704	3,670,438	4,250,082	579,644
Total revenue	<u>37,861,312</u>	<u>36,995,836</u>	<u>38,373,601</u>	<u>1,377,765</u>
Expenditures				
Current				
Administration	1,570,116	1,521,991	1,381,411	(140,580)
District support services	1,179,815	1,127,315	982,611	(144,704)
Elementary and secondary regular instruction	15,497,148	16,357,591	16,383,527	25,936
Vocational education instruction	171,661	171,661	383,786	212,125
Special education instruction	7,953,129	6,863,346	7,159,504	296,158
Instructional support services	2,612,460	2,570,275	2,331,760	(238,515)
Pupil support services	3,207,304	3,199,229	3,259,511	60,282
Sites and buildings	4,744,407	4,548,578	4,468,467	(80,111)
Fiscal and other fixed cost programs	1,203,480	88,275	86,525	(1,750)
Debt service				
Principal	160,000	160,000	72,782	(87,218)
Interest and fiscal charges	30,000	30,000	7,906	(22,094)
Total expenditures	<u>38,329,520</u>	<u>36,638,261</u>	<u>36,517,790</u>	<u>(120,471)</u>
Excess (deficiency) of revenue over expenditures	(468,208)	357,575	1,855,811	1,498,236
Other financing sources				
Capital lease	—	—	149,904	149,904
Sale of capital assets	—	—	10,000	10,000
Transfer in	552,315	552,315	—	(552,315)
Total other financing sources	<u>552,315</u>	<u>552,315</u>	<u>159,904</u>	<u>(392,411)</u>
Net change in fund balances	<u>\$ 84,107</u>	<u>\$ 909,890</u>	2,015,715	<u>\$ 1,105,825</u>
Fund balances				
Beginning of year			<u>5,904,725</u>	
End of year			<u>\$ 7,920,440</u>	

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Net Assets
 Internal Service Funds
 as of June 30, 2010
 (With Partial Comparative Information as of June 30, 2009)

	<u>2010</u>	<u>2009</u>
Current assets		
Cash and temporary investments	\$ 1,784,628	\$ 1,777,821
Due from other funds	121,667	31,808
Total current assets	<u>1,906,295</u>	<u>1,809,629</u>
Restricted assets – temporarily restricted		
Cash and cash equivalents	3,801,182	5,806,336
Investments	5,247,212	3,631,271
Total restricted assets – temporarily restricted	<u>9,048,394</u>	<u>9,437,607</u>
 Total assets	 10,954,689	 11,247,236
Liabilities		
Current liabilities		
Severance benefits payable	90,023	441,982
Long-term liabilities		
Severance benefits payable	1,370,889	1,011,867
Net OPEB obligation	81,849	31,808
Net pension obligation	98,062	278,010
Total long-term liabilities	<u>1,550,800</u>	<u>1,321,685</u>
Total liabilities	1,640,823	1,763,667
 Net assets		
Restricted for OPEB liabilities	9,088,212	9,437,607
Unrestricted	225,654	45,962
Total net assets	<u>\$ 9,313,866</u>	<u>\$ 9,483,569</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, 2010
 (With Partial Comparative Information for the Year Ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
Operating revenue		
Contributions from governmental funds	\$ 909,580	\$ 10,482,306
Operating expenses		
Severance benefits	67,897	95,482
Pension benefits	253,595	622,702
Other post-employment benefits	927,700	926,403
Total operating expenses	<u>1,249,192</u>	<u>1,644,587</u>
Operating income	(339,612)	8,837,719
Nonoperating revenue		
Investment earnings	<u>169,909</u>	<u>380,223</u>
Change in net assets	(169,703)	9,217,942
Net assets		
Beginning of year	<u>9,483,569</u>	<u>265,627</u>
End of year	<u>\$ 9,313,866</u>	<u>\$ 9,483,569</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Cash Flows
 Internal Service Funds
 Year Ended June 30, 2010
 (With Partial Comparative Information for the Year Ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Receipts from assessments made to governmental funds	\$ 819,721	\$ 10,450,498
Benefit payments	<u>(1,372,036)</u>	<u>(1,363,065)</u>
Net cash provided (used) by operating activities	(552,315)	9,087,433
Cash flows from investing activities		
Purchase of investments	(1,615,941)	(3,635,082)
Interest on investments	<u>169,909</u>	<u>384,035</u>
Net cash provided (used) by investing activities	<u>(1,446,032)</u>	<u>(3,251,047)</u>
Net increase (decrease) in cash and cash equivalents	(1,998,347)	5,836,386
Cash and cash equivalents		
Beginning of year	<u>7,584,157</u>	<u>1,747,771</u>
End of year	<u>\$ 5,585,810</u>	<u>\$ 7,584,157</u>
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating income (loss)	\$ (339,612)	\$ 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	(89,859)	(31,808)
Net pension obligation	(179,948)	278,010
Net OPEB obligation	50,041	31,808
Severance benefits payable	<u>7,063</u>	<u>(28,296)</u>
Net cash provided (used) by operating activities	<u>\$ (552,315)</u>	<u>\$ 9,087,433</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Fiduciary Net Assets
as of June 30, 2010

	<u>Employee Benefit Trust Fund</u>	<u>BEST Foundation Agency Fund</u>
Assets		
Cash and temporary investments	\$ 47,295	<u>\$ 1,128,106</u>
Liabilities		
Due to plan participants	35,063	\$ -
Due to fiscal agent	-	46,630
Due to BEST Foundation	-	<u>1,081,476</u>
Total liabilities	<u>35,063</u>	<u>\$ 1,128,106</u>
Net assets		
Held in trust for flexible benefits and other purposes	<u>\$ 12,232</u>	

Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2010

	<u>Employee Benefit Trust Fund</u>
Additions	
Plan member contributions	\$ 267,499
Deductions	
Flexible benefits to plan members	<u>267,665</u>
Change in net assets	(166)
Net assets	
Beginning of year	<u>12,398</u>
End of year	<u>\$ 12,232</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Notes to Basic Financial Statements
June 30, 2010

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, 2010, the District paid TIES \$696,975 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 funds is charges to customers (other district funds) for services. Operating expenses for the internal service funds 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 budget amendments mid-year, which decreased total appropriations in the General Fund by \$1,691,259. All appropriations lapse at year-end.

Actual expenditures for the year ended June 30, 2010 exceeded budgeted appropriations by \$656,610 in the Debt Service Fund, and \$18,722 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.

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, 2010, the District reported the following receivables due from other governmental units:

Due from the Minnesota Department of Education	\$ 8,705,307
Due from other Minnesota school districts	43,064
Due from Dakota County and other	<u>168,837</u>
Total due from other governmental units	<u>\$ 8,917,208</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 \$1,138,519 of the property tax levy collectible in 2010 as revenue to the District in fiscal year 2009–2010. The remaining portion of the taxes collectible in 2010 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, 2010, the General Fund, Food Service Special Revenue Fund, and Community Service Special Revenue Fund had payables of \$119,457, \$821, and \$1,389 due to the OPEB Internal Service Fund to transfer a reimbursement in excess of actual costs paid back to the trust fund 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 Severance and Pension Benefits 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 2010.

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 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	\$ 5,122,466
Investments	<u>15,112,778</u>
Total	<u>\$ 20,235,244</u>

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

Statement of Net Assets	
Cash and temporary investments	\$ 10,011,449
Cash and investments for other post-employment benefits	9,048,394
Statement of Fiduciary Net Assets	
Cash and temporary investments – Employee Benefit Trust Fund	47,295
Cash and temporary investments – Agency Fund	<u>1,128,106</u>
Total	<u>\$ 20,235,244</u>

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 \$5,122,466, while the balance on the bank records was \$6,744,258. At June 30, 2010, all of the District’s deposits were insured or collateralized by securities held by the District’s agent in the District’s name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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	\$ 761,723	\$ 308,439	\$ –	\$ 1,070,162
Corporate obligations	AAA	Moody's	1,014,565	256,495	–	1,271,060
Corporate obligations	AA1	Moody's	203,136	–	–	203,136
Corporate obligations	AA2	Moody's	508,878	267,542	–	776,420
Corporate obligations	A2	Moody's	–	109,969	–	109,969
Corporate obligations	AA-	S&P	250,243	303,705	–	553,948
International obligations	A	S&P	N/A	N/A	N/A	12,625
International obligations	N/R	N/A	N/A	N/A	N/A	6,998
Equities	N/A	N/A	N/A	N/A	N/A	2,610,063
Real estate investment trusts	N/A	N/A	N/A	N/A	N/A	48,239
Negotiable certificates of deposit	N/A	N/A	101,153	–	–	101,153
Investment pools/mutual funds	N/R	N/R	N/A	N/A	N/A	2,386,032
Investment pools/mutual funds	AAA	S&P	N/A	N/A	N/A	265,348
Investment pools/mutual funds	AAA	Moody's	N/A	N/A	N/A	5,697,625
Total investments						<u>\$ 15,112,778</u>

N/A – Not Applicable

N/R – Not Rated

The amount in investment pools/mutual funds includes \$5,697,625 invested in the MN Trust Investment Shares Portfolio, which is an external investment pool 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 pool is the same as the value of the pool shares.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2010, the District had not invested 5 percent or more in the securities of any single issuer.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	\$ 421,200	\$ –	\$ –	\$ 421,200
Capital assets, depreciated				
Buildings and improvements	56,212,325	–	–	56,212,325
Furniture and equipment	<u>2,161,858</u>	<u>88,186</u>	<u>(57,300)</u>	<u>2,192,744</u>
Total capital assets, depreciated	<u>58,374,183</u>	<u>88,186</u>	<u>(57,300)</u>	<u>58,405,069</u>
Less accumulated depreciation for				
Buildings and improvements	(14,388,137)	(1,114,418)	–	(15,502,555)
Furniture and equipment	<u>(1,477,182)</u>	<u>(118,252)</u>	<u>42,550</u>	<u>(1,552,884)</u>
Total accumulated depreciation	<u>(15,865,319)</u>	<u>(1,232,670)</u>	<u>42,550</u>	<u>(17,055,439)</u>
Net capital assets, depreciated	<u>42,508,864</u>	<u>(1,144,484)</u>	<u>(14,750)</u>	<u>41,349,630</u>
Total capital assets, net	<u>\$ 42,930,064</u>	<u>\$ (1,144,484)</u>	<u>\$ (14,750)</u>	<u>\$ 41,770,830</u>

Depreciation expense for the year ended June 30, 2010 was charged to the following governmental functions:

Elementary and secondary regular instruction	\$ 10,827
Pupil support services	61,812
Sites and buildings	14,280
Food service	15,084
Unallocated depreciation	<u>1,130,667</u>
Total depreciation expense	<u>\$ 1,232,670</u>

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

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

<u>Issue</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Face/Par Value</u>	<u>Remaining Maturities</u>	<u>Principal Outstanding</u>
2001A Refunding Bonds	03/27/2001	4.65%	\$ 6,805,000	08/01/2010– 02/01/2017	\$ 4,680,000
2005A Building Bonds	07/01/2005	4.25–5.00%	\$ 33,000,000	08/01/2010– 02/01/2026	31,480,000
2009A Taxable OPEB Bonds	01/06/2009	6.00–6.75%	\$ 9,220,000	02/01/2015– 02/01/2028	<u>9,220,000</u>
Total general obligation bonds payable					<u><u>\$ 45,380,000</u></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 Leases Payable

The District has entered into two capital lease agreements for computer equipment. The leases bear an interest rate of 2.90 percent, and require equal annual payments through January 15, 2012 and April 16, 2012, respectively. 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 leases are being paid through the General Fund.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

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
2011	\$ 1,310,000	\$ 2,223,983	\$ 12,500	\$ 7,219	\$ 226,394	\$ 23,888
2012	1,485,000	2,162,053	12,500	6,531	243,228	7,054
2013	1,665,000	2,091,463	12,500	5,844	–	–
2014	1,860,000	2,011,363	12,500	5,156	–	–
2015	2,070,000	1,921,063	12,500	4,469	–	–
2016–2020	11,960,000	7,950,635	62,500	12,031	–	–
2021–2025	14,900,000	5,062,125	6,250	344	–	–
2026–2028	10,130,000	1,292,570	–	–	–	–
	<u>\$ 45,380,000</u>	<u>\$ 24,715,255</u>	<u>\$ 131,250</u>	<u>\$ 41,594</u>	<u>\$ 469,622</u>	<u>\$ 30,942</u>

E. Changes in Long-Term Liabilities

	June 30, 2009	Additions	Retirements	June 30, 2010	Due Within One Year
General obligation bonds payable	\$ 46,530,000	\$ –	\$ 1,150,000	\$ 45,380,000	\$ 1,310,000
Special assessments payable	143,750	–	12,500	131,250	12,500
Capital leases payable	380,000	149,904	60,282	469,622	226,394
Severance payable	1,453,849	67,897	60,834	1,460,912	90,023
Net OPEB obligation (Note 6)	31,808	927,700	877,659	81,849	–
Net pension obligation (Note 7)	278,010	253,595	433,543	98,062	–
	<u>\$ 48,817,417</u>	<u>\$ 1,399,096</u>	<u>\$ 2,594,818</u>	<u>\$ 47,621,695</u>	<u>\$ 1,638,917</u>

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.

NOTE 5 – RESERVED AND DESIGNATED FUND BALANCES (CONTINUED)

At June 30, 2010, the District has recorded the following reservations of fund balances:

	<u>Reserved</u>	<u>Designated</u>	<u>Reported in Unreserved – Undesignated</u>
General Fund			
Reserved for staff development	\$ 122,262	\$ –	\$ –
Reserved for deferred maintenance	762,580	–	–
Reserved for operating capital	1,217,983	–	–
Reserved for safe schools	42,807	–	–
Designated for separation and retirement benefits	–	1,283,225	–
Health and safety “reserve” account deficit	–	–	(216,713)
Total General Fund	<u>2,145,632</u>	<u>1,283,225</u>	<u>(216,713)</u>
Nonmajor funds			
Community Service Special Revenue Fund			
Reserved for community education programs	105,533	–	–
Reserved for school readiness	2,413	–	–
Reserved for early childhood family education programs	<u>9,318</u>	<u>–</u>	<u>–</u>
Total nonmajor funds	<u>117,264</u>	<u>–</u>	<u>–</u>
Total all funds	<u>\$ 2,262,896</u>	<u>\$ 1,283,225</u>	<u>\$ (216,713)</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.

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

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	\$ 928,276
Interest on net OPEB obligation	1,352
Adjustment to annual required contribution	<u>(1,928)</u>
Annual OPEB cost (expense)	927,700
Contributions made	<u>877,659</u>
Increase in net OPEB obligation	50,041
Net OPEB obligation – beginning of year	<u>31,808</u>
Net OPEB obligation – end of year	<u><u>\$ 81,849</u></u>

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:

Fiscal Year Ended	Net OPEB Obligation Beginning of Year	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ –	\$ 926,403	\$ 894,595	96.6%	\$ 31,808
June 30, 2010	\$ 31,808	\$ 927,700	\$ 877,659	94.6%	\$ 81,849

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 ARC 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.

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

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 Severance and Pension Benefits 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.

NOTE 7 – PENSION BENEFITS PLAN (CONTINUED)

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	\$ 258,626
Interest on net pension obligation	11,815
Adjustment to annual required contribution	<u>(16,846)</u>
Annual pension cost (expense)	253,595
Contributions made	<u>433,543</u>
Increase in net pension obligation	<u>(179,948)</u>
Net pension obligation – beginning of year	<u>278,010</u>
Net pension obligation – end of year	<u><u>\$ 98,062</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	Net Pension Obligation Beginning of Year	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
June 30, 2010	\$ 278,010	\$ 253,595	\$ 433,543	171.0%	\$ 98,062

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 ARC 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.

NOTE 7 – PENSION BENEFITS PLAN (CONTINUED)

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.

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.

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

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 below:

Tier I

	Step Rate Formula	Percentage per Year
Basic Plan		
	First 10 years	2.2 percent
	All years thereafter	2.7 percent
Coordinated Plan		
	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.
- Three 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.

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.

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

TRA publicly issues a CAFR 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. Alternatively, a copy of the report may be obtained by writing 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. Legislation passed during the 2010 session increased member and employer contribution rates by 0.5 percent annually over a four-year period beginning July 1, 2011. Total covered payroll salaries for all TRA members state-wide during fiscal years June 30, 2009, 2008, and 2007 were approximately \$3.76 billion, \$3.65 billion, and \$3.53 billion, respectively.

The District's contributions for the years ended June 30, 2010, 2009, and 2008 were \$933,867, \$934,511, and \$923,579, 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.

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

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.

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; 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 2009. The contribution rate for Coordinated Plan members will increase to 6.25 percent effective January 1, 2011. The District is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members and 6.75 percent for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 7.00 percent effective January 1, 2010 and will increase to 7.25 percent effective January 1, 2011.

The District's contributions to PERF for the years ended June 30, 2010, 2009, and 2008 were \$363,625, \$344,900, and \$334,672, 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.

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, 2010, the District paid rent plus expenses of \$271,272 under this agreement and a previous agreement to lease the same space. The future minimum lease payment under this agreement is \$50,520 for the year ending June 30, 2011.

The District sublets portions of this property to other entities on a year-to-year basis. For the year ended June 30, 2010, the District received approximately \$48,365 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, 2010, the District paid rent of \$100,000 under this agreement.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2010, the District paid rent of \$243,000 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.

NOTE 11 – SUBSEQUENT EVENTS

In October 2010, the District approved the sale of \$3,945,000 of General Obligation School Refunding Bonds, Series 2010A. The bonds bear interest rates ranging from 2.0 percent to 3.0 percent and have a final maturity date of February 1, 2017. These bonds will be used to refund the 2012 through 2017 maturities of the District's General Obligation School Refunding Bonds, Series 2001A, and will result in a reduction in debt service payments of \$424,749 and a present value savings of \$399,413.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 199

Required Supplementary Information
Schedules of Funding Progress
June 30, 2010

**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%

COMBINING AND INDIVIDUAL FUND

STATEMENTS AND SCHEDULES

INDEPENDENT SCHOOL DISTRICT NO. 199

Nonmajor Governmental Funds
 Combining Balance Sheet
 as of June 30, 2010

	Special Revenue Funds		
	Food Service	Community Service	Totals
Assets			
Cash and temporary investments	\$ 932,569	\$ 339,382	\$ 1,271,951
Receivables			
Current taxes	-	161,419	161,419
Delinquent taxes	-	3,592	3,592
Accounts and interest	-	27,429	27,429
Due from other governmental units	-	61,189	61,189
Inventory	56,013	-	56,013
Total assets	\$ 988,582	\$ 593,011	\$ 1,581,593
Liabilities and Fund Balances			
Liabilities			
Salaries and compensated absences payable	\$ -	\$ 37,209	\$ 37,209
Accounts and contracts payable	15,357	33,583	48,940
Due to other funds	821	1,389	2,210
Due to other governmental units	-	22,292	22,292
Property taxes levied for subsequent year	-	339,197	339,197
Deferred revenue – delinquent taxes	-	3,592	3,592
Unearned revenue	30,716	31,134	61,850
Total liabilities	46,894	468,396	515,290
Fund balances			
Reserved	-	117,264	117,264
Unreserved – undesignated	941,688	7,351	949,039
Total fund balances	941,688	124,615	1,066,303
Total liabilities and fund balances	\$ 988,582	\$ 593,011	\$ 1,581,593

INDEPENDENT SCHOOL DISTRICT NO. 199

Nonmajor Governmental Funds
 Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Year Ended June 30, 2010

	Special Revenue Funds		
	Food Service	Community Service	Totals
Revenue			
Local sources			
Property taxes	\$ -	\$ 323,818	\$ 323,818
Investment earnings	3,180	2,477	5,657
Other	953,106	1,522,329	2,475,435
State sources	84,166	150,452	234,618
Federal sources	787,158	-	787,158
Total revenue	<u>1,827,610</u>	<u>1,999,076</u>	<u>3,826,686</u>
Expenditures			
Current			
Food service	1,646,175	-	1,646,175
Community service	-	2,164,896	2,164,896
Capital outlay	25,473	54,063	79,536
Total expenditures	<u>1,671,648</u>	<u>2,218,959</u>	<u>3,890,607</u>
Excess (deficiency) of revenue over expenditures	155,962	(219,883)	(63,921)
Other financing sources			
Sale of capital assets	3,835	-	3,835
Net change in fund balances	159,797	(219,883)	(60,086)
Fund balances			
Beginning of year	<u>781,891</u>	<u>344,498</u>	<u>1,126,389</u>
End of year	<u>\$ 941,688</u>	<u>\$ 124,615</u>	<u>\$ 1,066,303</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

General Fund
Comparative Balance Sheet
as of June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and temporary investments	\$ 4,698,996	\$ 6,806,923
Receivables		
Current taxes	4,097,016	3,904,902
Delinquent taxes	102,174	105,584
Accounts and interest	48,973	49,293
Due from other governmental units	8,793,359	4,641,549
Prepaid items	<u>90,303</u>	<u>83,303</u>
Total assets	<u>\$ 17,830,821</u>	<u>\$ 15,591,554</u>
Liabilities and Fund Balances		
Liabilities		
Salaries and compensated absences payable	\$ 1,576,594	\$ 1,623,909
Accounts and contracts payable	1,867,558	1,988,378
Due to other funds	119,457	29,598
Due to other governmental units	82,992	153,156
Property taxes levied for subsequent year	6,161,606	5,786,204
Deferred revenue – delinquent taxes	<u>102,174</u>	<u>105,584</u>
Total liabilities	9,910,381	9,686,829
Fund balances (deficits)		
Reserved for staff development	122,262	322,417
Reserved for deferred maintenance	762,580	539,250
Reserved for operating capital	1,217,983	239,821
Reserved for safe schools	42,807	2,147
Unreserved		
Designated for separation and retirement benefits	1,283,225	1,083,225
Undesignated – health and safety “reserve” account deficit	(216,713)	(277,581)
Undesignated	<u>4,708,296</u>	<u>3,995,446</u>
Total fund balances	<u>7,920,440</u>	<u>5,904,725</u>
Total liabilities and fund balances	<u>\$ 17,830,821</u>	<u>\$ 15,591,554</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2010
 (With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010		Over (Under) Budget	2009
	Budget	Actual		Actual
Revenue				
Local sources				
Property taxes	\$ 6,862,746	\$ 6,932,013	\$ 69,267	\$ 7,323,012
Investment earnings	50,000	18,880	(31,120)	99,051
Other	1,437,425	1,772,486	335,061	1,697,648
State sources	24,975,227	25,400,140	424,913	27,755,319
Federal sources	3,670,438	4,250,082	579,644	1,533,792
Total revenue	36,995,836	38,373,601	1,377,765	38,408,822
Expenditures				
Current				
Administration				
Salaries	1,105,875	1,017,759	(88,116)	1,117,644
Employee benefits	321,906	295,120	(26,786)	746,190
Purchased services	39,360	27,693	(11,667)	41,355
Supplies and materials	19,475	15,210	(4,265)	13,193
Other expenditures	35,375	25,629	(9,746)	31,653
Total administration	1,521,991	1,381,411	(140,580)	1,950,035
District support services				
Salaries	399,250	381,490	(17,760)	381,492
Employee benefits	143,190	116,217	(26,973)	281,708
Purchased services	358,425	305,368	(53,057)	320,485
Supplies and materials	23,250	24,802	1,552	23,759
Capital expenditures	200,000	151,713	(48,287)	153,103
Other expenditures	3,200	3,021	(179)	385
Total district support services	1,127,315	982,611	(144,704)	1,160,932
Elementary and secondary regular instruction				
Salaries	12,080,523	11,368,513	(712,010)	11,332,269
Employee benefits	3,550,071	3,570,586	20,515	8,357,748
Purchased services	276,644	494,685	218,041	449,843
Supplies and materials	421,318	619,612	198,294	928,348
Capital expenditures	7,000	318,724	311,724	4,033
Other expenditures	22,035	11,407	(10,628)	12,176
Total elementary and secondary regular instruction	16,357,591	16,383,527	25,936	21,084,417

(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, 2010
 (With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010		Over (Under) Budget	2009
	Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	134,750	332,344	197,594	327,697
Employee benefits	36,911	34,999	(1,912)	137,721
Purchased services	—	724	724	206
Supplies and materials	—	15,649	15,649	20,759
Other expenditures	—	70	70	—
Total vocational education instruction	171,661	383,786	212,125	486,383
Special education instruction				
Salaries	4,510,428	4,773,081	262,653	4,723,908
Employee benefits	1,403,828	1,415,155	11,327	3,251,044
Purchased services	836,550	830,815	(5,735)	951,469
Supplies and materials	111,540	101,534	(10,006)	96,257
Capital expenditures	—	36,027	36,027	14,098
Other expenditures	1,000	2,892	1,892	1,424
Total special education instruction	6,863,346	7,159,504	296,158	9,038,200
Instructional support services				
Salaries	1,791,807	1,587,073	(204,734)	1,655,613
Employee benefits	410,446	404,194	(6,252)	1,035,674
Purchased services	314,352	322,637	8,285	395,569
Supplies and materials	53,670	17,767	(35,903)	48,169
Other expenditures	—	89	89	—
Total instructional support services	2,570,275	2,331,760	(238,515)	3,135,025
Pupil support services				
Salaries	1,101,025	1,205,535	104,510	1,146,470
Employee benefits	334,979	358,011	23,032	800,841
Purchased services	1,569,575	1,511,843	(57,732)	1,491,726
Supplies and materials	97,550	136,677	39,127	81,319
Capital expenditures	95,000	46,930	(48,070)	112,937
Other expenditures	1,100	515	(585)	539
Total pupil support services	3,199,229	3,259,511	60,282	3,633,832

(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, 2010
 (With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010		Over (Under) Budget	2009
	Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	1,223,750	1,149,699	(74,051)	1,185,388
Employee benefits	364,058	355,901	(8,157)	813,603
Purchased services	651,049	716,776	65,727	797,340
Supplies and materials	1,103,451	544,666	(558,785)	786,958
Capital expenditures	1,206,070	1,701,425	495,355	1,856,757
Other expenditures	200	—	(200)	6
Total sites and buildings	<u>4,548,578</u>	<u>4,468,467</u>	<u>(80,111)</u>	<u>5,440,052</u>
Fiscal and other fixed cost programs				
Purchased services	88,275	86,525	(1,750)	80,594
Debt service				
Principal	160,000	72,782	(87,218)	172,424
Interest and fiscal charges	30,000	7,906	(22,094)	34,958
Total debt service	<u>190,000</u>	<u>80,688</u>	<u>(109,312)</u>	<u>207,382</u>
Total expenditures	<u>36,638,261</u>	<u>36,517,790</u>	<u>(120,471)</u>	<u>46,216,852</u>
Excess (deficiency) of revenue over expenditures	357,575	1,855,811	1,498,236	(7,808,030)
Other financing sources (uses)				
Debt issuance	—	—	—	8,588,428
Discount on debt issuance	—	—	—	(92,200)
Capital lease	—	149,904	149,904	380,000
Sale of capital assets	—	10,000	10,000	17,600
Transfer in	552,315	—	(552,315)	—
Total other financing sources (uses)	<u>552,315</u>	<u>159,904</u>	<u>(392,411)</u>	<u>8,893,828</u>
Net change in fund balances	<u>\$ 909,890</u>	2,015,715	<u>\$ 1,105,825</u>	1,085,798
Fund balances				
Beginning of year		<u>5,904,725</u>		<u>4,818,927</u>
End of year		<u>\$ 7,920,440</u>		<u>\$ 5,904,725</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Food Service Special Revenue Fund
 Comparative Balance Sheet
 as of June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and temporary investments	\$ 932,569	\$ 761,794
Inventory	<u>56,013</u>	<u>69,088</u>
Total assets	<u>\$ 988,582</u>	<u>\$ 830,882</u>
Liabilities and Fund Balances		
Liabilities		
Accounts and contracts payable	\$ 15,357	\$ 16,154
Due to other funds	821	821
Unearned revenue	<u>30,716</u>	<u>32,016</u>
Total liabilities	46,894	48,991
Fund balances		
Unreserved – undesignated	<u>941,688</u>	<u>781,891</u>
Total liabilities and fund balances	<u>\$ 988,582</u>	<u>\$ 830,882</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, 2010
 (With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010		Over (Under) Budget	2009
	Budget	Actual		Actual
Revenue				
Local sources				
Investment earnings	\$ 35,000	\$ 3,180	\$ (31,820)	\$ 12,658
Other – primarily meal sales	964,603	953,106	(11,497)	1,008,210
State sources	84,401	84,166	(235)	83,753
Federal sources	654,365	787,158	132,793	630,773
Total revenue	<u>1,738,369</u>	<u>1,827,610</u>	<u>89,241</u>	<u>1,735,394</u>
Expenditures				
Current				
Salaries	580,843	586,091	5,248	591,604
Employee benefits	181,776	192,623	10,847	429,856
Purchased services	59,822	57,576	(2,246)	61,890
Supplies and materials	931,168	808,215	(122,953)	765,406
Other expenditures	2,661	1,670	(991)	775
Capital outlay	16,580	25,473	8,893	8,895
Total expenditures	<u>1,772,850</u>	<u>1,671,648</u>	<u>(101,202)</u>	<u>1,858,426</u>
Excess (deficiency) of revenue over expenditures	(34,481)	155,962	190,443	(123,032)
Other financing sources				
Debt issuance	–	–	–	234,658
Sale of capital assets	–	3,835	3,835	–
Total other financing sources	<u>–</u>	<u>3,835</u>	<u>3,835</u>	<u>234,658</u>
Net change in fund balances	<u>\$ (34,481)</u>	159,797	<u>\$ 194,278</u>	111,626
Fund balances				
Beginning of year		<u>781,891</u>		<u>670,265</u>
End of year		<u>\$ 941,688</u>		<u>\$ 781,891</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Community Service Special Revenue Fund
 Comparative Balance Sheet
 as of June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and temporary investments	\$ 339,382	\$ 621,849
Receivables		
Current taxes	161,419	132,929
Delinquent taxes	3,592	4,475
Accounts and interest	27,429	44,670
Due from other governmental units	61,189	53,777
Prepaid items	<u>—</u>	<u>730</u>
Total assets	<u>\$ 593,011</u>	<u>\$ 858,430</u>
Liabilities and Fund Balances		
Liabilities		
Salaries and compensated absences payable	\$ 37,209	\$ 37,077
Accounts and contracts payable	33,583	37,506
Due to other funds	1,389	1,389
Due to other governmental units	22,292	12,056
Property taxes levied for subsequent year	339,197	390,019
Deferred revenue – delinquent taxes	3,592	4,475
Unearned revenue	<u>31,134</u>	<u>31,410</u>
Total liabilities	468,396	513,932
Fund balances (deficits)		
Reserved for community education programs	105,533	333,143
Reserved for school readiness	2,413	—
Reserved for early childhood family education programs	9,318	9,544
Unreserved		
Undesignated – school readiness “reserve” account deficit	—	(6,053)
Undesignated	<u>7,351</u>	<u>7,864</u>
Total fund balances	<u>124,615</u>	<u>344,498</u>
Total liabilities and fund balances	<u>\$ 593,011</u>	<u>\$ 858,430</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, 2010
 (With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010		Over (Under) Budget	2009
	Budget	Actual		Actual
Revenue				
Local sources				
Property taxes	\$ 230,542	\$ 323,818	\$ 93,276	\$ 215,327
Investment earnings	38,000	2,477	(35,523)	14,856
Other – primarily tuition and fees	1,708,913	1,522,329	(186,584)	1,523,403
State sources	129,845	150,452	20,607	185,526
Total revenue	<u>2,107,300</u>	<u>1,999,076</u>	<u>(108,224)</u>	<u>1,939,112</u>
Expenditures				
Current				
Salaries	1,089,753	1,014,106	(75,647)	1,000,676
Employee benefits	266,074	257,203	(8,871)	622,023
Purchased services	765,379	810,480	45,101	742,342
Supplies and materials	59,633	69,846	10,213	70,382
Other expenditures	7,048	13,261	6,213	5,122
Capital outlay	12,350	54,063	41,713	52,545
Total expenditures	<u>2,200,237</u>	<u>2,218,959</u>	<u>18,722</u>	<u>2,493,090</u>
Excess (deficiency) of revenue over expenditures	(92,937)	(219,883)	(126,946)	(553,978)
Other financing sources				
Debt issuance	–	–	–	396,914
Net change in fund balances	<u>\$ (92,937)</u>	<u>(219,883)</u>	<u>\$ (126,946)</u>	<u>(157,064)</u>
Fund balances				
Beginning of year		<u>344,498</u>		<u>501,562</u>
End of year		<u>\$ 124,615</u>		<u>\$ 344,498</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Capital Projects – Building Construction Fund
 Comparative Balance Sheet
 as of June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and temporary investments	<u>\$ 172,786</u>	<u>\$ 571,181</u>
Liabilities and Fund Balances		
Liabilities		
Accounts and contracts payable	\$ 5,964	\$ 377,794
Fund balances		
Unreserved – undesignated	<u>166,822</u>	<u>193,387</u>
Total liabilities and fund balances	<u>\$ 172,786</u>	<u>\$ 571,181</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, 2010
 (With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010			2009
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	\$ 700	\$ 598	\$ (102)	\$ 20,468
Expenditures				
Capital outlay				
Purchased services	10,000	15,240	5,240	233,408
Capital expenditures	540,000	11,923	(528,077)	1,867,525
Total expenditures	<u>550,000</u>	<u>27,163</u>	<u>(522,837)</u>	<u>2,100,933</u>
Net change in fund balances	<u>\$ (549,300)</u>	(26,565)	<u>\$ 522,735</u>	(2,080,465)
Fund balances				
Beginning of year		<u>193,387</u>		<u>2,273,852</u>
End of year		<u>\$ 166,822</u>		<u>\$ 193,387</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Debt Service Fund
 Comparative Balance Sheet
 as of June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and temporary investments	\$ 2,083,088	\$ 2,068,625
Receivables		
Current taxes	2,044,766	1,992,985
Delinquent taxes	44,018	37,479
Due from other governmental units	<u>62,660</u>	<u>31,468</u>
Total assets	<u>\$ 4,234,532</u>	<u>\$ 4,130,557</u>
Liabilities and Fund Balances		
Liabilities		
Property taxes levied for subsequent year	\$ 3,567,428	\$ 3,502,878
Deferred revenue – delinquent taxes	<u>44,018</u>	<u>37,479</u>
Total liabilities	3,611,446	3,540,357
Fund balances		
Unreserved – undesignated	<u>623,086</u>	<u>590,200</u>
Total liabilities and fund balances	<u>\$ 4,234,532</u>	<u>\$ 4,130,557</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, 2010
 (With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010		Over (Under) Budget	2009
	Budget	Actual		Actual
Revenue				
Local sources				
Property taxes	\$ 2,692,183	\$ 3,353,557	\$ 661,374	\$ 2,657,911
Investment earnings	13,000	1,889	(11,111)	15,639
State sources	121,699	146,910	25,211	122,243
Total revenue	<u>2,826,882</u>	<u>3,502,356</u>	<u>675,474</u>	<u>2,795,793</u>
Expenditures				
Debt service				
Principal retirement	1,150,000	1,150,000	—	1,000,000
Interest	1,660,360	2,316,274	655,914	1,703,655
Fiscal charges and other	2,500	3,196	696	901
Total expenditures	<u>2,812,860</u>	<u>3,469,470</u>	<u>656,610</u>	<u>2,704,556</u>
Net change in fund balances	<u>\$ 14,022</u>	32,886	<u>\$ 18,864</u>	91,237
Fund balances				
Beginning of year		<u>590,200</u>		<u>498,963</u>
End of year		<u>\$ 623,086</u>		<u>\$ 590,200</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Internal Service Funds
 Combining Statement of Net Assets
 as of June 30, 2010

	Severance and Pension Benefits Fund	Other Post-Employment Benefits Fund	Totals
Assets			
Current assets			
Cash and temporary investments	\$ 1,784,628	\$ –	\$ 1,784,628
Due from other funds	–	121,667	121,667
Total current assets	<u>1,784,628</u>	<u>121,667</u>	<u>1,906,295</u>
Restricted assets – temporarily restricted			
Cash and cash equivalents	–	3,801,182	3,801,182
Investments	–	5,247,212	5,247,212
Total restricted assets – temporarily restricted	<u>–</u>	<u>9,048,394</u>	<u>9,048,394</u>
Total assets	1,784,628	9,170,061	10,954,689
Liabilities			
Current liabilities			
Severance benefits payable	90,023	–	90,023
Long-term liabilities			
Severance benefits payable	1,370,889	–	1,370,889
Net OPEB obligation	–	81,849	81,849
Net pension obligation	98,062	–	98,062
Total long-term liabilities	<u>1,468,951</u>	<u>81,849</u>	<u>1,550,800</u>
Total liabilities	1,558,974	81,849	1,640,823
Net assets			
Restricted for OPEB liabilities	–	9,088,212	9,088,212
Unrestricted	<u>225,654</u>	<u>–</u>	<u>225,654</u>
Total net assets	<u>\$ 225,654</u>	<u>\$ 9,088,212</u>	<u>\$ 9,313,866</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Internal Service Funds
 Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
 Year Ended June 30, 2010

	Severance and Pension Benefits Fund	Other Post-Employment Benefits Fund	Totals
Operating revenue			
Contributions from governmental funds	\$ 494,377	\$ 415,203	\$ 909,580
Operating expenses			
Severance benefits	67,897	-	67,897
Pension benefits	253,595	-	253,595
Other post-employment benefits	-	927,700	927,700
Total operating expenses	<u>321,492</u>	<u>927,700</u>	<u>1,249,192</u>
Operating income (loss)	172,885	(512,497)	(339,612)
Nonoperating revenue			
Investment earnings	<u>6,807</u>	<u>163,102</u>	<u>169,909</u>
Change in net assets	179,692	(349,395)	(169,703)
Net assets			
Beginning of year	<u>45,962</u>	<u>9,437,607</u>	<u>9,483,569</u>
End of year	<u>\$ 225,654</u>	<u>\$ 9,088,212</u>	<u>\$ 9,313,866</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Internal Service Funds
 Combining Statement of Cash Flows
 Year Ended June 30, 2010

	Severance and Pension Benefits Fund	Other Post-Employment Benefits Fund	Totals
Cash flows from operating activities			
Receipts from assessments made to governmental funds	\$ 494,377	\$ 325,344	\$ 819,721
Benefit payments	(494,377)	(877,659)	(1,372,036)
Net cash provided (used) by operating activities	-	(552,315)	(552,315)
Cash flows from investing activities			
Purchase of investments	-	(1,615,941)	(1,615,941)
Interest on investments	6,807	163,102	169,909
Net cash provided (used) by investing activities	6,807	(1,452,839)	(1,446,032)
Net increase (decrease) in cash and cash equivalents	6,807	(2,005,154)	(1,998,347)
Cash and cash equivalents			
Beginning of year	1,777,821	5,806,336	7,584,157
End of year	\$ 1,784,628	\$ 3,801,182	\$ 5,585,810
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income (loss)	\$ 172,885	\$ (512,497)	\$ (339,612)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Changes in assets and liabilities			
Due from other funds	-	(89,859)	(89,859)
Net pension obligation	(179,948)	-	(179,948)
Net OPEB obligation	-	50,041	50,041
Severance benefits payable	7,063	-	7,063
Net cash provided (used) by operating activities	\$ -	\$ (552,315)	\$ (552,315)

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.

Contents:

	<u>Page</u>
Financial Trends	68
These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	
Revenue Capacity	78
These schedules contain information to help the reader assess the District's most significant local revenue source, the property tax.	
Debt Capacity	85
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.	
Demographic and Economic Information	91
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	
Operating Indicators	94
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 Eight Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
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	\$ 5,009,958
Restricted	4,558,185	4,570,916	4,276,132	3,507,716	2,757,107	2,403,846	2,367,912	3,382,349
Unrestricted	(17,764)	526,710	1,400,158	(676,123)	(788,222)	(668,081)	4,457,391	5,311,127
Total governmental activities net assets	<u>\$13,590,856</u>	<u>\$14,069,101</u>	<u>\$15,160,505</u>	<u>\$12,430,731</u>	<u>\$10,672,719</u>	<u>\$ 7,373,873</u>	<u>\$11,921,617</u>	<u>\$13,703,434</u>

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 Eight Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
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	\$ 1,410,292
District support services	812,396	867,658	960,767	969,215	1,028,908	1,026,514	1,028,899	996,250
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	16,389,973
Vocational education instruction	132,594	125,145	132,070	160,949	213,260	411,009	392,126	389,560
Special education instruction	6,558,636	6,840,966	6,798,512	7,189,364	7,738,399	8,388,707	7,398,059	7,313,624
Instructional support services	1,717,674	1,998,336	2,036,782	2,557,678	2,315,947	2,370,339	2,541,338	2,361,213
Pupil support services	2,614,115	2,654,854	2,861,403	2,935,944	2,861,214	2,971,179	3,189,324	3,293,788
Sites and buildings	4,267,917	4,014,781	3,673,839	4,743,900	7,337,423	8,226,708	5,583,255	4,511,048
Fiscal and other fixed cost programs	142,253	166,037	172,638	170,317	168,440	102,736	80,594	86,525
Food service	1,545,164	1,552,857	1,668,026	1,622,843	1,682,282	1,678,391	1,690,081	1,716,313
Community service	1,972,189	1,892,069	1,890,187	1,833,799	2,000,399	2,021,807	2,120,802	2,240,630
Unallocated depreciation	666,564	646,728	654,740	640,108	593,763	690,032	1,137,350	1,130,667
Interest and fiscal charges on debt	836,852	814,911	777,574	2,005,456	1,757,200	1,715,119	1,931,424	2,253,696
Total governmental activities expenses	<u>37,097,768</u>	<u>38,599,809</u>	<u>38,028,821</u>	<u>43,011,962</u>	<u>45,207,214</u>	<u>47,508,350</u>	<u>45,161,292</u>	<u>44,093,579</u>
Program revenues								
Charges for services								
Administration and district support services	56,636	52,821	48,460	41,867	49,564	3,849	-	-
Elementary and secondary regular instruction	127,227	149,909	146,467	177,424	16,040	169,842	157,396	144,052
Special education instruction	612,082	366,264	631,040	601,019	492,229	328,464	590,234	429,820
Pupil support services	78,791	39,961	39,305	32,798	219,827	143,485	164,525	147,858
Sites and buildings	226,869	193,963	141,791	180,364	161,876	188,387	175,842	161,396
Food service	1,094,594	1,072,126	1,071,400	1,019,316	1,043,878	980,081	1,007,980	953,106
Community service	1,294,918	1,368,637	1,453,798	1,570,873	1,399,290	1,488,458	1,451,597	1,522,329
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	6,286,933
Capital grants and contributions	23,182	-	-	-	-	-	-	-
Total governmental activities program revenues	<u>9,016,949</u>	<u>9,394,028</u>	<u>9,713,851</u>	<u>9,810,316</u>	<u>9,229,241</u>	<u>9,925,181</u>	<u>9,190,265</u>	<u>9,645,494</u>
Net (expense) revenue	(28,080,819)	(29,205,781)	(28,314,970)	(33,201,646)	(35,977,973)	(37,583,169)	(35,971,027)	(34,448,085)
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	6,928,603
Property taxes, levied for community service	63,794	312,345	381,960	133,702	311,020	216,873	215,590	322,935
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	3,360,096
General grants and aids	23,520,147	21,633,328	21,971,430	24,040,267	23,347,968	24,160,613	24,939,865	24,903,135
Other general revenues	1,299,841	412,969	330,115	424,092	466,095	308,398	410,537	518,200
Investment earnings	421,443	399,106	556,395	1,741,818	1,719,471	675,039	542,895	196,933
Total general revenues and other changes in net assets	<u>29,707,607</u>	<u>29,684,026</u>	<u>29,383,095</u>	<u>30,371,872</u>	<u>34,219,961</u>	<u>34,284,323</u>	<u>36,123,082</u>	<u>36,229,902</u>
Change in net assets	<u>\$ 1,626,788</u>	<u>\$ 478,245</u>	<u>\$ 1,068,125</u>	<u>\$(2,829,774)</u>	<u>\$(1,758,012)</u>	<u>\$(3,298,846)</u>	<u>\$ 152,055</u>	<u>\$ 1,781,817</u>

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

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

Fiscal Year	Property Tax			Total
	General Purpose	Community Service	Debt Service	
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
2010	6,928,603	322,935	3,360,096	10,611,634

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved	\$ 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	\$ 2,145,632
Unreserved	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	5,774,808
Total General Fund	<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>	<u>\$ 7,920,440</u>
All other governmental funds										
Reserved	\$ 7,422,164	\$ 7,521,602	\$ 7,147,495	\$ 7,235,445	\$ 7,304,816	\$ 654,956	\$ 579,176	\$ 502,077	\$ 342,687	\$ 117,264
Unreserved, reported in										
Special revenue funds	914,002	857,210	988,125	1,018,890	988,125	962,888	671,948	699,750	783,702	949,039
Capital projects funds	-	-	-	-	-	31,541,268	11,109,687	2,273,852	193,387	166,822
Debt service funds	911,392	383,081	722,824	603,023	686,172	306,832	347,678	498,963	590,200	623,086
Total all other governmental funds	<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>	<u>\$ 1,856,211</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues										
Local sources										
Taxes	\$ 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	\$ 10,609,388
Investment earnings	407,393	494,518	421,443	399,106	524,619	1,676,304	1,637,890	606,139	162,672	27,024
Other	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	4,247,921
State sources	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	25,781,668
Federal sources	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	5,037,240
Total revenues	<u>36,787,176</u>	<u>38,012,853</u>	<u>37,983,977</u>	<u>39,100,503</u>	<u>39,055,891</u>	<u>40,131,959</u>	<u>43,353,303</u>	<u>44,108,338</u>	<u>44,899,589</u>	<u>45,703,241</u>
Expenditures										
Current										
Administration	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	1,381,411
District support services	781,882	758,460	807,796	865,114	957,265	958,308	1,031,478	1,067,131	1,160,932	982,611
Elementary and secondary regular instruction	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	16,383,527
Vocational education instruction	26,099	80,677	132,594	125,145	132,070	160,949	213,260	411,009	486,383	383,786
Special education instruction	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	7,159,504
Instructional support services	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	2,331,760
Pupil support services	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	3,259,511
Sites and buildings	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	4,468,467
Fiscal and other fixed cost programs	142,232	147,363	142,253	166,037	172,638	170,317	168,440	102,736	80,594	86,525
Food service	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	1,646,175
Community service	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	2,164,896
Capital outlay	7,870	162,797	76,025	3,834	88,981	2,568,122	22,083,398	9,121,987	2,162,373	106,699
Debt service										
Principal	1,346,606	2,040,871	1,014,842	1,039,800	1,093,187	643,917	724,855	823,611	1,172,424	1,222,782
Interest and fiscal charges	811,485	939,511	835,837	816,597	774,662	1,598,826	1,780,707	1,750,502	1,739,514	2,327,376
Total expenditures	<u>35,100,720</u>	<u>36,485,760</u>	<u>38,113,559</u>	<u>38,935,790</u>	<u>39,219,599</u>	<u>43,809,732</u>	<u>64,338,392</u>	<u>53,350,271</u>	<u>55,373,857</u>	<u>43,905,030</u>
Excess of revenues over (under) expenditures	1,686,456	1,527,093	(129,582)	164,713	(163,708)	(3,677,773)	(20,985,089)	(9,241,933)	(10,474,268)	1,798,211
Other financing sources (uses)										
Transfers out	-	-	-	(1,500,000)	-	-	-	-	-	-
Proceeds from sale of capital assets	-	-	826,666	450,000	-	-	-	29,878	17,600	13,835
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	149,904
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)	<u>6,805,000</u>	<u>(9,544)</u>	<u>1,358,388</u>	<u>(880,482)</u>	<u>49,000</u>	<u>27,244,106</u>	<u>-</u>	<u>29,878</u>	<u>9,525,400</u>	<u>163,739</u>
Net change in fund balances	<u>\$ 8,491,456</u>	<u>\$ 1,517,549</u>	<u>\$ 1,228,806</u>	<u>\$ (715,769)</u>	<u>\$ (114,708)</u>	<u>\$ 23,566,333</u>	<u>\$ (20,985,089)</u>	<u>\$ (9,212,055)</u>	<u>\$ (948,868)</u>	<u>\$ 1,961,950</u>
Debt service as a percentage of noncapital expenditures	<u>6.1%</u>	<u>8.2%</u>	<u>4.9%</u>	<u>4.8%</u>	<u>4.8%</u>	<u>5.4%</u>	<u>5.9%</u>	<u>5.8%</u>	<u>5.5%</u>	<u>8.1%</u>

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		
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
2010	6,932,013	323,818	3,353,557		10,609,388

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				
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
2010	100,890	32,486,454	(3,760,334)	3,860,888	(2,380,830)	30,307,068	2,697,857,700	1.12

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

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>
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
2010	21.795	41.757	27.269	4.421	95.242

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 Five Years Ago

Taxpayer	Type of Property	2010			2005		
		Tax Capacity	Rank	Percentage of Total Tax Capacity	Tax Capacity	Rank	Percentage of Total Tax Capacity
Great Northern Oil Company	Utility	\$ 1,473,228	1	4.52 %	\$ 1,058,790	1	4.08 %
Xcel Energy	Utility	963,284	2	2.96	997,814	2	3.84
Koch Refining Company (aka Flint Hills Resources)	Refining	828,461	3	2.54	367,873	4	1.42
I&G Southview, LLC	Apartments	425,000	4	1.30	368,750	3	1.42
Lake Cove Village Apartments	Apartments	352,004	5	1.08	337,568	6	1.30
PHM Inver Grove, Inc.	Apartments	350,950	6	1.08	339,072	5	1.31
Vansouth Limited Partnership	Distribution center	298,128	7	0.91	209,348	9	0.81
Farmers Union Central Exchange	Farm supplies/services	281,244	8	0.86	274,670	7	1.06
Brentwood Hills Limited Partnership	Apartments	275,000	9	0.84	–	–	–
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>\$ 5,509,800</u>		<u>16.90 %</u>	<u>\$ 4,372,635</u>		<u>16.86 %</u>

Note: Information for years 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, 2010			
	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread	Delinquent		Current	
					Amount	Percent	Amount	Percent
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	-	-	-	-
2004	5,136,766	848,349	168,742	6,153,857	9,623	0.16	-	-
2005	4,982,993	652,842	132,781	5,768,616	2,165	0.04	-	-
2006	8,003,938	602,565	264,830	8,871,333	7,437	0.08	-	-
2007	8,174,214	924,175	237,347	9,335,736	11,643	0.12	-	-
2008	9,162,565	1,004,943	265,601	10,433,109	35,159	0.34	-	-
2009	9,173,510	1,206,349	265,601	10,645,460	83,757	0.79	-	-
2010	9,559,176	1,269,460	300,926	11,129,562	-	-	6,303,201	56.63
					<u>\$ 149,784</u>		<u>\$ 6,303,201</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 and replaced with state aid.

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

Source: State of Minnesota School Tax Report

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			
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
2010	45,380,000	469,622	131,250	45,980,872	2.82	1,349

(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>
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
2010	45,380,000	623,086	44,756,914	30,307,068	147.68	34,086	1,313

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

INDEPENDENT SCHOOL DISTRICT NO. 199

Direct and Overlapping Debt
June 30, 2010

Governmental Unit	Gross Bonded Debt Outstanding	Percent Allocable to ISD No. 199	Portion Allocable to ISD No. 199
Independent School District No. 199	\$ 45,380,000	100.00 %	\$ 45,380,000
Overlapping debt			
Dakota County	410,126,745	6.45	26,446,203
City of Inver Grove Heights	38,716,047	64.25	24,875,525
City of Rosemount	25,633,368	5.78	1,480,737
City of South St. Paul	17,235,046	0.52	89,932
Metropolitan Council	3,761,200,317	0.70	26,444,999
Total overlapping debt			79,337,397
Total direct and overlapping debt			\$ 124,717,397

Source: Dakota County

INDEPENDENT SCHOOL DISTRICT NO. 199

Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	\$ 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	\$ 404,678,655
Total net debt applicable to limit	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	44,756,914
Legal debt margin	<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>	<u>\$ 359,921,741</u>
Total net debt applicable to the limit as a percentage of debt limit	5.20%	4.07%	3.17%	2.54%	1.93%	10.31%	9.26%	8.74%	10.52%	11.06%

Legal Debt Margin Calculation for Fiscal Year 2010

Market value	\$ 2,697,857,700
Debt limit (15% of market value)	404,678,655
Debt applicable to limit	
General obligation bonds	45,380,000
Less amount set aside for repayment of general obligation debt	(623,086)
Total net debt applicable to limit	<u>44,756,914</u>
Legal debt margin	<u>\$ 359,921,741</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

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	
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	41,034	5.0	3,812
2010	34,086	1,623,369,371	47,863	7.4	3,859

(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.

INDEPENDENT SCHOOL DISTRICT NO. 199

Principal Employers
Current Year and Five Years Ago

Employer	2010			2005		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Cenex/CHS Cooperatives	1,000	1	4.87 %	1,000	1	5.02 %
Independent School District No. 199	449	2	2.19	469	2	2.35
Travel Tags	430	3	2.09	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	130	10	0.63	130	9	0.65
Inver Grove Ford	–	–	–	100	10	0.50
Total	3,412		16.61 %	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 Nine Fiscal Years

Employees (1)	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
District directors/superintendent	1	1	1	1	1	1	1	1	1
Principals	8	8	7	7	7	7	7	7	7
Teachers	250	248	254	256	257	255	254	248	240
Coordinators, supervisors, specialists, and technical support	50	50	48	48	48	48	48	47	46
Paraprofessionals	75	65	72	79	79	81	83	84	84
Food service	29	29	29	28	27	27	22	24	24
Custodians	26	26	26	26	26	26	25	23	23
Community education leads and assistants	34	36	28	27	24	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>	<u>449</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 Eight Fiscal Years

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Standardized tests								
MCA reading (1)								
Grade 3	80 %	75 %	81 %	81 %	82 %	76 %	82 %	72 %
Grade 5	87	77	83	78	78	81	81	80
Grade 7	Not tested	69	74	57	67	59	58	66
Grade 10	85	87	85	69	73	74	33	76
MCA math (1)								
Grade 3	73	74	79	75	76	75	81	77
Grade 5	83	77	82	60	64	73	69	68
Grade 7	Not tested	63	75	46	60	61	60	69
Grade 11	91	81	88	39	44	51	50	48
ACT								
Average composite score	21.9	22.6	21.5	22.0	22.3	22.7	23.1	23.4
Graduation data								
District graduation rates	96	98	97	97	97	97	98	97
State graduation rate	88	89	90	91	N/A	N/A	N/A	N/A
Post graduation student survey								
Four-year college/university	47	48	48	46	47	52	50	47
Two-year college	23	23	19	31	27	25	28	23
Vocational/technical college	20	18	16	14	16	15	14	11
Employment	7	4	7	5	5	2	1	3
Military	3	2	3	2	2	1	3	5
No response/undecided	–	5	7	2	3	5	4	11
	100 %	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

INDEPENDENT SCHOOL DISTRICT NO. 199

School Facilities
as of June 30, 2010

<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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Administration	\$ 371	\$ 338	\$ 362	\$ 387	\$ 390	\$ 391	\$ 430	\$ 387	\$ 512	\$ 357
District support services	192	188	204	223	251	254	271	285	305	254
Elementary and secondary regular instruction	3,278	3,266	3,743	3,930	4,073	4,028	4,049	4,351	5,531	4,237
Vocational education instruction	6	20	34	32	35	43	56	110	128	99
Special education instruction	1,489	1,500	1,634	1,782	1,812	1,922	2,036	2,245	2,371	1,851
Instructional support services	460	551	435	514	535	677	606	646	822	603
Pupil support services	612	625	647	672	733	794	755	790	953	843
Sites and buildings	836	920	1,198	1,071	965	1,269	1,258	1,305	1,427	1,427
Fiscal and other fixed cost programs	35	37	36	43	45	45	44	27	21	22
Food service	339	349	376	397	422	424	429	449	485	426
Community service	455	483	490	486	492	486	491	536	640	560
Capital outlay	2	40	19	1	23	680	5,792	2,438	567	28
Debt service	529	740	468	477	489	594	657	688	764	918
Total expenditures	<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>	<u>\$ 11,625</u>
Average daily membership	<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>	<u>3,867</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	
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	61.77	237.74	1,739.35	1,773.42	3,812.28	4,414.52
2010	65.48	259.72	1,805.21	1,737.01	3,867.42	4,454.59

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 2001 through 2007	1.250	1.000	0.557	1.115	1.060	1.300
Fiscal 2008 through 2010	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	
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
2010	291,276	34,367	140,101	465,744	8,537

Year Ended June 30,	Student Regular Lunch Prices			
	Regular Priced Lunches		Reduced Price Lunches	Adult Lunches
	Elementary	Secondary		
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
2010	1.65	1.75/1.80	0.40	3.00

Source: The District's Food Service Department

**INDEPENDENT SCHOOL DISTRICT NO. 199
INVER GROVE HEIGHTS, MINNESOTA**

**Extracurricular Student Activity Accounts
Financial Statements**

**Year Ended
June 30, 2010**



PRINCIPALS

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William J. Lauer, 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, 2010. 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 were 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 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, 2010 and the cash balances at that date.

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

October 29, 2010

INDEPENDENT SCHOOL DISTRICT NO. 199

Extracurricular Student Activity Accounts
 Statement of Cash Receipts and Disbursements – Simley High School
 Year Ended June 30, 2010

	Balance – June 30, 2009	Receipts and Transfers In	Disbursements and Transfers Out	Balance – June 30, 2010
Art activities	\$ 568	\$ 489	\$ 899	\$ 158
Band activity supplies	947	5,111	5,362	696
Choir – vocal	264	–	9	255
Debate	2,135	–	2,135	–
Drama	6,918	11,939	13,595	5,262
Drumline	408	–	408	–
German Club	192	1,265	1,266	191
HEAR	4,283	998	2,741	2,540
Homecoming	3,767	7,175	7,045	3,897
Industrial tech	602	2,809	2,525	886
Letterpersons' Club	11,060	36,650	27,175	20,535
National Honor Society	3,605	1,980	3,007	2,578
Newspaper	(56)	1,004	918	30
Prom	5,165	15,737	16,443	4,459
Random Acts	–	1,500	1,048	452
SADD	3,745	–	119	3,626
School store	1,783	5,065	4,891	1,957
Spanish Club	2,488	9,745	11,697	536
Student Council	1,206	3,312	4,064	454
Work Program	772	2,755	3,112	415
Yearbook/newspaper	13,674	11,824	17,767	7,731
	<u>\$ 63,526</u>	<u>\$ 119,358</u>	<u>\$ 126,226</u>	<u>\$ 56,658</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, 2010

	<u>Balance – June 30, 2009</u>	<u>Receipts and Transfers In</u>	<u>Disbursements and Transfers Out</u>	<u>Balance – June 30, 2010</u>
Student Council – YES Day	<u>\$ 25,691</u>	<u>\$ 5,820</u>	<u>\$ 4,068</u>	<u>\$ 27,443</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, 2010

	<u>Balance – June 30, 2009</u>	<u>Receipts and Transfers In</u>	<u>Disbursements and Transfers Out</u>	<u>Balance – June 30, 2010</u>
Student activity	\$ 676	\$ 1	\$ –	\$ 677
Student Council	<u>773</u>	<u>8,463</u>	<u>8,325</u>	<u>911</u>
	<u>\$ 1,449</u>	<u>\$ 8,464</u>	<u>\$ 8,325</u>	<u>\$ 1,588</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, 2010

	Balance – June 30, 2009	Receipts and Transfers In	Disbursements and Transfers Out	Balance – June 30, 2010
Snack shop	\$ 1,764	\$ 2,812	\$ 3,742	\$ 834
Student Council	2,471	5,646	5,254	2,863
	<u>\$ 4,235</u>	<u>\$ 8,458</u>	<u>\$ 8,996</u>	<u>\$ 3,697</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, 2010

	<u>Balance – June 30, 2009</u>	<u>Receipts and Transfers In</u>	<u>Disbursements and Transfers Out</u>	<u>Balance – June 30, 2010</u>
Pop Fund	\$ 371	\$ 1,540	\$ 1,611	\$ 300
Student services	214	–	–	214
Student support	375	160	462	73
Sunshine Club	–	730	287	443
	<u>\$ 960</u>	<u>\$ 2,430</u>	<u>\$ 2,360</u>	<u>\$ 1,030</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, 2010

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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Victoria L. Holinka, CPA

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, 2010, and have issued our report thereon dated October 29, 2010. 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 of the District, and the Minnesota Department of Education 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.

October 29, 2010

INDEPENDENT SCHOOL DISTRICT NO. 199

Extracurricular Student Activity Accounts
Schedule of Findings and Corrective Action
June 30, 2010

FINDINGS AND CORRECTIVE ACTION

2010-1 INACTIVE ACCOUNTS

Condition – We noted one activity account that was inactive during the year ended June 30, 2010 which needs 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, 2011. The district representative responsible for monitoring this corrective action plan is Bruce Rimstad, Business Manager.

2010-2 RECEIPTS

Condition – Three of thirty cash receipts tested were not 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, 2011. 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, 2010

FINDINGS AND CORRECTIVE ACTION (CONTINUED)

2010-3 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, a number of disbursements tested lacked proper supporting documentation, lacked documentation of approval by student activity treasurers or the appropriate district representatives, or lacked a second signature on the check. 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 disbursement would be deemed proper. These guidelines and the requirements for the documentation, approval, and payment of disbursements will be reviewed with these individuals. The planned completion date for this corrective action plan is June 30, 2011. The district representative responsible for monitoring this corrective action plan is Bruce Rimstad, Business Manager.

2010-4 IMPROPER ACCOUNTS

Condition – We noted 10 activities accounted for by the District as a student activity during the year ended June 30, 2010 that did not meet the definition of an extracurricular activity as defined by standards of the *Manual for Activity Fund Accounting*.

Criteria – *Manual for Activity Fund Accounting.*

Recommendation – It is our recommendation that the District assure all student activity accounts meet the definition of an extracurricular activity as defined by the standards of the *Manual for Activity Fund Accounting*.

Corrective Action – The District will remove all improper accounts from its student activity funds. The planned completion date for this corrective action plan is June 30, 2011. 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, 2010

INDEPENDENT SCHOOL DISTRICT NO. 199

Special Purpose Audit Reports
Year Ended June 30, 2010

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 That Could Have a Direct and Material Effect on 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	8-12
Independent Auditor's Report on Uniform Financial Accounting and Reporting Standards Compliance Table	13
Uniform Financial Accounting and Reporting Standards Compliance Table	14-15



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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, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 29, 2010. 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 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements 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. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

October 29, 2010

INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures
U.S. Department of Education		
Direct		
Indian Education – Grants to Local Education Agencies	84.060	\$ 2,622
Passed through Minnesota Department of Education		
Special education cluster		
Special Education – Grants to States	84.027	935,500
ARRA – Special Education – Grants to States	84.391	491,753
Special Education – Preschool Grants	84.173	<u>24,741</u>
Total special education cluster		1,451,994
Title I – Grants to Local Education Agencies cluster		
Title I – Grants to Local Educational Agencies	84.010	326,237
ARRA – Title I – Grants to Local Educational Agencies	84.389	<u>79,195</u>
Total Title I – Grants to Local Education Agencies cluster		405,432
ARRA – State Fiscal Stabilization Funds – Education State Grants	84.394	2,157,311
Safe and Drug-Free Schools and Communities – State Grants	84.186	2,225
English Language Acquisition Grants	84.365	19,393
Improving Teacher Quality – State Grants	84.367	157,778
Early intervention services cluster		
ARRA – Special Education Grants for Infants and Families	84.393	8,267
Passed through Intermediate School District No. 917		
Special Education – Grants for Infants and Families	84.181	<u>20,447</u>
Total early intervention services cluster		28,714
U.S. Department of Agriculture		
Passed through Minnesota Department of Education		
Child nutrition cluster		
School Breakfast Program	10.553	143,892
National School Lunch Program	10.555	642,080
Special Milk Program for Children	10.556	<u>1,186</u>
Total child nutrition cluster		<u>787,158</u>
Total federal awards		<u><u>\$ 5,012,627</u></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 \$91,352 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).

Note 3: All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.



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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, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 29, 2010. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified one deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1 to be a material weakness.

(continued)

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 of the District, in a separate letter dated October 29, 2010.

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, others within 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, Karouski, Radosevich & Co., P.A.

October 29, 2010



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON 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 Independent School District No. 199, Inver Grove Heights, Minnesota's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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.

As described in item 2010-2 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding reporting applicable to its U.S. Department of Education Special Education Cluster, U.S. Department of Education Title I Cluster, and ARRA State Fiscal Stabilization Funds – Education State Grants. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2010.

(continued)

Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified one deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-2 to be a material weakness.

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, others within 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, Karcowski, Radasewich & Co., P.A.

October 29, 2010



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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, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 29, 2010.

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 except as described in the Schedule of Findings and Questioned Costs.

This report is intended solely for the information and use of management, the School Board, others within the District, and the Office of the State Auditor 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.

October 29, 2010

INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

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? X Unqualified
 Qualified
 Adverse
 Disclaimer

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant deficiencies identified? Yes X None reported

Noncompliance material to the financial statements noted? Yes X No

Federal Awards

Internal controls over major federal award programs:

Material weakness(es) identified? X Yes No

Significant deficiencies identified? Yes X None reported

Type of auditor's report issued on compliance for major programs? Unqualified
 X Qualified
 Adverse
 Disclaimer

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? X Yes No

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Education Special Education Cluster consisting of:	
– Special Education – Grants to States	84.027
– ARRA – Special Education – Grants to States	84.391
– Special Education – Preschool Grants	84.173
The U.S. Department of Education Title I Cluster consisting of:	
– Title I – Grants to Local Education Agencies	84.010
– ARRA – Title I – Grants to Local Education Agencies	84.389
ARRA – State Fiscal Stabilization Funds – Education State Grants	84.394

Threshold for distinguishing type A and B programs. \$ 300,000

Does the auditee qualify as a low-risk auditee? Yes X No

INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2010

B. FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING

2010-1 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 adopted and implemented an Administrative Procedures Manual during the year ended June 30, 2010 to formalize its internal control policies and procedures, including those addressing segregation of duties. The District will continue its efforts to segregate incompatible duties to the extent possible.

Official Responsible – Bruce Rimstad, Business Manager.

Planned Completion Date – June 30, 2011.

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 to continue to improve segregation of duties at the District.

INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2010

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

**MATERIAL WEAKNESS IN INTERNAL CONTROL OVER COMPLIANCE AND REPORTABLE INSTANCES
OF NONCOMPLIANCE – *SPECIAL EDUCATION CLUSTER (ARRA SPECIAL EDUCATION – GRANTS TO
STATES – CFDA No. 84.391), TITLE I CLUSTER (ARRA TITLE I – GRANTS TO LOCAL EDUCATIONAL
AGENCIES – CFDA No. 84.389), AND ARRA STATE FISCAL STABILIZATION FUNDS – EDUCATION
STATE GRANTS – CFDA No. 84.394***

2010-2 Internal Control Over Compliance With Federal Reporting Requirements

Criteria – Management is responsible for establishing and maintaining effective internal control over compliance with requirements applicable to federal programs, including Section 1512 of the American Recovery and Reinvestment Act (ARRA) which requires recipients to report a quarterly estimate of the number of jobs created or retained through the use of ARRA funds.

Condition – During our audit, we noted that the District did not have sufficient controls in place to assure compliance with this requirement for the three major programs noted above, which resulted in noncompliance with a type of federal compliance requirement that could have a direct and material effect on these programs. The District did not submit three of the four required quarterly jobs data surveys for each of these programs.

Questioned Costs – Not applicable.

Context – This is a current year finding.

Cause – The District did not submit the quarterly jobs data surveys.

Effect – Noncompliance with the reporting requirements could be viewed as a violation of the award agreement.

Recommendation – We recommend that the District submit quarterly jobs data surveys to report the number of the jobs created and retained for any federal award program that includes ARRA funding.

Corrective Action Plan

Actions Planned – The District submitted the missing reports in September 2010, and will submit the required quarterly data surveys in the future.

Official Responsible – Bruce Rimstad, Business Manager.

Planned Completion Date – September 2010.

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

Plan to Monitor – Bruce Rimstad, Business Manager, will review procedures prior to the above planned completion date.

INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2010

D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

2010-3 CLAIMS AND DISBURSEMENTS

Criteria – Minnesota Statute § 471.425, Subd. 2.

Condition – Minnesota Statutes require districts to pay each vendor obligation according to the terms of each contract or within 35 days after the receipt of the goods or services or the invoice for the goods or services. If such obligations are not paid within the appropriate time period, the District must pay interest on the unpaid obligations at the rate of 1.5 percent per month or part of a month. For one disbursement selected for testing, the District did not pay the obligation within the required time period, and did not pay interest on the unpaid obligation.

Questioned Costs – Not applicable.

Context – One out of 25 disbursements tested was not in compliance. This is a current year finding.

Cause – All general disbursements are approved by the School Board prior to payment. Due to the timing of the semi-monthly School Board meetings, invoices are sometimes not paid within the 35 days as required.

Effect – One payment made to a vendor was not paid within the timeframe required by state statute, and the vendor was not paid interest to which they were entitled.

Recommendation – We recommend that the District review claims and disbursement payment procedures in place to ensure future compliance with this statute.

Corrective Action Plan

Actions Planned – The District is currently implementing new processes to meet its financial obligations within the required 35-day time period.

Official Responsible – Bruce Rimstad, Business Manager.

Planned Completion Date – June 30, 2011.

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

Plan to Monitor – Bruce Rimstad, Business Manager, will review disbursement check runs to assure they are being paid within the required 35-day time period.

INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2010

D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT (CONTINUED)

2010-4 UNCLAIMED PROPERTY

Criteria – Minnesota Statute § 345.41.

Condition – Minnesota Statutes require districts to remit unclaimed or uncashed checks held for more than three years to the Commissioner of Commerce. For fiscal 2010, the District did not remit uncashed checks within the required time period.

Questioned Costs – Not applicable.

Context – The District was not in compliance for the year ended June, 30, 2010. This is a current year finding.

Cause – Annually, the District is required to report to the Commissioner of Commerce. Due to an oversight, the report was not filed for fiscal 2010 as required.

Effect – The unclaimed property report was not filed and the uncashed checks were not remitted within the timeframe required by state statutes.

Recommendation – We recommend that the District review its procedures for the remission of unclaimed property to ensure future compliance with this statute.

Corrective Action Plan

Actions Planned – The District is currently implementing new processes to meet its annual reporting requirement within statute guidelines.

Official Responsible – Bruce Rimstad, Business Manager.

Planned Completion Date – June 30, 2011.

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

Plan to Monitor – Bruce Rimstad, Business Manager, will review the annual report to the Commissioner of Commerce to assure the District is in compliance in future years.

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

No audit findings at June 30, 2009.



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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, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 29, 2010. 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.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements 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. The accompanying Uniform Financial Accounting and Reporting Standards Compliance Table has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

October 29, 2010

INDEPENDENT SCHOOL DISTRICT NO. 199

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2010

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		\$ 38,373,601	\$ 38,373,601	\$ --
Total expenditures		\$ 36,517,790	\$ 36,517,790	\$ --
Reserved				
403	Staff development	\$ 122,262	\$ 122,262	\$ --
405	Deferred maintenance	\$ 762,580	\$ 762,580	\$ --
406	Health and safety	\$ (216,713)	\$ (216,713)	\$ --
407	Capital projects levy	\$ --	\$ --	\$ --
408	Cooperative revenue	\$ --	\$ --	\$ --
413	Projects funded by COP	\$ --	\$ --	\$ --
414	Operating debt	\$ --	\$ --	\$ --
416	Levy reduction	\$ --	\$ --	\$ --
417	Taconite building maintenance	\$ --	\$ --	\$ --
419	Encumbrances	\$ --	\$ --	\$ --
423	Certain teacher programs	\$ --	\$ --	\$ --
424	Operating capital	\$ 1,217,983	\$ 1,217,983	\$ --
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 schools – crime levy	\$ 42,807	\$ 42,807	\$ --
450	Pre-kindergarten	\$ --	\$ --	\$ --
451	QZAB payments	\$ --	\$ --	\$ --
452	OPEB liability not in trust	\$ --	\$ --	\$ --
453	Unfunded severance and retirement levy	\$ --	\$ --	\$ --
Unreserved				
418	Separation/retirement benefits	\$ 1,283,225	\$ 1,283,225	\$ --
422	Unreserved – undesignated	\$ 4,708,296	\$ 4,708,294	\$ 2
Food Service				
Total revenue		\$ 1,827,610	\$ 1,827,609	\$ 1
Total expenditures		\$ 1,671,648	\$ 1,671,647	\$ 1
Reserved				
419	Encumbrances	\$ --	\$ --	\$ --
452	OPEB liability not in trust	\$ --	\$ --	\$ --
Unreserved				
418	Separation/retirement benefits	\$ --	\$ --	\$ --
422	Unreserved – undesignated	\$ 941,688	\$ 941,688	\$ --
Community Service				
Total revenue		\$ 1,999,076	\$ 1,999,076	\$ --
Total expenditures		\$ 2,218,959	\$ 2,218,959	\$ --
Reserved				
419	Encumbrances	\$ --	\$ --	\$ --
426	\$25 taconite	\$ --	\$ --	\$ --
431	Community education	\$ 105,533	\$ 105,533	\$ --
432	ECFE	\$ 9,318	\$ 9,319	\$ (1)
444	School readiness	\$ 2,413	\$ 2,413	\$ --
447	Adult basic education	\$ --	\$ --	\$ --
452	OPEB liability not in trust	\$ --	\$ --	\$ --
Unreserved				
418	Separation/retirement benefits	\$ --	\$ --	\$ --
422	Unreserved – undesignated	\$ 7,351	\$ 7,351	\$ --
Building Construction				
Total revenue		\$ 598	\$ 598	\$ --
Total expenditures		\$ 27,163	\$ 27,163	\$ --
Reserved				
407	Capital projects levy	\$ --	\$ --	\$ --
409	Alternative facility program	\$ --	\$ --	\$ --
413	Project funded by COP	\$ --	\$ --	\$ --
419	Encumbrances	\$ --	\$ --	\$ --
Unreserved				
422	Unreserved – undesignated	\$ --	\$ --	\$ --
422	Unreserved – undesignated	\$ 166,822	\$ 166,822	\$ --

INDEPENDENT SCHOOL DISTRICT NO. 199

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2010

		Audit	UFARS	Audit – UFARS
Debt Service				
Total revenue		\$ 2,819,106	\$ 2,819,106	\$ –
Total expenditures		\$ 2,812,656	\$ 2,812,656	\$ –
Reserved				
425	Bond refundings	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
Unreserved				
422	Unreserved – undesignated	\$ 596,651	\$ 596,651	\$ –
Trust				
Total revenue		\$ 267,499	\$ 267,499	\$ –
Total expenditures		\$ 267,665	\$ 267,665	\$ –
Reserved				
419	Encumbrances	\$ –	\$ –	\$ –
Unreserved				
422	Unreserved – undesignated	\$ 12,232	\$ 12,232	\$ –
Agency				
Unreserved				
422	Unreserved – undesignated	\$ –	\$ –	\$ –
Internal Service				
Total revenue		\$ 501,184	\$ 501,184	\$ –
Total expenditures		\$ 321,492	\$ 321,492	\$ –
Reserved				
419	Encumbrances	\$ –	\$ –	\$ –
Unreserved				
422	Unreserved – undesignated	\$ 225,654	\$ 225,654	\$ –
OPEB Revocable Trust				
Total revenue		\$ 578,305	\$ 578,305	\$ –
Total expenditures		\$ 927,700	\$ 927,700	\$ –
Reserved				
419	Encumbrances	\$ –	\$ –	\$ –
Unreserved				
422	Unreserved – undesignated	\$ 9,088,212	\$ 9,088,212	\$ –
OPEB Irrevocable Trust				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
Reserved				
419	Encumbrances	\$ –	\$ –	\$ –
Unreserved				
422	Unreserved – undesignated	\$ –	\$ –	\$ –
OPEB Debt Service				
Total revenue		\$ 683,249	\$ 683,249	\$ –
Total expenditures		\$ 656,814	\$ 656,814	\$ –
Reserved				
425	Bond refundings	\$ –	\$ –	\$ –
Unreserved				
422	Unreserved – undesignated	\$ 26,435	\$ 26,435	\$ –

Note 1: Statutory reserve deficits, if any, are reported in unreserved fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

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: Balances listed above for “Debt Service” and “OPEB Debt Service” are combined as one Debt Service Fund for financial reporting purposes.

Unaudited Data Reporting Elements

Fiscal Year 2010 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, 2010



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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, 2010. 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 of the District, 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.

October 29, 2010

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, 2010. 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 audit engagement letter. 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, 2010:

- We have issued an unqualified opinion on the District's annual financial statements.
- We have reported one deficiency involving the District's internal control over financial reporting that we consider to be a material weakness. Due to the limited size of the District's business office staff, the District has limited segregation of duties in several areas.
- The results of our testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
- We reported that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.
- Our opinion on the District's compliance with requirements that could have a direct and material effect on each major federal program was qualified due to a reportable instance of noncompliance with federal reporting requirements. The District did not submit three of the four quarterly jobs data survey reports required for any federal award program that includes American Recovery and Reinvestment Act (ARRA) funds. These quarterly reports were required for each of the three of the major federal awards programs tested.
- We reported one matter involving the District's internal control over compliance in our testing of major federal programs that we consider to be a material weakness. The District's internal controls over reporting were not sufficient to assure the District complied with the ARRA quarterly jobs data surveys reporting requirement for each of the three major programs tested.
- We have reported two findings based on our testing of the District's compliance with Minnesota laws and regulations:
 1. One out of 25 disbursements tested was not paid within 35 days after the receipt of the goods or services (or the invoice for the goods or services), and the District did not pay interest on the transaction, as required by Minnesota Statutes.
 2. The District did not remit unclaimed or uncashed checks held for more than three years to the Commissioner of Commerce in a timely manner as required by state statutes.

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, 2010, 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 the District did not have adequate documentation of internal controls. During the current year, the District adopted written internal control policies and procedures that outlined the District's 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.

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, 2010.

We also issued a report on compliance with the Minnesota Department of Education (MDE) *Manual for Activity Fund Accounting (MAFA)*, in which we reported the following findings:

- One of the District's extracurricular student activities accounts is inactive and should be closed.
- Of the 30 receipts tested, 3 were not deposited in a timely manner as defined by the *MAFA*, which requires that deposits not be held over the weekend.
- In our testing of extracurricular student activity disbursements, we noted that:
 - Of the 35 disbursements tested, 14 were not allowable under *MAFA* guidelines.
 - Of the 35 disbursements tested, 17 lacked approval from either the student activity treasurer or the student activity advisor.
 - Of the 35 disbursements tested, 30 lacked a second check signor as required by the *MAFA*.
 - Of the 35 disbursements tested, 3 lacked sufficient supporting documentation, such as a vendor invoice.
- Ten activities accounted for by the District as extracurricular student activities do not meet the definition of an extracurricular student activity in the *MAFA*, and should be closed or accounted for in the District's General Fund.

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. No new accounting policies were adopted and the application of existing policies was not changed during the year.

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 of the District include the following:

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 2010 is not finalized until well into fiscal year 2011. 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 2010 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 for severance 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 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 each opinion unit's 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 an 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 October 29, 2010.

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 fiscal year. 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.

Fiscal Year Ended June 30,	Formula Allowance	
	Amount	Percent Increase
2001	\$ 3,964	4.2 % (1)
2002	\$ 4,068	2.6 %
2003	\$ 4,601	2.6 % (1)
2004	\$ 4,601	– %
2005	\$ 4,601	– %
2006	\$ 4,783	4.0 %
2007	\$ 4,974	4.0 %
2008	\$ 5,074	2.0 %
2009	\$ 5,124	1.0 %
2010	\$ 5,124	– %
2011	\$ 5,124	– %

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

As noted in the table above, current legislation has frozen the basic formula allowance at the fiscal 2009 level for both fiscal 2010 and 2011. 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 the one-time reduction to general education aid, totaling \$500 million, in fiscal 2010 that was offset dollar-for-dollar by federal fiscal stabilization funds.

STATE GENERAL FUND BUDGET OUTLOOK

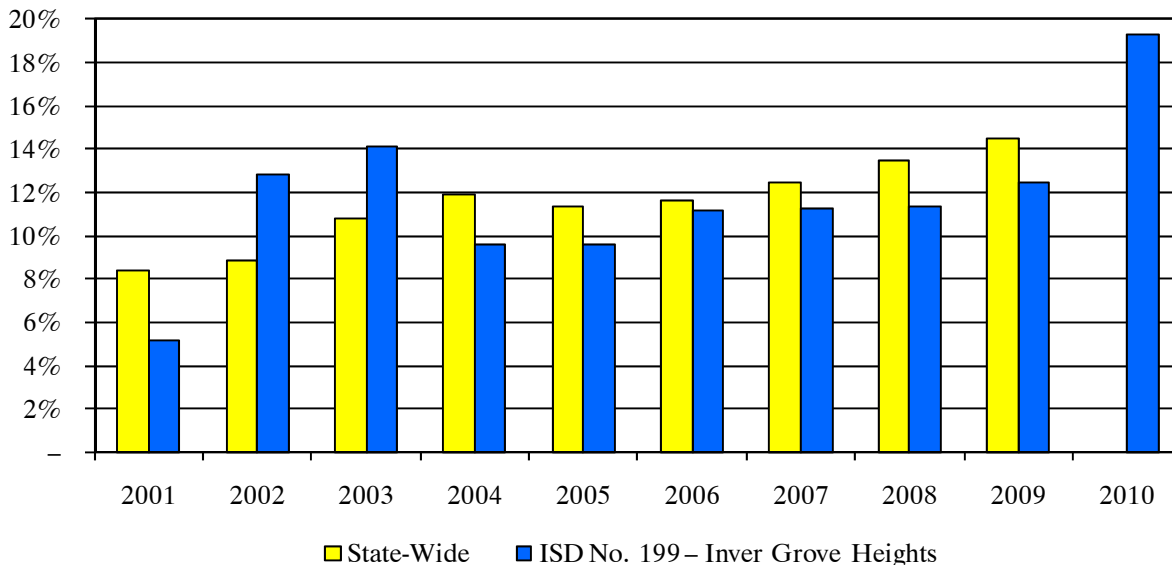
The state of Minnesota has experienced a series of major budget shortfalls and a steadily deteriorating financial condition in recent years. Local governments and other entities dependant on the state for funding have, in turn, had to deal with the resulting state aid cuts, holdbacks, and unallotments. For the fiscal year 2010–2011 biennium, the adopted state budget was balanced using several large accounting “shifts,” one-time federal stabilization funds, and aid reductions. The accounting shifts, further explained in the “Legislative Summary” section of this report, include delaying state aid payments to school districts and charter schools, and accelerating the recognition of districts’ tax levy revenue with an offsetting reduction in state aid. Both of these types of shifts typically do not reduce district or charter school revenues but significantly reduce their cash flow, forcing an increasing number to use short-term borrowing for daily cash-flow needs. The state intends to pay these shifts back when it has the financial ability.

Current state budget projections for the fiscal year 2012–2013 biennium predict further significant shortfalls that will likely need to be addressed. Realistically, the state has already used up most of the accounting shifts available for this purpose, and additional federal assistance cannot be counted on. The upcoming election, which will result in a new Governor and potentially a number of new legislators, will have a substantial impact on how the state will address its budget predicament and the future direction of education funding. And, of course, the economy, while showing some signs of recovery, is unlikely to turn around quickly enough to solve the state’s budget issues in the short-term. All of this adds up to a period of continued financial uncertainty for Minnesota school districts and charter schools.

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 2010.

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, 2009, this ratio was 12.5 percent for the District, as compared to a state-wide average of 14.5 percent. The District's unreserved operating fund balance as a percentage of operating expenditures was 19.3 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		
	2008	2009	2008	2009	2008	2009	2010
General Fund							
Property taxes	\$ 1,160	\$ 1,318	\$ 1,527	\$ 1,833	\$ 1,698	\$ 1,921	\$ 1,793
Other local sources	487	456	417	381	416	471	463
State	7,833	7,943	8,029	7,920	7,586	7,281	6,568
Federal	456	467	492	489	330	402	1,099
Total General Fund	9,936	10,184	10,465	10,623	10,030	10,075	9,923
Special revenue funds							
Food Service	433	449	434	453	447	455	473
Community Service	474	490	570	613	523	509	517
Debt Service Fund	993	994	1,114	1,131	718	733	906
Total revenue	\$ 11,836	\$ 12,117	\$ 12,583	\$ 12,820	\$ 11,718	\$ 11,772	\$ 11,819
ADM served and tuition paid					<u>3,742</u>	<u>3,812</u>	<u>3,867</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 2010 collected in the governmental funds included above were \$47 higher per student than the previous year. General Fund tax revenue decreased \$128 per student from the prior year, mainly due to a decrease in capital-related levies for health and safety projects. General Fund state aid revenue was \$713 per student less than last year, while General Fund federal revenue was \$697 higher than last year, mainly due to a one-time reduction in general education aid that was replaced by federal fiscal stabilization funds. Debt service revenue increased \$173 per student due to a new levy of about \$688,000 related to the OPEB bonds the District issued last year.

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

Expenditures per Student (ADM) Served							
	State-Wide		Seven-County Metro Area		ISD No. 199 – Inver Grove Heights		
	2008	2009	2008	2009	2008	2009	2010
General Fund							
Administration	\$ 412	\$ 463	\$ 405	\$ 440	\$ 387	\$ 512	\$ 357
District support services	399	424	412	436	245	264	215
Elementary and secondary regular instruction	4,528	5,090	4,730	5,411	4,344	5,530	4,154
Vocational education instruction	142	149	141	152	110	128	99
Special education instruction	1,703	1,794	1,904	2,002	2,242	2,367	1,842
Instructional support services	461	493	536	598	646	822	603
Pupil support services	835	868	914	968	768	924	831
Sites and buildings and other	811	840	778	824	877	1,016	759
Total General Fund expenditures (excluding capital)	9,291	10,121	9,820	10,831	9,619	11,563	8,860
General Fund capital expenditures	505	519	494	443	533	562	583
Special revenue funds							
Food Service	437	451	432	453	454	488	432
Community Service	470	505	564	634	545	654	574
Debt Service Fund	1,064	1,196	1,151	1,334	678	709	897
Total expenditures	<u>\$ 11,767</u>	<u>\$ 12,792</u>	<u>\$ 12,461</u>	<u>\$ 13,695</u>	<u>\$ 11,829</u>	<u>\$ 13,976</u>	<u>\$ 11,346</u>
ADM served and tuition paid					<u>3,742</u>	<u>3,812</u>	<u>3,867</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 2010 were \$2,630 lower per student than the previous year. The majority of the decrease 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 in fiscal 2009. The \$188 per student increase in debt service expenditures is due to the District making the first scheduled debt service payments on the OPEB bonds in 2010.

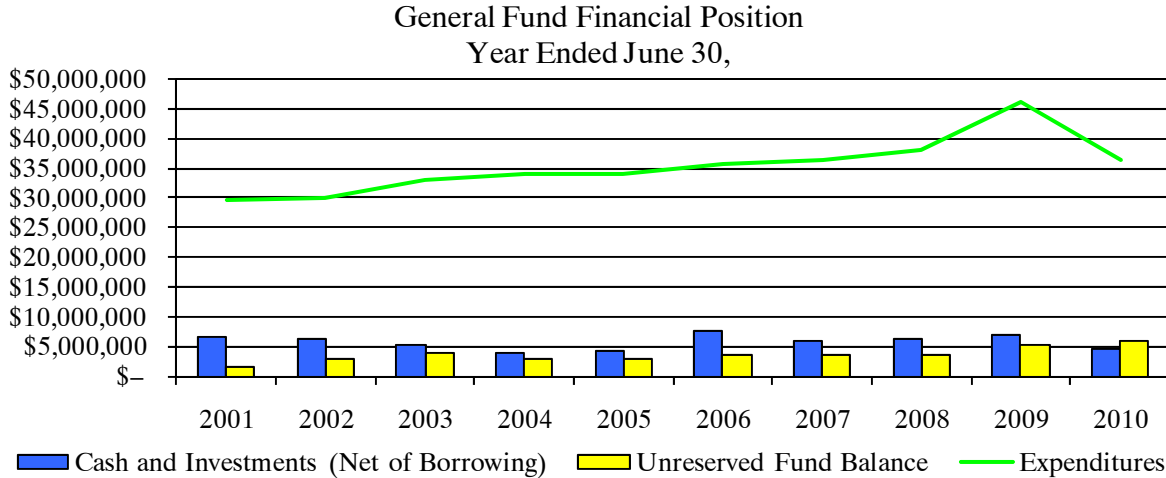
SUMMARY

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 school boards, 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.



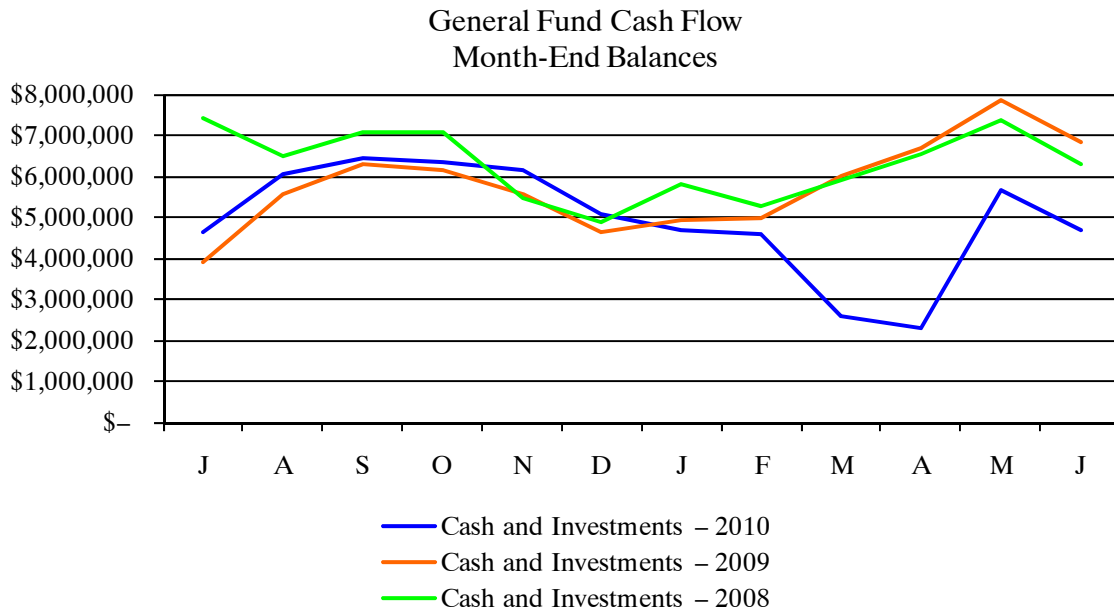
The District's General Fund ended fiscal year 2010 with an unreserved fund balance of \$5,991,521 (excluding the \$216,713 deficit in the statutory reserve for health and safety reported as unreserved, undesignated), an increase of \$912,850 from the prior year. In total, fund balances in the General Fund increased by \$2,015,715 in fiscal year 2010, as compared to a budgeted fund balance increase of \$909,890. General Fund reserved fund balances were increased by \$1,102,895 in 2010, mainly due to the increase in the reserve for operating capital. The District ended fiscal year 2010 with a General Fund cash balance of \$4,698,996, which decreased \$2,107,927 from the prior year due to the change in the metering of state aid payments.

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

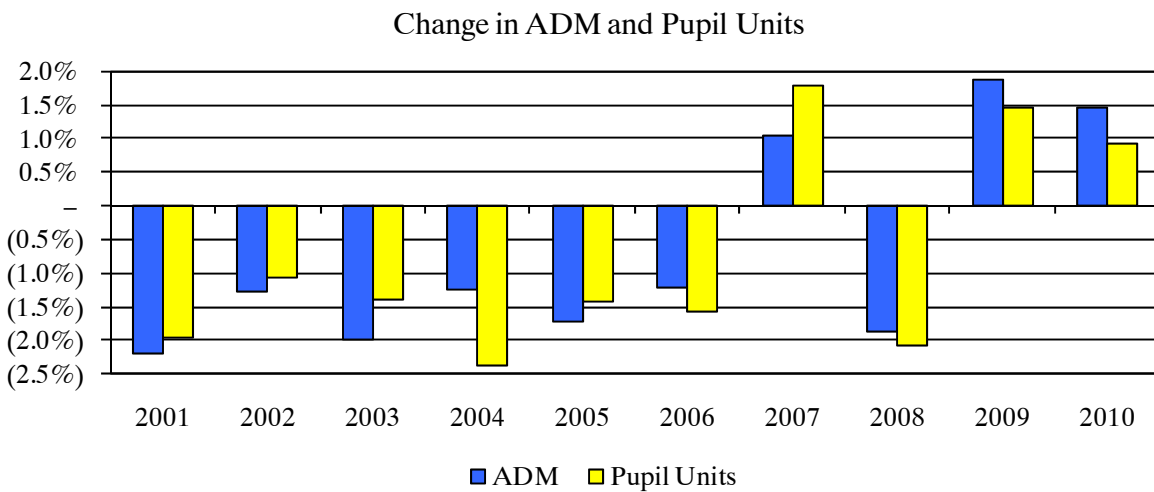
	Year Ended June 30,				
	2006	2007	2008	2009	2010
Reserved fund balance	\$ 2,102,841	\$ 1,706,238	\$ 1,199,856	\$ 826,054	\$ 1,928,919
Unreserved fund balance	3,391,928	3,560,897	3,619,071	5,078,671 *	5,991,521 *
Total fund balance	<u>\$ 5,494,769</u>	<u>\$ 5,267,135</u>	<u>\$ 4,818,927</u>	<u>\$ 5,904,725</u>	<u>\$ 7,920,440</u>
Unreserved fund balance as a percentage of expenditures	<u>9.5%</u>	<u>9.8%</u>	<u>9.5%</u>	<u>11.0%</u>	<u>16.4%</u>
* Beginning in 2009, the MDE changed the classification of fund balance set aside for separation and retirement benefits from a reserve to an unreserved designation.					

The table above reflects the total General Fund unreserved fund balance and percentages, which differs 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, 2010, unreserved fund balance in the General Fund represented 16.4 percent of annual expenditures, or about two months 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:

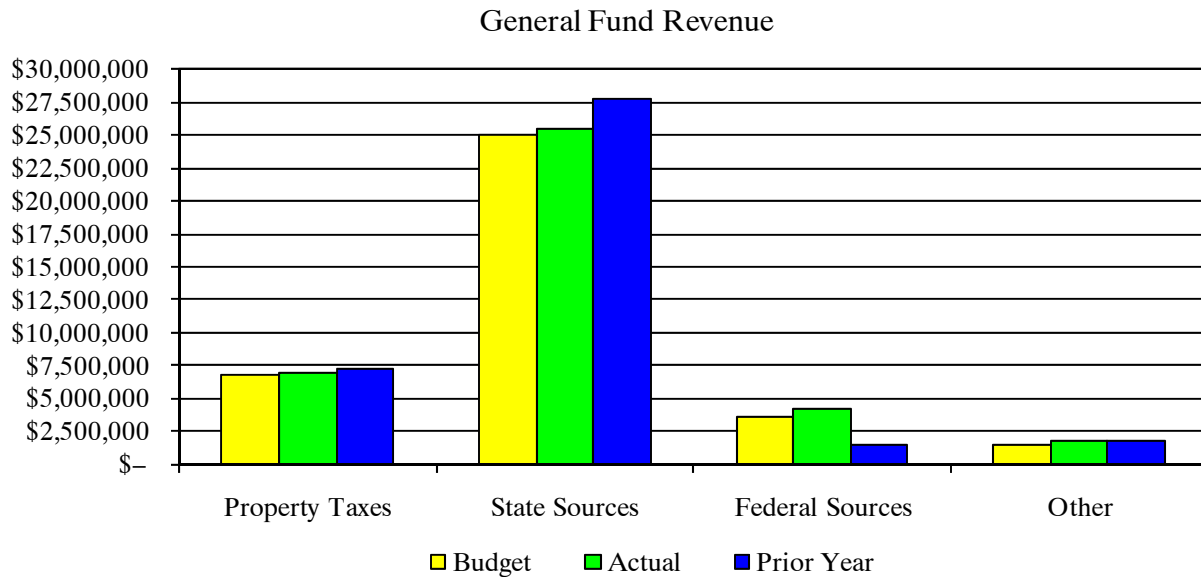


The graph above shows the peaks and valleys of the General Fund cash and investments balance on a monthly basis. The swing between its high and low month-end cash balances is about \$4.2 million. The graph illustrates how the change in the metering of state aid payments that reduced the percentage of estimated aid paid to districts by June 30 from 90 percent to 73 percent. The District’s cash flow will be further impacted in fiscal 2011 when the percentage of estimated state aid paid by June 30 decreases to 70 percent and the tax shift is increased to help balance the state budget.



ADM is a measure of students attending class, which is 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 3,867 in 2010, an increase of 55 ADM (1.5 percent) from the prior year.

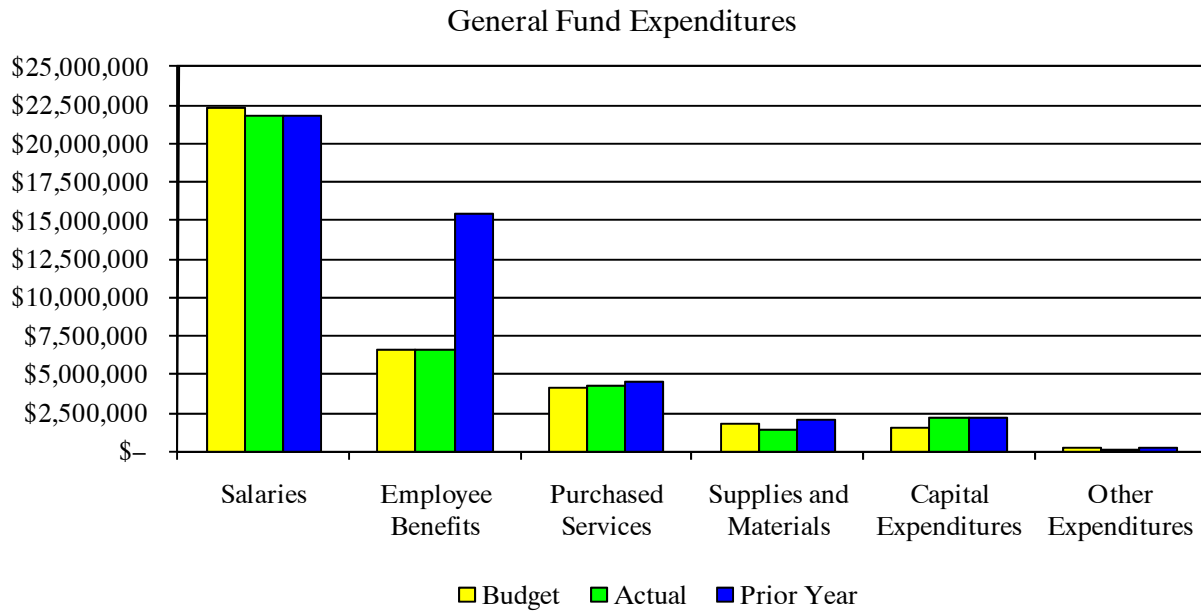
The following graph summarizes the District's General Fund revenue for 2010:



Total General Fund revenues for 2010 were \$38,373,601, a decrease of \$35,221 from the prior year. Tax revenue was \$390,999 lower than last year, mainly due to a decrease in the District's health and safety levy, as discussed earlier. State aid revenue was \$2,355,179 lower than last year while federal revenue was \$2,716,290 higher than last year, which primarily reflects the one-time reduction to state general education aid of about \$2.16 million that was offset by federal fiscal stabilization funds as discussed earlier. General education state aid was further reduced due to the phase-out of \$51 per student of "one-time" additional general education revenue and \$55 per student for technology and operating capital available in the previous year. The District's federal revenue also increased due to about \$579,000 of additional grant awards through the American Recovery and Reinvestment Act (ARRA) in the current year that were used mainly for special education and Title I programs.

Revenues for 2010 exceeded budget by \$1,377,765. The largest variance was in federal aids, which were \$579,644 higher than expected, mainly due to the availability of the additional ARRA entitlements. State aid revenues were \$424,913 higher than projected, with general education aid about \$365,000 over budget due to an unexpected increase in the number of students served by the District. State special education revenue was also \$40,000 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 \$335,061, as the District budgets conservatively for these difficult to predict revenues. Investment income was \$31,120 under budget, mainly due to the District's reduced cash flow caused by the change in the metering of state aid payments.

The following graph summarizes the District's General Fund expenditures for 2010:

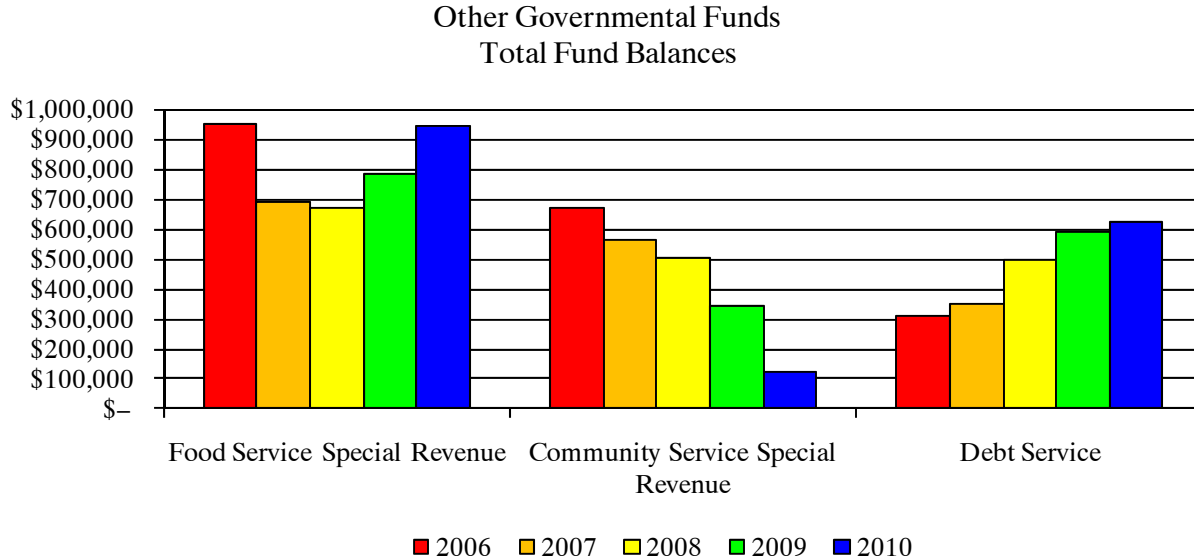


Total General Fund expenditures for 2010 were \$36,517,790, a decrease of \$9,699,062 from the prior year. Employee benefit costs were \$8,874,346 lower, mainly due to the \$8.59 million of OPEB bond proceeds that were contributed to a revocable OPEB trust fiscal 2009. Supplies and materials costs also decreased \$522,845 from the prior year, primarily in reduced textbook expenditures.

Total General Fund expenditures were under budget by \$120,471 (0.3 percent) in 2010. Salaries were \$531,914 under budget, as instructional salaries did not increase as expected. Supplies and materials costs were under budget by \$354,337, mainly due to lower than expected utility costs and textbook expenditures. Capital expenditures, conversely, were \$746,749 over budget, as the availability of federal ARRA funding enabled the District to purchase additional technology-related items such as computers, smart boards, and software.

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 \$941,688, an increase of \$159,797 from the prior year, compared to a budgeted decrease of \$34,481. Revenues exceeded budget by \$89,241, as federal aid earned for free and reduced price meals was greater than expected. Expenditures were under budget by \$101,202 in total. Most of the variance was in supplies (primarily food) costs, which were \$122,953 less than projected. The District has been able to maintain a stable and substantial fund balance in this fund in recent years.

Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended the year with a total fund balance of \$124,615, a decrease of \$219,883, as compared to a budgeted decrease of \$92,937. Revenues fell short of budget by \$108,224, mainly in tuition, fees, and investment earnings. Expenditures exceeded budget by \$18,722, mainly in purchased services and capital outlay.

It is critical that the Community Service Special Revenue Fund be self-sustaining, so as not to place an additional burden on the General Fund. As the graph above indicates, the District has spent down the fund balance in this fund considerably over the last five years. We recommend that the District review the fees it is charging for its community service programs, to assure that adequate revenues will be generated to cover future program costs.

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund (not pictured) has a fund balance of \$166,822 at June 30, 2010, which represents the remaining unspent proceeds from the District's 2005 building bonds, which are being used for a variety of facility improvement projects.

Debt Service Fund

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. At June 30, 2010, the Debt Service Fund had a fund balance of \$623,086 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, 2010, 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 \$98,062. 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 \$225,654 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 million and net assets of \$9.1 million available to pay future OPEB benefits. 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 \$81,849 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 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,		
	2008	2009	2010
Net assets – governmental activities			
Total fund balances – governmental funds	\$ 8,763,569	\$ 7,814,701	\$ 9,776,651
Capital assets, less accumulated depreciation	42,553,332	42,930,064	41,770,830
Long-term liabilities	(44,504,007)	(48,817,417)	(47,621,695)
Other	560,979	9,994,269	9,777,648
	<u>\$ 10,672,719</u>	<u>\$ 11,921,617</u>	<u>\$ 13,703,434</u>
Net assets			
Invested in capital assets, net of related debt	\$ 5,638,108	\$ 5,096,314	\$ 5,009,958
Restricted	2,403,846	2,367,912	3,382,349
Unrestricted	(668,081)	4,457,391	5,311,127
	<u>\$ 10,672,719</u>	<u>\$ 11,921,617</u>	<u>\$ 13,703,434</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 \$1,781,817 during fiscal 2010. Restricted assets increased \$1,014,437, primarily in net assets restricted for operating capital and capital asset acquisition. Unrestricted net assets increased \$853,736, mainly due to the increase of unreserved fund balance in the General Fund.

ACCOUNTING AND AUDITING UPDATES

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 (nonspendable, restricted, committed, assigned, and unassigned) 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. Elimination of the reserved component of fund balance in favor of a restricted classification will 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.

GASB STATEMENT NO. 59 – FINANCIAL INSTRUMENTS OMNIBUS

The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. Applying the reporting provisions of Statement No. 31 for interest-earning investment contracts to unallocated insurance contracts improves consistency of investment measurements that are reported by pension and OPEB plans. Emphasizing the applicability of SEC requirements to 2a7-like external investment pools provides practitioners with improved guidance. Limiting interest rate risk disclosures for investments in mutual funds, external investment pools, and other pooled investments to debt investment pools provides better guidance regarding the applicability of interest rate risk disclosures. Finally, addressing the applicability of Statement No. 53 to certain financial instruments refines which financial instruments are within the scope of that statement. 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 recent 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) 2010 and FY 2011 is \$5,124, reflecting no increase from the FY 2009 level.

FY 2010 One-Time General Education Aid Reduction Offset by Federal Fiscal Stabilization Funds – Reduced 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 provided 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 have new reporting requirements for ARRA funds.

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 – Allowed districts to transfer up to \$51 per adjusted marginal cost pupil unit (AMCPU) from the operating capital reserved fund balance to its unreserved General Fund balance for FY 2010.

Repeal of the Endowment Fund Reduction – Beginning in FY 2010, districts no longer receive a reduction in their general education aid by the amount of endowment payments received. This increased revenue by about \$28 per resident ADM for FY 2010 (based on ADM for FY 2009).

State Aid Payment Deferral – All state aids normally paid on a 90–10 schedule is changed to a 73–27 schedule for FY 2010 and 70–30 for FY 2011. The 90–10 schedule is reinstated for FY 2012.

Final Payment for Districts in SOD – Districts in SOD as of June 30th of the previous year can receive an early final payment on June 20th to bring total general education aid up to 90 percent, but not exceeding the SOD amount.

Additional State Aid Payment Delays – Before the state needs to enter into short-term borrowing, it has the option to make additional payment delays to districts with General Fund balances of \$700 or more per resident pupil unit.

Property Tax Revenue Recognition Change (Tax Shift) – Beginning in FY 2011, 48.6 percent of property taxes levied for the next school year will be recognized as revenue in the current year, and state aids will be reduced by that same amount. This will be repaid (decreased) when the state attains certain specific financial goals, and the aid payment schedule is restored to 90–10.

Safe Schools Levy – 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.

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).

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.
- Required 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 eliminated the reserve for severance account beginning with FY 2010 reporting.

PERA and TRA Rates – Contribution rates for employers and employees of the PERA Coordinated Plan increase by 0.25 percent effective January 1, 2011. Contribution rates for employers and employees for both the TRA Basic and Coordinated Plans increase by 0.5 percent each year through FY 2015. There is no additional aid to help fund these increases.

Minnesota Department of Education Budget – The MDE budget has been reduced by 3.8 percent for FY 2010 and 5.4 percent for FY 2011.