

Independent School District 199

Inver Grove Heights, MN 55076



Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2012

INDEPENDENT SCHOOL DISTRICT NO. 199
INVER GROVE HEIGHTS, MINNESOTA

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

Prepared by
Business Office

Bruce Rimstad • Business Manager

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SECTION I

INTRODUCTORY SECTION



October 18, 2012

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, 2012 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, 2012 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, 2012 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 this 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 combining and individual fund statements and schedules presented as supplemental information. 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 33,774, covers an area of about 22 square miles, and enrolled 3,770 students for the 2011–2012 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:

- National Wrestling Coaches Association selected Mark Madigan as the National Assistant Wrestling Coach of the Year.
- Simley High School’s Class of 2012 graduated 239 students.
- Third-graders created a cardboard arcade to educate students, staff, and the public about the water crisis in Tanzania.
- Inver Grove Heights Destination ImagiNation teams finished 12th and 24th at nationals.
- The Washington Post ranked Simley High School among America’s best schools for a fifth straight year.
- Noah Maddio and Robert Thai, students of the Atheneum Gifted Magnet Program, were the overall State Champions in MathMasters, scoring a tie of 74 out of 75 points.
- The District earned a Certificate of Excellence in Financial Reporting for a seventh straight year.
- Inver Grove Heights Middle School sent 10 students to the Young Inventor’s Fair at the Mall of America.
- Inver Grove Heights Community Schools launched the first school district mobile app in Minnesota.
- Ninth-graders explored the working world at Simley’s Career Fair.
- Students learned from the pros at eighth-grade career day.
- Spanish language movie night brought students and families together to enjoy entertainment on the big screen.
- Jill Richgels was Simley High School’s Athena Award winner, the top female athlete.
- Simley’s boys basketball squad earned the section four Academic Team Championship.
- Middle School students raised more than \$1,100 for the Leukemia and Lymphoma Society.
- Two Simley flutists, Elaine Benke and Amber Cowma, were selected “Best of Site” at Solo and Ensemble regionals.
- Inver Grove Heights Community Schools partnered with Dakota County to improve recycling and reduce costs.
- Schools invited local celebrities and host read-ins to celebrate Read Across America Day.
- Students taught community members to use technology at the District’s Student Led Technology Conference.
- Simley’s wrestling team to received a Team Academic All State Gold award and won a fifth consecutive state championship.
- AP Spanish Students won the “Most Creative Presentation” Award from the Minnesota Zoo.
- Fourth-graders raised \$1,000 to donate to charity at school garage sale.
- Eighth-graders hosted a Harlem Renaissance gallery walk to celebrate Black History Month.
- National Honor Society students packaged 17,000 meals to send to families in developing countries.

- Police Liaison Officer Prail held a presentation on Internet and cell phone safety.
- The district hosted nine schools in the community events in neighborhoods throughout Inver Grove Heights.
- The Consortium of School Networking (CoSN) selected the District to participate in a New Media cadre.
- Lori Gustafson and Joe Melde were recognized as TIES Exceptional Teachers.
- The U.S. Department of Education named Atheneum, the District's elementary gifted program, a national Blue Ribbon School.
- Middle school students Skyped with deployed soldiers on Veterans Day.
- The Minnesota State High School Soccer Coaches Association named Jill Richgels Ms. Soccer.
- Viktor the Viking and Vikings' tight end Kyle Rudolph visited Pine Bend Elementary to promote health and fitness.
- Pine Bend students learned about Minnesota's water resources at the Katharine Ordway Natural History Study Area.
- Sara Getting and Karin Swainey had their action-research findings published in International Society for Technology in Education (ISTE) journal.
- Governor Dayton visited with Hilltop Elementary second-graders and welcomed all students back to school.
- The Minnesota Association of Secondary School Principals (MASSP) honored Simley High School with the Star of Innovation Award.
- Simley senior, Hana Bushyhead, attended LEAD Summer Business Institute at Duke University.
- The Environmental Protection Agency (EPA) named Inver Grove Heights Community Schools an ENERGY STAR Leader.

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 2011–2012 school year, the District served to its students 12,074 more free lunches than the prior year, an increase of 8.15 percent.

Officials at the City of Inver Grove Heights (the City) 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 5.2 percent, which is a decrease from a rate of 6.3 percent a year ago. This compares favorably to both state and national average unemployment rates of 5.7 percent and 8.3 percent, respectively.

Taxable market value in the District decreased from \$2,541,648,200 to \$2,483,322,400; a decline of 2.30 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 \$1.5 to \$2.0 billion dollar deficit beginning with the 2013–2014 biennium, which may result in a reduction of state aid funding.

General education state aid, the single largest source of revenue for the District, is dependent on the number of students served by the District each school year. In fiscal year 2009 and fiscal year 2010, the District had increased student growth of 1.9 and 1.4 percent, respectively. In fiscal year 2011, the District had a decline of 101 students served. This past fiscal year, the students served was stable between fiscal year 2011 (3,766) and fiscal year 2012 (3,770). Each October, the District projects its future enrollment five years out. Future enrollment projections, using the "Cohort Survival Method," indicate that the District's enrollment should remain stable for the next five years.

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 ($\$5,224 \text{ GEFA} \times 26 \text{ percent CAP} \times 1.2343 \text{ Inflation} = \$1,597$). The referendum formula determines the amount of the referendum that is state aid as compared to local levy. For fiscal year 2012, 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 \$753 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 2012 amounted to \$430,493. Due to declining enrollment and increasing costs, the District is anticipating a \$600,000 shortfall for fiscal year 2014.

The District operates five school buildings; one high school (192,836 square feet), one middle school (180,558 square feet), and three elementary buildings (totaling 208,632 square feet). The average age of the five buildings is 32.60 years. This past fiscal year, the District completed a two-year project to redo the HVAC system at Simley High School. The new system has brought the building up to the presently required air quality standards for new construction. The total two-year cost of the Simley project was \$5.6 million. The new HVAC improvements have an estimated useful life of 40 years. Hilltop Elementary school also had an HVAC project improvement project completed this past summer in the 1964 and 1968 wings of the building. The total cost of the Hilltop HVAC improvements was \$2.4 million.

AWARDS AND ACKNOWLEDGEMENTS

The District was one of the few of the 335 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, 2011. This was the seventh 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.

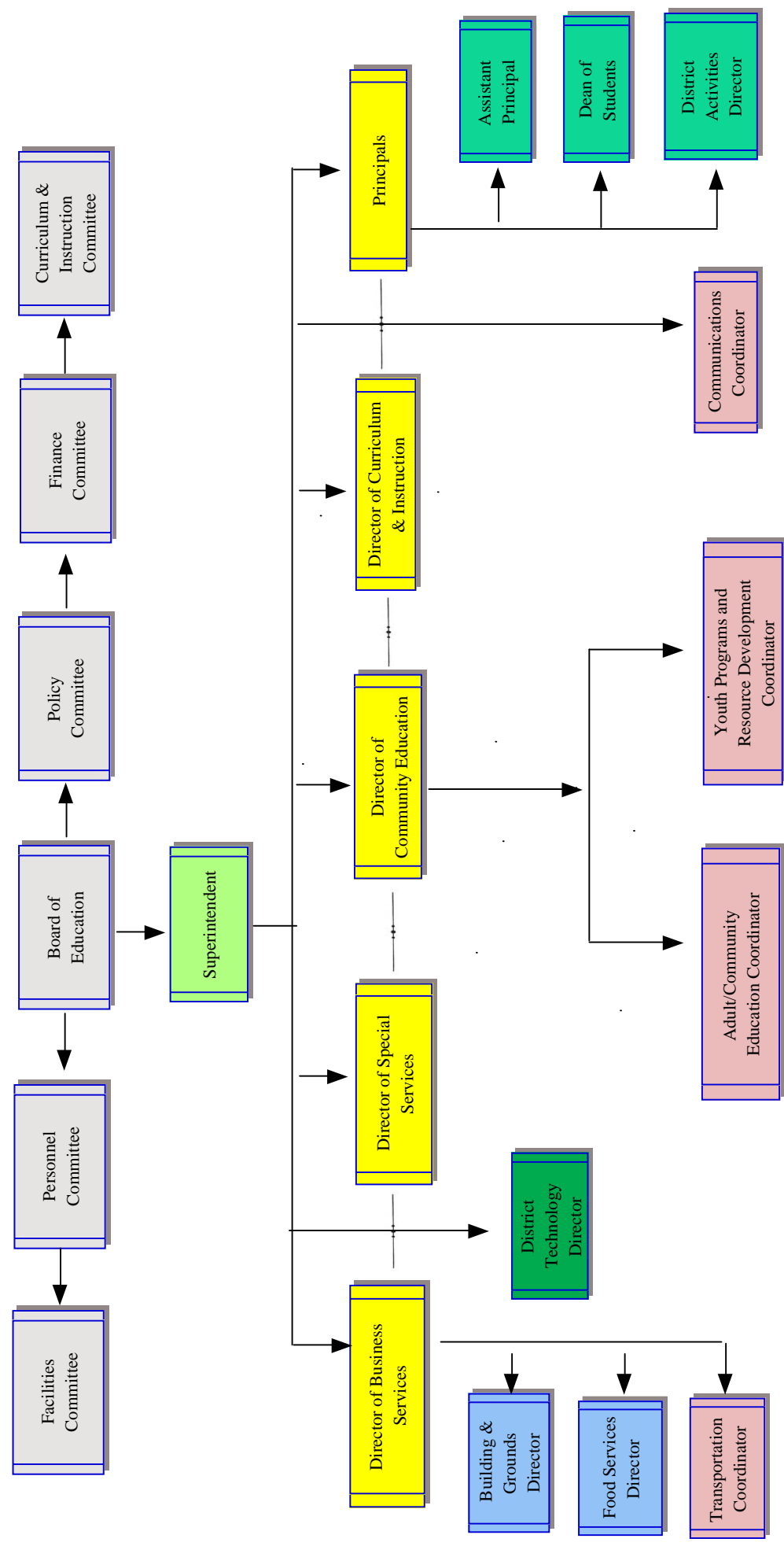
Respectfully submitted,



Dr. Deirdre Wells
Superintendent



Bruce Rimstad
Business Manager



INDEPENDENT SCHOOL DISTRICT NO. 199

School Board and Administration
Year Ended June 30, 2012

SCHOOL BOARD

Position on School Board
During 2011–2012

Cindy Nordstrom
Paul Mandell
Lynette Stensgard
Tom Begich
Allen Gerber
Bridget Sutton
Mark Westpfahl

Chairperson
Vice Chairperson/Treasurer
Clerk
Director
Director
Director
Director

ADMINISTRATION

Dr. Deirdre Wells
Bruce Rimstad

Superintendent
Business Manager

Association of School Business Officials International



*The Certificate of Excellence in Financial Reporting Award
is presented to*

Independent School District No. 199-Inver Grove Heights, MN

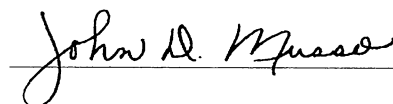
*For Its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended June 30, 2011*

The CAFR has been reviewed and met or exceeded
ASBO International's Certificate of Excellence standards





Brian L. Mee, SFO, RSBA
President



John D. Musso, CAE, RSBA
Executive Director

SECTION II

FINANCIAL SECTION

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, 2012, 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, 2011, and in our report dated November 7, 2011, 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 the 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, 2012, and the respective changes in financial position, and, where applicable, cash flows 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, 2011, from which it was derived.

(continued)

In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 2012 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 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 and the required supplementary information, 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 inquiries 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 basic financial statements as a whole. The introductory section, supplemental information, 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 supplemental information 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. 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 do not express an opinion or provide any assurance on them.

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

October 18, 2012

INDEPENDENT SCHOOL DISTRICT NO. 199

Management's Discussion and Analysis Fiscal Year Ended June 30, 2012

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, 2012. 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, 2011 by \$20,003,796 (net assets). The unrestricted portion of assets was \$8,942,609. The District also had \$4,082,980 of net assets available to meet its ongoing obligations, but restricted for specific uses. Total net assets increased \$2,973,722 from current year activities.

At June 30, 2012, the District's governmental funds reported a combined ending fund balance of \$13,522,615, a decrease of \$763,409 from the prior year. This decrease was primarily the result of two major factors: 1) a fund balance increase of \$1,544,211 from General Fund operations, which exceeded the budgeted increase of \$900,013; and 2) a fund balance decrease of \$2,458,820 in the Capital Projects – Building Construction Fund that consists of the spend down of bond proceeds available to complete capital projects (HVAC improvements) undertaken at Hilltop Elementary and Simley High School.

The District's General Fund, its primary operating fund, closed the fiscal year with an unassigned fund balance of \$5,083,385, which represents approximately 13 percent of annual General Fund expenditures based on fiscal 2012 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 is included as supplemental information.

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, 2012 and 2011		
	2012	2011
Assets		
Current and other assets	\$ 37,593,448	\$ 41,205,160
Capital assets, net of depreciation	47,101,588	44,820,596
Total assets	\$ 84,695,036	\$ 86,025,756
Liabilities		
Current and other liabilities	\$ 13,715,979	\$ 15,975,995
Long-term liabilities, including due within one year	50,975,261	53,019,687
Total liabilities	\$ 64,691,240	\$ 68,995,682
Net assets		
Invested in capital assets, net of related debt	\$ 6,978,207	\$ 4,944,787
Restricted	4,082,980	3,574,911
Unrestricted	8,942,609	8,510,376
Total net assets	\$ 20,003,796	\$ 17,030,074

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 \$2,973,722 during the year ended June 30, 2012. Both the restricted and unrestricted portions of net assets increased over the prior year. In addition, the amount the District has invested in capital assets, net of related debt, increased due to current year construction activity.

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

Table 2 Change in Net Assets for the Years Ended June 30, 2012 and 2011		
	<u>2012</u>	<u>2011</u>
Revenues		
Program revenues		
Charges for services	\$ 2,986,332	\$ 3,245,424
Operating grants and contributions	6,591,869	6,416,700
Capital grants and contributions	127,140	–
General revenues		
Property taxes	11,674,016	13,493,399
General grants and aids	25,739,132	22,943,298
Other	308,644	1,650,741
Total revenues	<u>47,427,133</u>	<u>47,749,562</u>
Expenses		
Administration	1,571,141	1,413,246
District support services	1,063,783	951,640
Elementary and secondary regular instruction	16,436,834	16,281,999
Vocational education instruction	174,094	324,273
Special education instruction	7,396,600	7,577,765
Instructional support services	2,480,524	2,499,693
Pupil support services	3,302,748	3,420,588
Sites and buildings	4,911,665	4,599,496
Fiscal and other fixed cost programs	78,415	90,121
Food service	1,766,823	1,708,253
Community service	1,942,620	2,215,072
Unallocated depreciation	1,137,795	1,128,902
Interest on long-term debt	2,190,369	2,211,874
Total expenses	<u>44,453,411</u>	<u>44,422,922</u>
Change in net assets	<u>\$ 2,973,722</u>	<u>\$ 3,326,640</u>

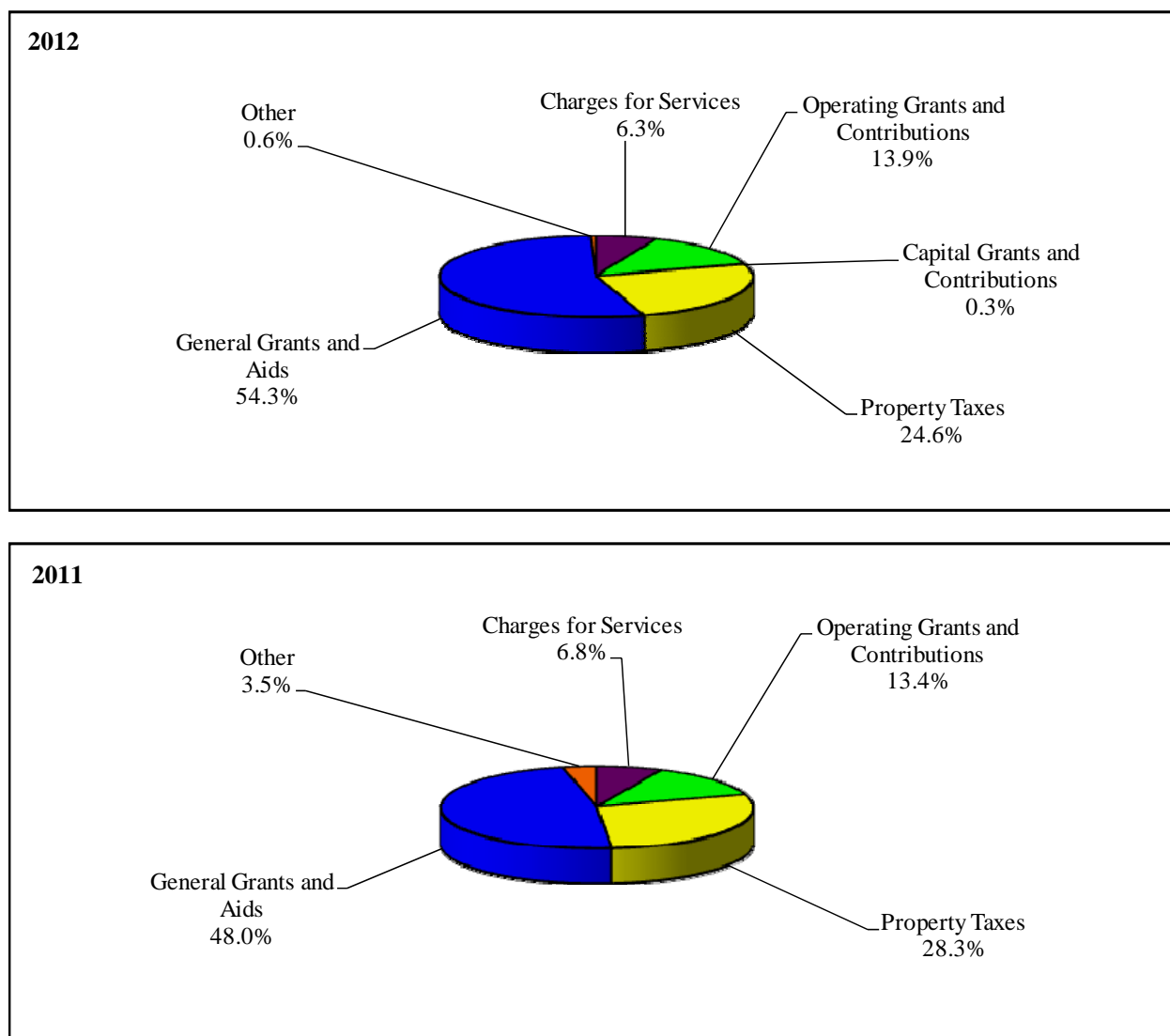
This statement is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

Revenues in fiscal 2012 decreased \$322,429. The majority of the decrease was in investment income (included in “other” above) which decreased \$1,525,369 due to a decline in market value on the investments in the revocable Other Post-Employment Benefits (OPEB) trust reported in the District’s internal service funds. Property taxes decreased \$1,819,383, while general grants and aids increased \$2,795,834, both mainly due to the tax shift, a legislative change that replaced about \$2.5 million of state aid with property tax revenue in fiscal 2011.

Total expenses for fiscal year 2012 increased \$30,489, or less than 0.1 percent, from the previous year. The most significant changes were an increase of \$312,169 in sites and buildings program expenses, and a decrease of \$272,452 in community service program expenses.

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

Figure A – Sources of Revenue for Fiscal Years 2012 and 2011

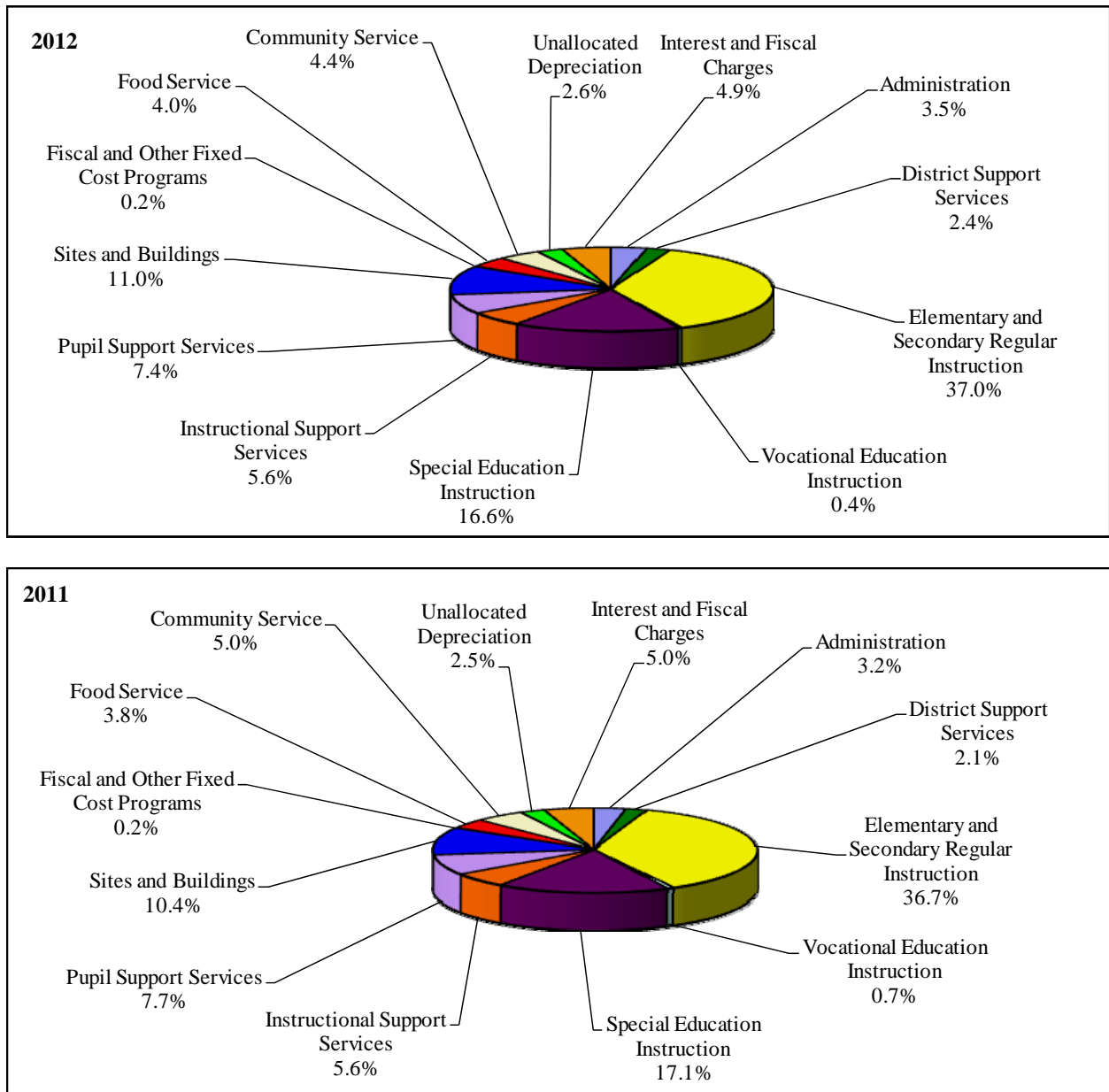


The largest share of the District's revenue is received from the state, including the aid formula and most of the capital and operating grants. This means that the District's financial condition depends significantly on the state's current financial condition.

Property taxes are the next largest source of funding. The level of funding property tax sources provide is not only dependent on taxpayers of the District by way of operating and building referenda, but also by decisions made by the Legislature in the mix of state aid and local effort in a variety of funding formulas.

The proportionate share of district revenue from these two sources changed significantly from fiscal 2011 to fiscal 2012 due to changes in the previously mentioned "tax shift." The tax shift is an accounting tool used to balance the state budget, whereby school districts recognize cash collections for their subsequent year's property tax levy as current year revenue, and the state reduces aid payments to districts by an equal amount. The percentage of available taxes shifted may be changed by legislation each year according to the budgetary needs of the state.

Figure B – Expenses for Fiscal Years 2012 and 2011



The District's expenses are predominately related to educating students. Programs (or functions) such as elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the District.

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:

Table 3 Governmental Fund Balances as of June 30, 2012 and 2011				
	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Total Percent Change</u>
Major funds				
General	\$ 11,535,197	\$ 9,990,986	\$ 1,544,211	15.5%
Capital Projects – Building Construction	–	2,458,820	(2,458,820)	(100.0%)
Debt Service	900,151	810,779	89,372	11.0%
Nonmajor funds				
Food Service Special Revenue	1,033,622	1,027,177	6,445	0.6%
Community Service Special Revenue	53,645	(1,738)	55,383	31.9%
Total governmental funds	<u>\$ 13,522,615</u>	<u>\$ 14,286,024</u>	<u>\$ (763,409)</u>	(5.3%)

The increase in the General Fund was attributable to: 1) the adopted budget having a planned fund balance increase of \$900,013; 2) the District, when it projected its state special education aid prorated the estimated state aid because of the state's precarious financial condition, and there was no state proration, thus the District received more state special education aid (\$774,278) than budgeted.

The decrease in the Capital Projects – Building Construction Fund was related to the spend-down of bond proceeds for building improvement projects.

General Fund

Table 4 summarizes the amendments to the General Fund budget:

Table 4 General Fund Budget				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Revenue	<u>\$ 37,573,829</u>	<u>\$ 38,663,595</u>	<u>\$ 1,089,766</u>	<u>2.9%</u>
Expenditures	<u>\$ 38,494,396</u>	<u>\$ 38,152,173</u>	<u>\$ (342,223)</u>	<u>(0.9%)</u>
Other sources	<u>\$ 427,749</u>	<u>\$ 388,591</u>	<u>\$ (39,158)</u>	<u>(9.2%)</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. 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.

Table 5 summarizes the operating results of the General Fund:

Table 5 General Fund Operating Results					
	2012 Actual	Over (Under) Final Budget		Over (Under) Prior Year	
		Amount	Percent	Amount	Percent
Revenue	\$ 39,706,018	\$ 1,042,423	2.7%	\$ 647,709	1.7%
Expenditures	38,371,598	\$ 219,425	0.6%	\$ 1,379,335	3.7%
Other financing sources (uses)	<u>209,791</u>	\$ (178,800)	(46.0%)	\$ 205,291	4,562.0%
Net change in fund balances	<u><u>\$ 1,544,211</u></u>				

General Fund revenues exceeded the final budget for fiscal year 2012 by \$1,042,423. State aid revenue was \$643,239 over budget, mainly due to the District receiving more special education aid than expected, as previously discussed. Revenue from other local sources, including gifts, reimbursements from other districts, and medical assistance reimbursements, were \$275,946 higher than budget.

General Fund expenditures were \$219,425 over budget, primarily due to capital expenditures and projects being completed sooner and coming in higher than projected.

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund spent down its fund balance to zero in fiscal 2012. The District issued \$6.69 million of bonds in fiscal 2011 to finance capital improvements at two of its school sites.

Debt Service Fund

The Debt Service Fund is used to record principal and interest expenditures for a school district's outstanding bonded indebtedness and the revenue sources that are used to finance them, whether for building construction, OPEB, or for initial or refunding bonds. The Debt Service Fund ended the year with a fund balance of \$900,151, an increase of \$89,372. During fiscal 2011, the District issued bonds to refund \$4,085,000 of outstanding debt, which reduced future debt service payments by \$397,926, and resulted in a present value savings to the District of \$399,413.

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, 2012 and 2011:

Table 6 Capital Assets			
	2012	2011	Increase (Decrease)
Land	\$ 421,200	\$ 421,200	\$ —
Buildings and improvements	56,257,075	56,257,075	—
Furniture and equipment	2,233,475	2,208,664	24,811
Construction in progress	7,414,187	4,162,412	3,251,775
Less accumulated depreciation	(19,224,349)	(18,228,755)	(995,594)
Total	\$ 47,101,588	\$ 44,820,596	\$ 2,280,992
Depreciation expense	\$ 1,246,234	\$ 1,232,670	\$ 13,564

The changes presented in the table above reflect the ongoing activity and completion of projects at district sites during fiscal year 2012. The largest change is the construction in progress on HVAC improvement projects at two district school sites.

Long-Term Liabilities

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

Table 7 Outstanding Long-Term Liabilities			
	2012	2011	Increase (Decrease)
General obligation bonds payable	\$ 48,680,000	\$ 50,620,000	\$ (1,940,000)
Premiums on bonds payable	382,169	428,828	(46,659)
Special assessments payable	106,250	118,750	(12,500)
Capital leases payable	68,540	243,228	(174,688)
Severance payable	1,454,365	1,440,577	13,788
Net pension obligation	283,937	168,304	115,633
Total	\$ 50,975,261	\$ 53,019,687	\$ (2,044,426)

The District entered into a capital lease agreement in fiscal 2012 for the acquisition of computer equipment valued at \$204,291.

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.)

Table 8
Limitations on Debt

District's market value	\$ 2,483,223,500
Limit rate	<u>15.0%</u>
Legal debt limit	<u><u>\$ 372,483,525</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. Minnesota school districts are aware that on the inflation adjusted basis, even the basic formula revenue per pupil has lagged inflation over the last decade, including the years when the Minnesota state economy was expanding and providing increased revenues to the state. As the table below shows the formula allowance for fiscal 2012 would have to be higher than the current level by \$523 (10.0 percent) to have kept up with inflation since fiscal 2003.

Table 9
Trends in General Education Formula Allowance
for Minnesota School Districts, Fiscal Years 2003 Through 2012
(adjusted for inflation)

Fiscal Year Ended June 30,	Formula Allowance	CPI-U (2009=1.0)*	Formula Allowance in 2011 Dollars	Change Since 2003	Formula Allowance if Adjusted for Annual Inflation	Annual Funding Shortfall
2003	\$ 4,601	0.8485	\$ 5,697	\$ —	\$ 4,601	\$ —
2004	4,601	0.8671	5,462	(235)	4,702	(101)
2005	4,601	0.8931	5,303	(394)	4,843	(242)
2006	4,783	0.9271	5,311	(386)	5,027	(244)
2007	4,974	0.9511	5,383	(314)	5,157	(183)
2008	5,074	0.9853	5,301	(396)	5,343	(269)
2009	5,124	1.0000	5,275	(422)	5,422	(298)
2010	5,124	1.0070	5,238	(459)	5,460	(336)
2011	5,124	1.0233	5,155	(542)	5,549	(425)
2012	5,174	1.0294	5,174	(523)	5,697	(523)

* Consumer Price Index for all urban consumers for the Minneapolis-St. Paul area

Source: Formula Allowance and CPI-U are from Minnesota Department of Education K-12 Finance Overview, 2011-2012

With the last special legislative session (July 2011) Minnesota school districts will receive their first increase in the General Education Formula Allowance since fiscal 2009, of \$50 in fiscal 2012, and an additional \$50 for fiscal 2013. While these two amounts are below inflation, given the state's struggles to adequately fund education the increases are greatly appreciated.

The District renewed the \$364 per pupil unit amount of its current excess operating referendum authority for 10 years in 2008. The second portion \$480 per pupil unit of the District's excess operating referendum was renewed a year early, in the November 2011 School Board election, for an additional 10-year period. The District now has in place a total of \$844 in excess operating referendum through the 2018–2019 fiscal year. In addition to the referendum renewal question the School Board asked for a Capital Projects levy of \$700,000 annually for a 10-year period and an additional \$372 in excess operating referendum per pupil unit for a 10-year period. Both the Capital Projects levy and additional referendum amount were rejected by the voting public. Because the School Board was close to passing the Capital Projects levy in November of 2011, the School Board brought forth the Capital Projects levy again in March 2012, but again the voting public said no to Capital Projects levy. Thus the District continues to struggle with the ability to compete with a neighboring school district that already has a Capital Projects levy in place.

The District continues to offer a free all-day kindergarten program to all students residing in the District, investing in early learning to help students living in poverty. Elementary school day schedules now focus on literacy practices, meaningful instructional time, and resources for intervention and enrichment.

The large annual double digit increases for health insurance premiums the District experienced for a number of years have finally subsided. In fiscal 2011, and again in fiscal 2012, the District's health insurance premiums did not increase. The District has received from Health Partners a 5 percent increase in health insurance premiums for fiscal year 2013. In the summer of 2013, the District will be requesting proposals for health insurance coverage beginning December 1, 2013.

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, 2012
(With Partial Comparative Information as of June 30, 2011)

	Governmental Activities	
	2012	2011
Assets		
Cash and temporary investments	\$ 9,254,630	\$ 14,693,024
Receivables		
Current taxes	6,688,839	6,696,463
Delinquent taxes	134,704	189,544
Accounts and interest receivable	228,044	71,650
Due from other governmental units	11,855,942	9,571,156
Inventory	38,159	38,024
Prepaid items	132,061	96,952
Restricted assets – temporarily restricted		
Cash and investments for other post-employment benefits	9,156,527	9,806,960
Negative net other post-employment benefit obligation	104,542	41,387
Capital assets		
Not depreciated	7,835,387	4,583,612
Depreciated, net of accumulated depreciation	39,266,201	40,236,984
Total capital assets, net of accumulated depreciation	<u>47,101,588</u>	<u>44,820,596</u>
Total assets	<u>\$ 84,695,036</u>	<u>\$ 86,025,756</u>
Liabilities		
Salaries payable	\$ 1,674,013	\$ 1,668,786
Accounts and contracts payable	2,747,380	5,085,072
Accrued interest payable	917,055	960,795
Due to other governmental units	112,162	216,908
Property taxes levied for subsequent year	8,189,522	8,011,829
Unearned revenue	75,847	32,605
Long-term liabilities		
Due within one year	2,200,604	2,255,801
Due in more than one year	48,774,657	50,763,886
Total long-term liabilities	<u>50,975,261</u>	<u>53,019,687</u>
Total liabilities	64,691,240	68,995,682
Net assets		
Invested in capital assets, net of related debt	6,978,207	4,944,787
Restricted for		
Capital asset acquisition	2,637,994	1,677,631
Debt service	26,430	–
Food service	1,033,622	1,027,177
Community service	57,833	3,297
Other post-employment benefits	232,570	818,815
Other purposes (state funding restrictions)	94,531	47,991
Unrestricted	8,942,609	8,510,376
Total net assets	<u>20,003,796</u>	<u>17,030,074</u>
Total liabilities and net assets	<u>\$ 84,695,036</u>	<u>\$ 86,025,756</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Activities
Year Ended June 30, 2012
(With Partial Comparative Information for the Year Ended June 30, 2011)

		2012			2011	
					Net (Expense)	Net (Expense)
					Revenue and	Revenue and
					Changes in	Changes in
					Net Assets	Net Assets
Functions/Programs	Expenses	Charges for	Operating	Capital	Governmental	Governmental
		Services	Grants and	Grants and	Activities	Activities
			Contributions	Contributions		
Governmental activities						
Administration	\$ 1,571,141	\$ —	\$ —	\$ —	\$ (1,571,141)	\$ (1,413,246)
District support services	1,063,783	—	—	—	(1,063,783)	(951,640)
Elementary and secondary regular instruction	16,436,834	176,353	547,685	—	(15,712,796)	(15,466,863)
Vocational education instruction	174,094	—	—	—	(174,094)	(324,273)
Special education instruction	7,396,600	260,796	4,470,392	—	(2,665,412)	(3,029,717)
Instructional support services	2,480,524	—	292,254	—	(2,188,270)	(2,211,086)
Pupil support services	3,302,748	153,817	203,134	—	(2,945,797)	(3,071,654)
Sites and buildings	4,911,665	168,303	—	127,140	(4,616,222)	(4,437,601)
Fiscal and other fixed cost programs	78,415	—	—	—	(78,415)	(90,121)
Food service	1,766,823	844,226	909,269	—	(13,328)	58,672
Community service	1,942,620	1,382,837	169,135	—	(390,648)	(482,493)
Unallocated depreciation	1,137,795	—	—	—	(1,137,795)	(1,128,902)
Interest on long-term debt	2,190,369	—	—	—	(2,190,369)	(2,211,874)
Total governmental activities	<u>\$44,453,411</u>	<u>\$ 2,986,332</u>	<u>\$ 6,591,869</u>	<u>\$ 127,140</u>	(34,748,070)	(34,760,798)
General revenue						
Taxes						
Property taxes, levied for general purposes					7,155,582	9,562,072
Property taxes, levied for community service					444,587	534,266
Property taxes, levied for debt service					4,073,847	3,397,061
General grants and aids					25,739,132	22,943,298
Other general revenues					558,391	375,119
Investment earnings (loss)					(249,747)	1,275,622
Total general revenue					<u>37,721,792</u>	<u>38,087,438</u>
Change in net assets					2,973,722	3,326,640
Net assets – beginning					<u>17,030,074</u>	<u>13,703,434</u>
Net assets – ending					<u>\$ 20,003,796</u>	<u>\$ 17,030,074</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Balance Sheet
Governmental Funds
as of June 30, 2012
(With Partial Comparative Information as of June 30, 2011)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds	
					2012	2011
Assets						
Cash and temporary investments	\$ 2,817,836	\$ 854,295	\$ 2,718,474	\$ 1,072,968	\$ 7,463,573	\$ 12,904,397
Receivables						
Current taxes	4,017,597	–	2,393,227	278,015	6,688,839	6,696,463
Delinquent taxes	87,182	–	43,334	4,188	134,704	189,544
Accounts and interest	168,687	2,226	–	57,131	228,044	71,650
Due from other governmental units	11,627,525	–	112,648	115,769	11,855,942	9,571,156
Due from other funds	25,286	–	–	–	25,286	41,713
Inventory	–	–	–	38,159	38,159	38,024
Prepaid items	132,061	–	–	–	132,061	96,952
Total assets	\$ 18,876,174	\$ 856,521	\$ 5,267,683	\$ 1,566,230	\$ 26,566,608	\$ 29,609,899
Liabilities and Fund Balances						
Liabilities						
Salaries payable	\$ 1,595,590	\$ –	\$ –	\$ 78,423	\$ 1,674,013	\$ 1,668,786
Accounts and contracts payable	1,856,102	856,521	–	34,757	2,747,380	5,085,072
Due to other governmental units	112,162	–	–	–	112,162	216,908
Due to other funds	82,868	–	–	27,497	110,365	119,131
Property taxes levied for subsequent year	3,607,073	–	4,324,198	258,251	8,189,522	8,011,829
Unearned revenue	–	–	–	75,847	75,847	32,605
Deferred revenue	87,182	–	43,334	4,188	134,704	189,544
Total liabilities	7,340,977	856,521	4,367,532	478,963	13,043,993	15,323,875
Fund balances						
Nonspendable	132,061	–	–	38,159	170,220	134,976
Restricted	2,732,525	–	900,151	1,049,108	4,681,784	5,967,064
Assigned	3,587,226	–	–	–	3,587,226	3,477,118
Unassigned	5,083,385	–	–	–	5,083,385	4,706,866
Total fund balances	11,535,197	–	900,151	1,087,267	13,522,615	14,286,024
Total liabilities and fund balances	\$ 18,876,174	\$ 856,521	\$ 5,267,683	\$ 1,566,230	\$ 26,566,608	\$ 29,609,899

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Reconciliation of the Balance Sheet to the
Statement of Net Assets
Governmental Funds
as of June 30, 2012
(With Partial Comparative Information as of June 30, 2011)

	<u>2012</u>	<u>2011</u>
Total fund balances – governmental funds	\$ 13,522,615	\$ 14,286,024
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	66,325,937	63,049,351
Accumulated depreciation	(19,224,349)	(18,228,755)
Long-term liabilities are included in net assets, but are excluded from fund balances until due and payable.		
General obligation bonds	(48,680,000)	(50,620,000)
Special assessments payable	(106,250)	(118,750)
Capital leases	(68,540)	(243,228)
Premium on bonds	(382,169)	(428,828)
Internal service funds are used by management 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.		
	9,398,903	10,105,511
Accrued interest payable is included in net assets, but is excluded from fund balances until due and payable.		
	(917,055)	(960,795)
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>134,704</u>	<u>189,544</u>
Total net assets – governmental activities	<u><u>\$ 20,003,796</u></u>	<u><u>\$ 17,030,074</u></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, 2012
(With Partial Comparative Information for the Year Ended June 30, 2011)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds	
					2012	2011
Revenue						
Local sources						
Property taxes	\$ 7,197,208	\$ –	\$ 4,086,214	\$ 445,434	\$ 11,728,856	\$ 13,453,639
Investment earnings (charges)	9,155	(2,249)	1,312	1,445	9,663	30,196
Other	1,667,731	–	–	2,227,065	3,894,796	3,905,729
State sources	28,751,820	–	211,873	232,305	29,195,998	26,081,228
Federal sources	2,080,104	–	–	831,966	2,912,070	2,993,584
Total revenue	39,706,018	(2,249)	4,299,399	3,738,215	47,741,383	46,464,376
Expenditures						
Current						
Administration	1,506,391	–	–	–	1,506,391	1,369,667
District support services	1,058,242	–	–	–	1,058,242	944,729
Elementary and secondary regular instruction	16,202,886	–	–	–	16,202,886	16,057,579
Vocational education instruction	172,127	–	–	–	172,127	320,750
Special education instruction	7,328,521	–	–	–	7,328,521	7,491,184
Instructional support services	2,456,551	–	–	–	2,456,551	2,474,662
Pupil support services	3,316,172	–	–	–	3,316,172	3,411,187
Sites and buildings	5,850,073	–	–	–	5,850,073	4,569,602
Fiscal and other fixed cost programs	78,415	–	–	–	78,415	90,121
Food service	–	–	–	1,679,588	1,679,588	1,642,749
Community service	–	–	–	1,923,328	1,923,328	2,177,391
Capital outlay	–	2,456,571	–	73,471	2,530,042	4,261,912
Debt service						
Principal	391,479	–	1,940,000	–	2,331,479	1,548,894
Interest and fiscal charges	10,741	–	2,270,027	–	2,280,768	2,280,597
Total expenditures	38,371,598	2,456,571	4,210,027	3,676,387	48,714,583	48,641,024
Excess (deficiency) of revenue over expenditures	1,334,420	(2,458,820)	89,372	61,828	(973,200)	(2,176,648)
Other financing sources (uses)						
Debt issued	–	–	–	–	–	10,635,000
Discount on debt issued	–	–	–	–	–	(40,497)
Premium on debt issued	–	–	–	–	–	172,018
Payments to refund bonds	–	–	–	–	–	(4,085,000)
Capital lease	204,291	–	–	–	204,291	–
Sale of capital assets	5,500	–	–	–	5,500	4,500
Transfers in	–	–	–	–	–	165,890
Transfers (out)	–	–	–	–	–	(165,890)
Total other financing sources (uses)	209,791	–	–	–	209,791	6,686,021
Net change in fund balances	1,544,211	(2,458,820)	89,372	61,828	(763,409)	4,509,373
Fund balances						
Beginning of year	9,990,986	2,458,820	810,779	1,025,439	14,286,024	9,776,651
End of year	\$ 11,535,197	\$ –	\$ 900,151	\$ 1,087,267	\$ 13,522,615	\$ 14,286,024

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
Governmental Funds

Year Ended June 30, 2012

(With Partial Comparative Information for the Year Ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
Total net change in fund balances – governmental funds	\$ (763,409)	\$ 4,509,373
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	3,527,226	4,282,162
Depreciation expense	(1,246,234)	(1,232,396)
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.		
	(204,291)	(10,635,000)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is included in the governmental activities in the Statement of Activities.		
	(706,608)	791,645
Repayment of long-term debt does not affect the change in net assets. However, it reduces fund balances.		
General obligation bonds	1,940,000	5,395,000
Special assessments payable	12,500	12,500
Capital leases	378,979	226,394
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.		
	43,740	(14,298)
Debt issuance premiums, discounts, and issuance costs 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.		
	46,659	(48,500)
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>(54,840)</u>	<u>39,760</u>
Change in net assets – governmental activities	<u>\$ 2,973,722</u>	<u>\$ 3,326,640</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, 2012

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
Revenue				
Local sources				
Property taxes	\$ 7,006,906	\$ 7,006,906	\$ 7,197,208	\$ 190,302
Investment earnings	17,000	17,000	9,155	(7,845)
Other	1,313,425	1,391,785	1,667,731	275,946
State sources	27,345,566	28,108,581	28,751,820	643,239
Federal sources	1,890,932	2,139,323	2,080,104	(59,219)
Total revenue	37,573,829	38,663,595	39,706,018	1,042,423
Expenditures				
Current				
Administration	1,581,402	1,619,952	1,506,391	(113,561)
District support services	1,190,973	1,186,173	1,058,242	(127,931)
Elementary and secondary regular instruction	17,239,738	16,648,778	16,202,886	(445,892)
Vocational education instruction	91,593	91,593	172,127	80,534
Special education instruction	7,307,293	7,305,033	7,328,521	23,488
Instructional support services	2,693,995	2,578,733	2,456,551	(122,182)
Pupil support services	3,293,072	3,294,328	3,316,172	21,844
Sites and buildings	4,749,330	4,942,333	5,850,073	907,740
Fiscal and other fixed cost programs	95,500	95,500	78,415	(17,085)
Debt service				
Principal	210,000	379,000	391,479	12,479
Interest and fiscal charges	41,500	10,750	10,741	(9)
Total expenditures	38,494,396	38,152,173	38,371,598	219,425
Excess (deficiency) of revenue over expenditures	(920,567)	511,422	1,334,420	822,998
Other financing sources				
Capital lease	—	—	204,291	204,291
Sale of capital assets	—	—	5,500	5,500
Transfers in	427,749	388,591	—	(388,591)
Total other financing sources	427,749	388,591	209,791	(178,800)
Net change in fund balances	\$ (492,818)	\$ 900,013	1,544,211	\$ 644,198
Fund balances				
Beginning of year			9,990,986	
End of year			\$ 11,535,197	

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Net Assets
Internal Service Funds
as of June 30, 2012
(With Partial Comparative Information as of June 30, 2011)

	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Cash and temporary investments	\$ 1,791,057	\$ 1,788,627
Due from other funds	<u>85,079</u>	<u>77,418</u>
Total current assets	1,876,136	1,866,045
Noncurrent assets		
Restricted assets – temporarily restricted		
Cash and cash equivalents	3,398,798	2,217,296
Investments	<u>5,757,729</u>	<u>7,589,664</u>
Total restricted assets – temporarily restricted	9,156,527	9,806,960
Negative net OPEB obligation	<u>104,542</u>	<u>41,387</u>
Total assets	<u>11,137,205</u>	<u>11,714,392</u>
Liabilities		
Current liabilities		
Severance benefits payable	64,564	60,073
Long-term liabilities		
Severance benefits payable	1,389,801	1,380,504
Net pension obligation	<u>283,937</u>	<u>168,304</u>
Total long-term liabilities	<u>1,673,738</u>	<u>1,548,808</u>
Total liabilities	<u>1,738,302</u>	<u>1,608,881</u>
Net assets		
Restricted for OPEB liabilities	9,346,148	9,925,765
Unrestricted	<u>52,755</u>	<u>179,746</u>
Total net assets	<u>\$ 9,398,903</u>	<u>\$ 10,105,511</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Revenue, Expenses, and Changes in Fund Net Assets
Internal Service Funds
Year Ended June 30, 2012
(With Partial Comparative Information for the Year Ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
Operating revenue		
Charges for services	\$ 722,388	\$ 698,429
Operating expenses		
Severance benefits	73,861	56,838
Pension benefits	310,369	311,598
Other post-employment benefits	785,356	783,774
Total operating expenses	<u>1,169,586</u>	<u>1,152,210</u>
Operating income (loss)	(447,198)	(453,781)
Nonoperating revenues (expenses)		
Investment earnings (loss)	<u>(259,410)</u>	<u>1,245,426</u>
Change in net assets	(706,608)	791,645
Net assets		
Beginning of year	<u>10,105,511</u>	<u>9,313,866</u>
End of year	<u>\$ 9,398,903</u>	<u>\$ 10,105,511</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2012
(With Partial Comparative Information for the Year Ended June 30, 2011)

	2012	2011
Cash flows from operating activities		
Receipts from assessments made to governmental funds	\$ 714,727	\$ 742,678
Benefit payments	<u>(1,103,320)</u>	<u>(1,225,539)</u>
Net cash flows from operating activities	(388,593)	(482,861)
Cash flows from investing activities		
Purchase of investments	(5,818,292)	(8,403,881)
Sales and maturities of investments	7,650,227	6,061,429
Interest and dividends on investments	<u>(259,410)</u>	<u>1,245,426</u>
Net cash flows from investing activities	<u>1,572,525</u>	<u>(1,097,026)</u>
Net change in cash and cash equivalents	1,183,932	(1,579,887)
Cash and cash equivalents		
Beginning of year	<u>4,005,923</u>	<u>5,585,810</u>
End of year	<u><u>\$ 5,189,855</u></u>	<u><u>\$ 4,005,923</u></u>
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	\$ (447,198)	\$ (453,781)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities		
Changes in assets and liabilities		
Due from other funds	(7,661)	44,249
Net pension obligation	115,633	70,242
Net OPEB obligation	(63,155)	(123,236)
Severance benefits payable	<u>13,788</u>	<u>(20,335)</u>
Net cash flows from operating activities	<u><u>\$ (388,593)</u></u>	<u><u>\$ (482,861)</u></u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Fiduciary Net Assets
Fiduciary Funds
as of June 30, 2012

	Employee Benefits Trust Fund	BEST Foundation Agency Fund
Assets		
Cash and temporary investments	\$ 53,458	\$ 1,295,433
Liabilities		
Due to plan participants	41,226	\$ —
Due to fiscal agent	—	44,240
Due to BEST Foundation	—	1,251,193
Total liabilities	41,226	\$ 1,295,433
Net assets		
Held in trust for flexible benefits and other purposes	\$ 12,232	

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2012

	Employee Benefits Trust Fund
Additions	
Plan member contributions	\$ 257,785
Deductions	
Flexible benefits to plan members	257,785
Change in net assets	—
Net assets	
Beginning of year	12,232
End of year	\$ 12,232

See notes to basic financial statements

Notes to Basic Financial Statements
June 30, 2012

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, 2012, the District paid TIES \$656,037 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)

Property taxes; federal, state, and local grants and aids; and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term liabilities, 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 (OPEB) Internal Service Fund – The 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 prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. All appropriations lapse at year-end.

Actual expenditures for the year ended June 30, 2012 exceeded budgeted appropriations by \$219,425 in the General Fund.

F. Cash and Temporary Investments

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

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

Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptances, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less, and investments in 2a7-like external investment pools, are reported at amortized cost. Other investments are reported at fair value.

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.

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, 2012, the District reported the following receivables due from other governmental units:

Due from the Minnesota Department of Education	\$ 11,660,572
Due from other Minnesota school districts	53,683
Due from Dakota County and other	<u>141,687</u>
Total due from other governmental units	<u>\$ 11,855,942</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 \$3,877,317 of the property tax levy collectible in 2012 as revenue to the District in fiscal year 2011–2012. The remaining portion of the taxes collectible in 2012 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. Interfund balances and transactions are reported in the fund financial statements, but are eliminated in the government-wide financial statements.

At June 30, 2012, the General Fund, Food Service Special Revenue Fund, and Community Service Special Revenue Fund had payables of \$82,868, \$822, and \$1,389, respectively, due to the OPEB Internal Service Fund for cash payments due to the revocable trust fund at year-end.

At June 30, 2012, the Community Service Special Revenue Fund had a payable of \$25,286 due to the General Fund, which represents an interfund loan to eliminate a temporary cash deficit.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2012.

Q. Net Assets

In the government-wide financial statements, net assets represent the difference between assets and liabilities. Net assets are displayed in three components:

- **Invested in Capital Assets, Net of Related Debt** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Assets** – Consists of net assets restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Assets** – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District's Business Manager is authorized to establish assignments of fund balance.
- **Unassigned** – The residual classification for the General Fund which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, then unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

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	\$ 7,140,948
Investments	<u>12,619,100</u>
Total	<u><u>\$ 19,760,048</u></u>

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

Statement of Net Assets	
Cash and temporary investments	\$ 9,254,630
Cash and investments for OPEB	9,156,527
Statement of Fiduciary Net Assets	
Cash and temporary investments – Employee Benefits Trust Fund	53,458
Cash and temporary investments – Agency Fund	<u>1,295,433</u>
Total	<u><u>\$ 19,760,048</u></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 \$7,140,948, while the balance on the bank records was \$8,662,225. At June 30, 2012, 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	10 to 15	
U.S. agency securities	AA+	S&P	\$ –	\$ 576,457	\$ –	\$ –	\$ 576,457
Corporate obligations	AAA	Moody's	–	130,814	–	–	130,814
Corporate obligations	AA2	Moody's	–	126,943	–	–	126,943
Corporate obligations	A	Moody's	–	125,588	–	–	125,588
Corporate obligations	A1	Moody's	126,592	538,847	–	–	665,439
Corporate obligations	A2	Moody's	254,067	830,284	108,394	26,441	1,219,186
Corporate obligations	A3	Moody's	–	500,646	19,969	–	520,615
Corporate obligations	BAA1	Moody's	–	124,810	–	–	124,810
Corporate obligations	BAA2	Moody's	125,687	47,700	–	–	173,387
Corporate obligations	AA-	S&P	–	131,443	–	–	131,443
Corporate obligations	A+	S&P	–	262,141	–	–	262,141
Corporate obligations	A-	S&P	–	131,230	–	23,271	154,501
Corporate obligations	BBB+	S&P	–	16,861	–	–	16,861
International obligations	N/R	N/A	N/A	N/A	N/A	N/A	6,866
Equities	N/A	N/A	N/A	N/A	N/A	N/A	1,878,231
Real estate investment trusts	N/A	N/A	N/A	N/A	N/A	N/A	39,869
Investment pools/mutual funds	N/R	N/R	N/A	N/A	N/A	N/A	3,398,669
Investment pools/mutual funds	AAA	S&P	N/A	N/A	N/A	N/A	3,066,122
Investment pools/mutual funds	AAAm	S&P	N/A	N/A	N/A	N/A	1,158
Total investments							<u>\$ 12,619,100</u>

N/A – Not Applicable

N/R – Not Rated

The amount in investment pools/mutual funds includes \$1,207,756 invested in the MNTrust Investment Shares Portfolio and \$1,500,000 invested in the MNTrust Term Series, which are external investment pools regulated by Minnesota Statutes not registered with the Securities Exchange Commission (SEC) that follow the same regulatory rules of the SEC under rule 2a7. The District's investment in these funds is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

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.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 is as follows:

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	\$ 421,200	\$ –	\$ –	\$ 421,200
Construction in progress	4,162,412	3,251,775	–	7,414,187
Total capital assets, not depreciated	4,583,612	3,251,775	–	7,835,387
Capital assets, depreciated				
Buildings and improvements	56,257,075	–	–	56,257,075
Furniture and equipment	2,208,664	275,451	(250,640)	2,233,475
Total capital assets, depreciated	58,465,739	275,451	(250,640)	58,490,550
Less accumulated depreciation for				
Buildings and improvements	(16,615,372)	(1,105,087)	–	(17,720,459)
Furniture and equipment	(1,613,383)	(141,147)	250,640	(1,503,890)
Total accumulated depreciation	(18,228,755)	(1,246,234)	250,640	(19,224,349)
Net capital assets, depreciated	40,236,984	(970,783)	–	39,266,201
Total capital assets, net	\$ 44,820,596	\$ 2,280,992	\$ –	\$ 47,101,588

Depreciation expense for the year ended June 30, 2012 was charged to the following governmental functions:

Elementary and secondary regular instruction	\$ 6,989
Pupil support services	73,088
Sites and buildings	14,280
Food service	14,082
Unallocated depreciation	1,137,795
Total depreciation expense	\$ 1,246,234

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

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

Issue	Issue Date	Interest Rate	Face/Par Value	Remaining Maturities	Principal Outstanding
2005A Building Bonds	07/01/2005	4.25–5.00%	\$ 33,000,000	08/01/2011– 02/01/2026	\$ 29,890,000
2009A Taxable OPEB Bonds	01/06/2009	6.00–6.75%	\$ 9,220,000	02/01/2015– 02/01/2028	9,220,000
2010A Refunding Bonds	11/04/2010	2.00–3.00%	\$ 3,945,000	08/01/2011– 02/01/2017	3,340,000
2011A Alternative Facilities Bonds	02/16/2011	0.50–4.00%	\$ 6,690,000	02/01/2012– 02/01/2026	<u>6,230,000</u>
Total general obligation bonds payable					<u><u>\$ 48,680,000</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 a capital lease agreement for computer equipment. The lease bears an interest rate of 2.95 percent, and requires equal annual payments through November 15, 2012. The individual values of the leased assets (computers) were below the District's capitalization threshold, and they have not been recorded as capital assets. The lease is being paid through the General Fund.

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
2013	\$ 2,055,000	\$ 2,193,535	\$ 12,500	\$ 5,844	\$ 68,540	\$ 1,179
2014	2,235,000	2,126,198	12,500	5,156	—	—
2015	2,430,000	2,049,798	12,500	4,469	—	—
2016	2,530,000	1,953,263	12,500	3,782	—	—
2017	2,630,000	1,850,638	12,500	3,094	—	—
2018–2022	15,290,000	7,493,238	43,750	5,499	—	—
2023–2027	18,025,000	3,918,658	—	—	—	—
2028	3,485,000	235,238	—	—	—	—
	<u>\$ 48,680,000</u>	<u>\$ 21,820,566</u>	<u>\$ 106,250</u>	<u>\$ 27,844</u>	<u>\$ 68,540</u>	<u>\$ 1,179</u>

E. Changes in Long-Term Liabilities

	June 30, 2011	Additions	Retirements	June 30, 2012	Due Within One Year
General obligation bonds payable	\$ 50,620,000	\$ —	\$ 1,940,000	\$ 48,680,000	\$ 2,055,000
Plus premium	428,828	—	46,659	382,169	—
Total bonds payable	<u>51,048,828</u>	<u>—</u>	<u>1,986,659</u>	<u>49,062,169</u>	<u>2,055,000</u>
Special assessments payable	118,750	—	12,500	106,250	12,500
Capital leases payable	243,228	204,291	378,979	68,540	68,540
Severance payable	1,440,577	73,861	60,073	1,454,365	64,564
Net OPEB obligation (Note 6)	—	785,356	785,356	— *	—
Net pension obligation (Note 7)	<u>168,304</u>	<u>310,369</u>	<u>194,736</u>	<u>283,937</u>	<u>—</u>
	<u>\$ 53,019,687</u>	<u>\$ 1,373,877</u>	<u>\$ 3,418,303</u>	<u>\$ 50,975,261</u>	<u>\$ 2,200,604</u>

* As of June 30, 2011 and 2012, cumulative OPEB contributions exceeded the OPEB costs amortized to date, creating a “negative net OPEB obligation,” which is reported as an asset in the government-wide and Internal Service Fund financial statements.

NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds which are defined earlier in the report. Any such restrictions which have an accumulated deficit rather than positive balance at June 30 are included in unassigned 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 restrictions is included herein since the District has specific authority to future resources for such deficits.

NOTE 5 – FUND BALANCES (CONTINUED)

A. Classifications

At June 30, 2012, a summary of the District's governmental fund balance classifications are as follows:

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Prepaid items	\$ 132,061	\$ –	\$ –	\$ –	\$ 132,061
Inventory	–	–	–	38,159	38,159
Total nonspendable	132,061	–	–	38,159	170,220
Restricted					
Deferred maintenance	1,135,989	–	–	–	1,135,989
Operating capital	1,502,005	–	–	–	1,502,005
Career and technical programs	14,306	–	–	–	14,306
Employee benefits	80,225	–	–	–	80,225
Food service	–	–	–	995,462	995,462
School readiness	–	–	–	11,717	11,717
Community education	–	–	–	33,322	33,322
Early childhood and family education	–	–	–	8,606	8,606
General debt service	–	–	824,474	–	824,474
OPEB bonds debt service	–	–	75,677	–	75,677
Total restricted	2,732,525	–	900,151	1,049,107	4,681,783
Assigned					
Next year's budget	178,662	–	–	–	178,662
Health Partners rebate	54,264	–	–	–	54,264
Separation and severance	2,000,000	–	–	–	2,000,000
Language arts adoption	800,000	–	–	–	800,000
Other capital projects	554,300	–	–	–	554,300
Total assigned	3,587,226	–	–	–	3,587,226
Unassigned					
Health and safety restricted account deficit	(70,120)	–	–	–	(70,120)
Unassigned	5,153,505	–	–	–	5,153,505
Total unassigned	5,083,385	–	–	–	5,083,385
Total	<u>\$ 11,535,197</u>	<u>\$ –</u>	<u>\$ 900,151</u>	<u>\$ 1,087,266</u>	<u>\$ 13,522,614</u>

B. Minimum Unassigned Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding the minimum unassigned fund balance for the General Fund. The policy establishes a minimum unassigned General Fund balance of six weeks or 8 percent of the annual projected expenditures, whichever is larger. At June 30, 2012, the unassigned fund balance of the General Fund was 13.2 percent of the annual projected expenditures.

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

A. Plan Description

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

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

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the District. The District has established a separate Internal Service Fund to account for these obligations. The assets of the Internal Service Fund are available to pay future OPEB expenses. However, because the trust these assets are held in is revocable, they are not considered when determining the percentage of the actuarial liability that has been funded.

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	\$ 784,908
Interest on net OPEB obligation	(2,069)
Adjustment to annual required contribution	2,517
Annual OPEB cost (expense)	785,356
Contributions made	848,511
Increase in net OPEB obligation	(63,155)
Net OPEB obligation – beginning of year	(41,387)
Negative net OPEB obligation – end of year	\$ (104,542)

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

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

Fiscal Year Ended	Net OPEB Obligation Beginning of Year	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	(Negative) Net OPEB Obligation
June 30, 2010	\$ 31,808	\$ 927,700	\$ 877,659	94.6%	\$ 81,849
June 30, 2011	\$ 81,849	\$ 783,774	\$ 907,010	115.7%	\$ (41,387)
June 30, 2012	\$ (41,387)	\$ 785,356	\$ 848,511	108.0%	\$ (104,542)

D. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$7,100,277, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,100,277. The covered payroll (annual payroll of active employees covered by the plan) was \$19,203,164, and the ratio of the UAAL to the covered payroll was 36.97 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.

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, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 5.0 percent investment rate of return (net of administrative expenses) based on the District's own investments; an annual healthcare cost trend rate of 8.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after 18 years for medical insurance. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization period at July 1, 2010 for the various amortization layers ranged from 28 to 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 31 of the calendar year in which the eligible employee retires and the following January 15. 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.

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	\$ 313,431
Interest on net pension obligation	7,153
Adjustment to annual required contribution	<u>(10,215)</u>
Annual pension cost (expense)	310,369
Contributions made	<u>194,736</u>
Increase in net pension obligation	115,633
Net pension obligation – beginning of year	<u>168,304</u>
Net pension obligation – end of year	<u><u>\$ 283,937</u></u>

NOTE 7 – PENSION BENEFITS PLAN (CONTINUED)

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, 2010	\$ 278,010	\$ 253,595	\$ 433,543	171.0%	\$ 98,062
June 30, 2011	\$ 98,062	\$ 311,598	\$ 241,356	77.5%	\$ 168,304
June 30, 2012	\$ 168,304	\$ 310,369	\$ 194,736	62.7%	\$ 283,937

D. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$2,582,625, and the actuarial value of assets was \$0, resulting in a UAAL of \$2,582,625. The covered payroll (annual payroll of active employees covered by the plan) was \$5,561,581, and the ratio of the UAAL to the covered payroll was 46.4 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.

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, 2010 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 3.0 percent salary increase for all members, and a 2.5 percent inflation assumption. The UAAL is being amortized on a level dollar basis over an open period. The remaining amortization periods at July 1, 2011 for the various amortization layers ranged from 27 to 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 Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

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

Tier I

	Step Rate Formula	Percentage per Year
Basic Plan		
	First 10 years	2.2 percent
	All years after	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).

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

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 4–5.4 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.

TRA publicly issues a Comprehensive Annual Financial Report (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 www.minnesotatra.org. 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) 296-2409 or (800) 657-3669.

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 6.0 percent and 9.0 percent, respectively, of their annual covered salary during fiscal year 2012 as employee contributions. The TRA employer contribution rates are 6.0 percent for Coordinated Plan members and 9.5 percent for Basic Plan members during fiscal year 2012. Total covered payroll salaries for all TRA members state-wide during the fiscal years June 30, 2011, 2010, and 2009 were approximately \$3.84 billion, \$3.79 billion, and \$3.76 billion, respectively.

The District's contributions for the years ended June 30, 2012, 2011, and 2010 were \$1,018,124, \$921,699, and \$933,867, respectively, equal to the contractually required contributions for each year as set by state statutes.

The 2010 Legislature approved employee and employer contribution rate increases to be phased-in over a four-year period beginning July 1, 2011. Employee and employer contribution rates will rise 0.5 percent each year of the four-year period. Beginning July 1, 2014, TRA Coordinated Plan employee and employer contribution rates will each be 7.5 percent.

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

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 PERA. PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multi-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

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

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 a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF 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 GERF. That report may be obtained on the internet at www.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.

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

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. GERF Basic and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary. The District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.25 percent for Coordinated Plan members.

The District's contributions to GERF for the years ended June 30, 2012, 2011, and 2010 were \$385,453, \$376,891, and \$363,625, respectively. The District's contributions were 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 dependant 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 dependant 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 dependant 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 dependant 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 May 2011, the District entered into an agreement to lease building space located in the Fifth Avenue Plaza Shopping Center for a 26-month period ending June 30, 2013. 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, 2012, the District paid rent plus expenses of \$288,584 under this agreement. Future minimum lease payments under this agreement are \$202,080 for the year ending June 30, 2013.

The District sublets portions of this property to other entities on a year-to-year basis. For the year ended June 30, 2012, the District received \$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, 2012, the District paid rent of \$100,000 under this agreement.

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

In December 1999, the District entered into an agreement with the City of Inver Grove Heights to lease the use of space in the Inver Grove Heights Aquatic and Fitness Center. The lease term runs for 20 years commencing July 1, 2001 and calls for annual rental ranging from \$235,000 to \$350,000 due in two equal payments each July 15 and January 15 beginning July 15, 2001. During the year ended June 30, 2012, the District paid rent of \$245,000 under this agreement.

D. Construction Commitments

At June 30, 2012, the District had commitments totaling \$495,487 under various construction contracts for which the work was not yet completed.

E. 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.

F. 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.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 199

Required Supplementary Information
Schedules of Funding Progress
June 30, 2012

**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 %
July 1, 2010	\$ 7,100,277	\$ —	\$ 7,100,277	— %	\$ 19,203,164	37.0 %

**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 %
July 1, 2010	\$ 2,582,625	\$ —	\$ 2,582,625	— %	\$ 5,561,581	46.4 %

COMBINING AND INDIVIDUAL FUND

STATEMENTS AND SCHEDULES

INDEPENDENT SCHOOL DISTRICT NO. 199

Nonmajor Governmental Funds
Combining Balance Sheet
as of June 30, 2012

	Special Revenue Funds		Total
	Food Service	Community Service	
Assets			
Cash and temporary investments	\$ 1,072,968	\$ —	\$ 1,072,968
Receivables			
Current taxes	—	278,015	278,015
Delinquent taxes	—	4,188	4,188
Accounts and interest	—	57,131	57,131
Due from other governmental units	—	115,769	115,769
Inventory	38,159	—	38,159
Total assets	<u>\$ 1,111,127</u>	<u>\$ 455,103</u>	<u>\$ 1,566,230</u>
Liabilities and Fund Balances			
Liabilities			
Salaries payable	\$ 24,536	\$ 53,887	\$ 78,423
Accounts and contracts payable	16,317	18,440	34,757
Due to other funds	822	26,675	27,497
Property taxes levied for subsequent year	—	258,251	258,251
Unearned revenue	35,830	40,017	75,847
Deferred revenue	—	4,188	4,188
Total liabilities	<u>77,505</u>	<u>401,458</u>	<u>478,963</u>
Fund balances			
Nonspendable for inventory	38,159	—	38,159
Restricted	995,463	53,645	1,049,108
Total fund balances	<u>1,033,622</u>	<u>53,645</u>	<u>1,087,267</u>
Total liabilities and fund balances	<u>\$ 1,111,127</u>	<u>\$ 455,103</u>	<u>\$ 1,566,230</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Nonmajor Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2012

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	\$ —	\$ 445,434	\$ 445,434
Investment earnings	1,379	66	1,445
Other	844,228	1,382,837	2,227,065
State sources	77,302	155,003	232,305
Federal sources	831,966	—	831,966
Total revenue	<u>1,754,875</u>	<u>1,983,340</u>	<u>3,738,215</u>
Expenditures			
Current			
Food service	1,679,588	—	1,679,588
Community service	—	1,923,328	1,923,328
Capital outlay	68,842	4,629	73,471
Total expenditures	<u>1,748,430</u>	<u>1,927,957</u>	<u>3,676,387</u>
Net change in fund balances	6,445	55,383	61,828
Fund balances (deficit)			
Beginning of year	<u>1,027,177</u>	<u>(1,738)</u>	<u>1,025,439</u>
End of year	<u>\$ 1,033,622</u>	<u>\$ 53,645</u>	<u>\$ 1,087,267</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

General Fund
Comparative Balance Sheet
as of June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and temporary investments	\$ 2,817,836	\$ 3,657,837
Receivables		
Current taxes	4,017,597	3,972,244
Delinquent taxes	87,182	128,808
Accounts and interest	168,687	63,236
Due from other governmental units	11,627,525	9,368,506
Due from other funds	25,286	41,713
Prepaid items	<u>132,061</u>	<u>96,952</u>
Total assets	<u><u>\$ 18,876,174</u></u>	<u><u>\$ 17,329,296</u></u>
Liabilities and Fund Balances		
Liabilities		
Salaries payable	\$ 1,595,590	\$ 1,582,041
Accounts and contracts payable	1,856,102	1,847,597
Due to other governmental units	112,162	189,286
Due to other funds	82,868	75,208
Property taxes levied for subsequent year	3,607,073	3,515,370
Deferred revenue – delinquent taxes	<u>87,182</u>	<u>128,808</u>
Total liabilities	7,340,977	7,338,310
Fund balances (deficits)		
Nonspendable for prepaid items	132,061	96,952
Restricted for staff development	–	47,991
Restricted for deferred maintenance	1,135,989	851,717
Restricted for operating capital	1,502,005	795,141
Restricted for career and technical programs	14,306	–
Restricted for employee benefits	80,225	–
Assigned for next year's budget	178,662	492,818
Assigned for Health Partners rebate	54,264	–
Assigned for separation and severance	2,000,000	1,583,225
Assigned for language arts adoption	800,000	800,000
Assigned for other capital projects	554,300	601,075
Unassigned – health and safety restricted account deficit	(70,120)	(85,139)
Unassigned	<u>5,153,505</u>	<u>4,807,206</u>
Total fund balances	<u><u>11,535,197</u></u>	<u><u>9,990,986</u></u>
Total liabilities and fund balances	<u><u>\$ 18,876,174</u></u>	<u><u>\$ 17,329,296</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 199

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2012
(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012		2011	
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 7,006,906	\$ 7,197,208	\$ 190,302	\$ 9,535,438
Investment earnings	17,000	9,155	(7,845)	14,113
Other	1,391,785	1,667,731	275,946	1,492,704
State sources	28,108,581	28,751,820	643,239	25,838,666
Federal sources	2,139,323	2,080,104	(59,219)	2,177,388
Total revenue	38,663,595	39,706,018	1,042,423	39,058,309
Expenditures				
Current				
Administration				
Salaries	1,176,900	1,088,597	(88,303)	1,008,366
Employee benefits	342,402	329,197	(13,205)	301,507
Purchased services	44,460	42,761	(1,699)	23,632
Supplies and materials	20,440	17,701	(2,739)	13,436
Other expenditures	35,750	28,135	(7,615)	22,726
Total administration	1,619,952	1,506,391	(113,561)	1,369,667
District support services				
Salaries	404,025	399,051	(4,974)	389,540
Employee benefits	150,923	147,280	(3,643)	102,929
Purchased services	391,600	326,948	(64,652)	276,782
Supplies and materials	34,425	35,297	872	21,942
Capital expenditures	200,000	149,201	(50,799)	149,647
Other expenditures	5,200	465	(4,735)	3,889
Total district support services	1,186,173	1,058,242	(127,931)	944,729
Elementary and secondary regular instruction				
Salaries	11,874,172	11,248,872	(625,300)	11,071,359
Employee benefits	3,772,979	3,695,142	(77,837)	3,620,710
Purchased services	550,304	657,798	107,494	687,347
Supplies and materials	418,850	566,995	148,145	652,534
Capital expenditures	22,473	22,173	(300)	13,640
Other expenditures	10,000	11,906	1,906	11,989
Total elementary and secondary regular instruction	16,648,778	16,202,886	(445,892)	16,057,579

(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, 2012
(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012		2011	
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	70,625	141,692	71,067	274,392
Employee benefits	20,968	20,034	(934)	35,614
Purchased services	—	779	779	1,401
Supplies and materials	—	9,622	9,622	8,425
Capital expenditures	—	—	—	918
Total vocational education instruction	91,593	172,127	80,534	320,750
Special education instruction				
Salaries	4,742,700	4,903,077	160,377	4,876,502
Employee benefits	1,552,693	1,558,261	5,568	1,549,887
Purchased services	876,025	699,443	(176,582)	853,649
Supplies and materials	130,990	149,451	18,461	166,695
Capital expenditures	—	6,756	6,756	44,426
Other expenditures	2,625	11,533	8,908	25
Total special education instruction	7,305,033	7,328,521	23,488	7,491,184
Instructional support services				
Salaries	1,808,335	1,602,813	(205,522)	1,618,529
Employee benefits	443,780	448,100	4,320	437,664
Purchased services	306,350	391,336	84,986	391,854
Supplies and materials	20,268	14,302	(5,966)	26,615
Total instructional support services	2,578,733	2,456,551	(122,182)	2,474,662
Pupil support services				
Salaries	1,191,634	1,154,429	(37,205)	1,165,332
Employee benefits	344,294	322,520	(21,774)	341,496
Purchased services	1,499,925	1,585,408	85,483	1,679,231
Supplies and materials	162,975	141,296	(21,679)	136,517
Capital expenditures	95,000	112,100	17,100	87,957
Other expenditures	500	419	(81)	654
Total pupil support services	3,294,328	3,316,172	21,844	3,411,187

(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, 2012
(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012		2011
	Budget	Actual	Over (Under) Budget
			Actual
Expenditures (continued)			
Current (continued)			
Sites and buildings			
Salaries	1,218,600	1,207,231	(11,369)
Employee benefits	349,880	369,605	19,725
Purchased services	1,577,915	1,596,262	18,347
Supplies and materials	1,080,635	889,938	(190,697)
Capital expenditures	715,303	1,787,023	1,071,720
Other expenditures	—	14	14
Total sites and buildings	4,942,333	5,850,073	907,740
Fiscal and other fixed cost programs			
Purchased services	95,500	78,415	(17,085)
Debt service			
Principal	379,000	391,479	12,479
Interest and fiscal charges	10,750	10,741	(9)
Total debt service	389,750	402,220	12,470
Total expenditures	38,152,173	38,371,598	219,425
Excess of revenue over expenditures	511,422	1,334,420	822,998
Other financing sources			
Capital lease	—	204,291	204,291
Sale of capital assets	—	5,500	5,500
Transfers in	388,591	—	(388,591)
Total other financing sources	388,591	209,791	(178,800)
Net change in fund balances	\$ 900,013	1,544,211	\$ 644,198
Fund balances			
Beginning of year		9,990,986	7,920,440
End of year		\$ 11,535,197	\$ 9,990,986

INDEPENDENT SCHOOL DISTRICT NO. 199

Food Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and temporary investments	\$ 1,072,968	\$ 1,058,559
Receivables		
Due from other governmental units	—	1,945
Inventory	<u>38,159</u>	<u>38,024</u>
Total assets	<u><u>\$ 1,111,127</u></u>	<u><u>\$ 1,098,528</u></u>
Liabilities and Fund Balances		
Liabilities		
Salaries payable	\$ 24,536	\$ 22,507
Accounts and contracts payable	16,317	15,418
Due to other funds	822	821
Unearned revenue	<u>35,830</u>	<u>32,605</u>
Total liabilities	77,505	71,351
Fund balances		
Nonspendable for inventories	38,159	38,024
Restricted for food service	<u>995,463</u>	<u>989,153</u>
Total fund balances	<u><u>1,033,622</u></u>	<u><u>1,027,177</u></u>
Total liabilities and fund balances	<u><u>\$ 1,111,127</u></u>	<u><u>\$ 1,098,528</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2012
(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012			2011
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	\$ 3,000	\$ 1,379	\$ (1,621)	\$ 2,152
Other – primarily meal sales	897,863	844,228	(53,635)	868,676
State sources	81,130	77,302	(3,828)	82,054
Federal sources	822,146	831,966	9,820	816,196
Total revenue	1,804,139	1,754,875	(49,264)	1,769,078
Expenditures				
Current				
Salaries	572,044	592,062	20,018	593,575
Employee benefits	195,208	205,267	10,059	206,513
Purchased services	67,990	79,207	11,217	48,452
Supplies and materials	912,904	801,566	(111,338)	792,567
Other expenditures	3,550	1,486	(2,064)	1,642
Capital outlay	87,400	68,842	(18,558)	40,840
Total expenditures	1,839,096	1,748,430	(90,666)	1,683,589
Net change in fund balances	\$ (34,957)	6,445	\$ 41,402	85,489
Fund balances				
Beginning of year		1,027,177		941,688
End of year		\$ 1,033,622		\$ 1,027,177

INDEPENDENT SCHOOL DISTRICT NO. 199

Community Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Receivables		
Current taxes	\$ 278,015	\$ 246,765
Delinquent taxes	4,188	5,035
Accounts and interest	57,131	2,726
Due from other governmental units	<u>115,769</u>	<u>132,169</u>
Total assets	<u><u>\$ 455,103</u></u>	<u><u>\$ 386,695</u></u>
Liabilities and Fund Balances		
Liabilities		
Salaries payable	\$ 53,887	\$ 64,238
Accounts and contracts payable	18,440	28,015
Due to other governmental units	—	27,622
Due to other funds	26,675	43,102
Property taxes levied for subsequent year	258,251	220,421
Unearned revenue	40,017	—
Deferred revenue – delinquent taxes	<u>4,188</u>	<u>5,035</u>
Total liabilities	401,458	388,433
Fund balances (deficit)		
Restricted for community education programs	33,322	—
Restricted for early childhood family education programs	8,606	7,095
Restricted for school readiness	11,717	6,368
Unassigned	—	(15,201)
Total fund balances (deficit)	<u>53,645</u>	<u>(1,738)</u>
Total liabilities and fund balances	<u><u>\$ 455,103</u></u>	<u><u>\$ 386,695</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2012
(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012			2011
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 452,150	\$ 445,434	\$ (6,716)	\$ 532,823
Investment earnings	2,000	66	(1,934)	868
Other – primarily tuition and fees	1,326,181	1,382,837	56,656	1,544,349
State sources (shifted)	155,895	155,003	(892)	(7,020)
Total revenue	<u>1,936,226</u>	<u>1,983,340</u>	<u>47,114</u>	<u>2,071,020</u>
Expenditures				
Current				
Salaries	867,990	860,357	(7,633)	1,013,862
Employee benefits	222,619	209,030	(13,589)	253,195
Purchased services	825,033	787,103	(37,930)	807,351
Supplies and materials	65,870	61,198	(4,672)	58,781
Other expenditures	7,948	5,640	(2,308)	44,202
Capital outlay	11,500	4,629	(6,871)	19,982
Total expenditures	<u>2,000,960</u>	<u>1,927,957</u>	<u>(73,003)</u>	<u>2,197,373</u>
Net change in fund balances	<u>\$ (64,734)</u>	55,383	<u>\$ 120,117</u>	(126,353)
Fund balances (deficit)				
Beginning of year		<u>(1,738)</u>		<u>124,615</u>
End of year		<u>\$ 53,645</u>		<u>\$ (1,738)</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Capital Projects – Building Construction Fund
Comparative Balance Sheet
as of June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and temporary investments	\$ 854,295	\$ 5,647,174
Receivables		
Accounts and interest	<u>2,226</u>	<u>5,688</u>
Total assets	<u><u>\$ 856,521</u></u>	<u><u>\$ 5,652,862</u></u>
Liabilities and Fund Balances		
Liabilities		
Accounts and contracts payable	\$ 856,521	\$ 3,194,042
Fund balances		
Restricted for alternative facilities program	—	2,428,047
Restricted for building construction	<u>—</u>	<u>30,773</u>
Total fund balances	<u><u>—</u></u>	<u><u>2,458,820</u></u>
Total liabilities and fund balances	<u><u>\$ 856,521</u></u>	<u><u>\$ 5,652,862</u></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, 2012
 (With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012			2011
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings (charges)	\$ 10,107	\$ (2,249)	\$ (12,356)	\$ 9,475
State sources	127,000	–	(127,000)	–
Total revenue	137,107	(2,249)	(139,356)	9,475
Expenditures				
Capital outlay				
Purchased services	132,450	93,348	(39,102)	602,955
Capital expenditures	2,432,700	2,363,223	(69,477)	3,598,135
Total expenditures	2,565,150	2,456,571	(108,579)	4,201,090
Excess (deficiency) of revenue over expenditures	(2,428,043)	(2,458,820)	(30,777)	(4,191,615)
Other financing sources (uses)				
Debt issued	–	–	–	6,690,000
Discount on debt issued	–	–	–	(40,497)
Transfers (out)	–	–	–	(165,890)
Total other financing sources (uses)	–	–	–	6,483,613
Net change in fund balances	<u>\$ (2,428,043)</u>	(2,458,820)	<u>\$ (30,777)</u>	2,291,998
Fund balances				
Beginning of year		2,458,820		166,822
End of year		<u>\$ –</u>		<u>\$ 2,458,820</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Debt Service Fund
Balance Sheet
as of June 30, 2012
(With Comparative Totals as of June 30, 2011)

	Regular Debt Service Account	OPEB Debt Service Account	Totals	
			2012	2011
Assets				
Cash and temporary investments	\$ 2,372,253	\$ 346,221	\$ 2,718,474	\$ 2,540,827
Receivables				
Current taxes	2,036,826	356,401	2,393,227	2,477,454
Delinquent taxes	37,881	5,453	43,334	55,701
Due from other governmental units	95,630	17,018	112,648	68,536
Total assets	<u>\$ 4,542,590</u>	<u>\$ 725,093</u>	<u>\$ 5,267,683</u>	<u>\$ 5,142,518</u>
Liabilities and Fund Balances				
Liabilities				
Property taxes levied for subsequent year	\$ 3,680,235	\$ 643,963	\$ 4,324,198	\$ 4,276,038
Deferred revenue – delinquent taxes	37,881	5,453	43,334	55,701
Total liabilities	<u>3,718,116</u>	<u>649,416</u>	<u>4,367,532</u>	<u>4,331,739</u>
Fund balances				
Restricted for debt service	<u>824,474</u>	<u>75,677</u>	<u>900,151</u>	<u>810,779</u>
Total liabilities and fund balances	<u>\$ 4,542,590</u>	<u>\$ 725,093</u>	<u>\$ 5,267,683</u>	<u>\$ 5,142,518</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, 2012
(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012				2011	
		Actual				
		Regular	OPEB		Over (Under)	
	Budget	Debt Service	Debt Service	Total	Budget	Actual
		Account	Account			
Revenue						
Local sources						
Property taxes	\$ 4,105,729	\$ 3,482,352	\$ 603,862	\$ 4,086,214	\$ (19,515)	\$ 3,385,378
Investment earnings	2,600	1,312	—	1,312	(1,288)	3,588
State sources	170,555	179,957	31,916	211,873	41,318	167,528
Total revenue	4,278,884	3,663,621	635,778	4,299,399	20,515	3,556,494
Expenditures						
Debt service						
Principal	1,940,000	1,940,000	—	1,940,000	—	1,310,000
Interest	2,269,828	1,654,904	613,323	2,268,227	(1,601)	2,223,983
Fiscal charges and other	2,000	1,350	450	1,800	(200)	32,726
Total expenditures	4,211,828	3,596,254	613,773	4,210,027	(1,801)	3,566,709
Excess (deficiency) of revenue over expenditures	67,056	67,367	22,005	89,372	22,316	(10,215)
Other financing sources (uses)						
Debt issued	—	—	—	—	—	3,945,000
Premium on debt issued	—	—	—	—	—	172,018
Payments to refund bonds	—	—	—	—	—	(4,085,000)
Transfers in	—	—	—	—	—	165,890
Total other financing sources (uses)	—	—	—	—	—	197,908
Net change in fund balances	\$ 67,056	67,367	22,005	89,372	\$ 22,316	187,693
Fund balances						
Beginning of year		757,107	53,672	810,779		623,086
End of year		\$ 824,474	\$ 75,677	\$ 900,151		\$ 810,779

INDEPENDENT SCHOOL DISTRICT NO. 199

Internal Service Funds
Combining Statement of Net Assets
as of June 30, 2012
(With Comparative Totals as of June 30, 2011)

	Severance and Pension Benefits Fund	Other Post-Employment Benefits Fund	Totals	
			2012	2011
Assets				
Current assets				
Cash and temporary investments	\$ 1,791,057	\$ —	\$ 1,791,057	1,788,627
Due from other funds	—	85,079	85,079	77,418
Total current assets	<u>1,791,057</u>	<u>85,079</u>	<u>1,876,136</u>	<u>1,866,045</u>
Noncurrent assets				
Restricted assets – temporarily restricted				
Cash and cash equivalents	—	3,398,798	3,398,798	2,217,296
Investments	—	<u>5,757,729</u>	<u>5,757,729</u>	<u>7,589,664</u>
Total restricted assets – temporarily restricted	—	<u>9,156,527</u>	<u>9,156,527</u>	<u>9,806,960</u>
Negative net OPEB obligation	—	<u>104,542</u>	<u>104,542</u>	<u>41,387</u>
Total assets	<u>1,791,057</u>	<u>9,346,148</u>	<u>11,137,205</u>	<u>11,714,392</u>
Liabilities				
Current liabilities				
Severance benefits payable	64,564	—	64,564	60,073
Long-term liabilities				
Severance benefits payable	1,389,801	—	1,389,801	1,380,504
Net pension obligation	<u>283,937</u>	—	<u>283,937</u>	<u>168,304</u>
Total long-term liabilities	<u>1,673,738</u>	—	<u>1,673,738</u>	<u>1,548,808</u>
Total liabilities	<u>1,738,302</u>	—	<u>1,738,302</u>	<u>1,608,881</u>
Net assets				
Restricted for OPEB liabilities	—	9,346,148	9,346,148	9,925,765
Unrestricted	<u>52,755</u>	—	<u>52,755</u>	<u>179,746</u>
Total net assets	<u>\$ 52,755</u>	<u>\$ 9,346,148</u>	<u>\$ 9,398,903</u>	<u>\$ 10,105,511</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Internal Service Funds
Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets
Year Ended June 30, 2012
(With Comparative Totals for the Year Ended June 30, 2011)

	Severance and Pension Benefits Fund	Other Post-Employment Benefits Fund	Totals	
			2012	2011
Operating revenue				
Contributions from governmental funds	\$ 254,809	\$ 467,579	\$ 722,388	\$ 698,429
Operating expenses				
Severance benefits	73,861	—	73,861	56,838
Pension benefits	310,369	—	310,369	311,598
Other post-employment benefits	—	785,356	785,356	783,774
Total operating expenses	<u>384,230</u>	<u>785,356</u>	<u>1,169,586</u>	<u>1,152,210</u>
Operating income (loss)	(129,421)	(317,777)	(447,198)	(453,781)
Nonoperating revenues (expenses)				
Investment earnings (loss)	<u>2,430</u>	<u>(261,840)</u>	<u>(259,410)</u>	<u>1,245,426</u>
Change in net assets	(126,991)	(579,617)	(706,608)	791,645
Net assets				
Beginning of year	<u>179,746</u>	<u>9,925,765</u>	<u>10,105,511</u>	<u>9,313,866</u>
End of year	<u>\$ 52,755</u>	<u>\$ 9,346,148</u>	<u>\$ 9,398,903</u>	<u>\$ 10,105,511</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2012
(With Comparative Totals for the Year Ended June 30, 2011)

	Severance and Pension Benefits Fund	Other Post-Employment Benefits Fund	Totals	
			2012	2011
Cash flows from operating activities				
Receipts from assessments made to governmental funds	\$ 254,809	\$ 459,918	\$ 714,727	\$ 742,678
Benefit payments	(254,809)	(848,511)	(1,103,320)	(1,225,539)
Net cash flows from operating activities	—	(388,593)	(388,593)	(482,861)
Cash flows from investing activities				
Purchases of investments	—	(5,818,292)	(5,818,292)	(8,403,881)
Sales and maturities of investments	—	7,650,227	7,650,227	6,061,429
Interest and dividends on investments	2,430	(261,840)	(259,410)	1,245,426
Net cash flows from investing activities	2,430	1,570,095	1,572,525	(1,097,026)
Net change in cash and cash equivalents	2,430	1,181,502	1,183,932	(1,579,887)
Cash and cash equivalents				
Beginning of year	1,788,627	2,217,296	4,005,923	5,585,810
End of year	\$ 1,791,057	\$ 3,398,798	\$ 5,189,855	\$ 4,005,923
Reconciliation of operating income (loss) to net flows from operating activities				
Operating income (loss)	\$ (129,421)	\$ (317,777)	\$ (447,198)	\$ (453,781)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities				
Changes in assets and liabilities				
Due from other funds	—	(7,661)	(7,661)	44,249
Net pension obligation	115,633	—	115,633	70,242
Net OPEB obligation	—	(63,155)	(63,155)	(123,236)
Severance benefits payable	13,788	—	13,788	(20,335)
Net cash flows from by operating activities	\$ —	\$ (388,593)	\$ (388,593)	\$ (482,861)

INDEPENDENT SCHOOL DISTRICT NO. 199

Agency Fund
Statement of Changes in Assets and Liabilities
Year Ended June 30, 2012

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
BEST Foundation				
Assets				
Cash and temporary investments	\$ 1,138,819	\$ 443,493	\$ 286,879	\$ 1,295,433
Liabilities				
Due to fiscal agent	\$ 46,700	\$ 44,240	\$ 46,700	\$ 44,240
Due to BEST Foundation	1,092,119	222,764	63,690	1,251,193
Total liabilities	\$ 1,138,819	\$ 267,004	\$ 110,390	\$ 1,295,433

SECTION III

STATISTICAL SECTION

(UNAUDITED)

STATISTICAL SECTION (UNAUDITED)

This section of Independent School District No. 199, Inver Grove Heights, Minnesota's (the District) comprehensive annual financial report (CAFR) 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	70
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	80
These schedules contain information to help the reader assess the District's most significant local revenue source, property taxes.	
Debt Capacity	86
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	92
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	95
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 CAFR for the relevant year.

INDEPENDENT SCHOOL DISTRICT NO. 199

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	\$ 4,944,787	\$ 6,978,207
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	3,574,911	4,082,980
Unrestricted	(17,764)	526,710	1,400,158	(676,123)	(788,222)	(668,081)	4,457,391	5,311,127	8,510,376	8,942,609
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>	<u>\$17,030,074</u>	<u>\$20,003,796</u>

INDEPENDENT SCHOOL DISTRICT NO. 199

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	\$ 1,413,246	\$ 1,571,141
District support services	812,396	867,658	960,767	969,215	1,028,908	1,026,514	1,028,899	996,250	951,640	1,063,783
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	16,281,999	16,436,834
Vocational education instruction	132,594	125,145	132,070	160,949	213,260	411,009	392,126	389,560	324,273	174,094
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	7,577,765	7,396,600
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	2,499,693	2,480,524
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	3,420,588	3,302,748
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	4,599,496	4,911,665
Fiscal and other fixed cost programs	142,253	166,037	172,638	170,317	168,440	102,736	80,594	86,525	90,121	78,415
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	1,708,253	1,766,823
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	2,215,072	1,942,620
Unallocated depreciation	666,564	646,728	654,740	640,108	593,763	690,032	1,137,350	1,130,667	1,128,902	1,137,795
Interest on long-term debt	836,852	814,911	777,574	2,005,456	1,757,200	1,715,119	1,931,424	2,253,696	2,211,874	2,190,369
Total governmental activities expenses	37,097,768	38,599,809	38,028,821	43,011,962	45,207,214	47,508,350	45,161,292	44,093,579	44,422,922	44,453,411
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	165,337	176,353
Special education instruction	612,082	366,264	631,040	601,019	492,229	328,464	590,234	429,820	312,294	260,796
Pupil support services	78,791	39,961	39,305	32,798	219,827	143,485	164,525	147,858	192,874	153,817
Sites and buildings	226,869	193,963	141,791	180,364	161,876	188,387	175,842	161,396	161,895	168,303
Food service	1,094,594	1,072,126	1,071,400	1,019,316	1,043,878	980,081	1,007,980	953,106	868,675	844,226
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	1,544,349	1,382,837
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	6,416,700	6,591,869
Capital grants and contributions	23,182	—	—	—	—	—	—	—	—	127,140
Total governmental activities program revenues	9,016,949	9,394,028	9,713,851	9,810,316	9,229,241	9,925,181	9,190,265	9,645,494	9,662,124	9,705,341
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)	(34,760,798)	(34,748,070)
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	9,562,072	7,155,582
Property taxes, levied for community service	63,794	312,345	381,960	133,702	311,020	216,873	215,590	322,935	534,266	444,587
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	3,397,061	4,073,847
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	22,943,298	25,739,132
Other general revenues	1,299,841	412,969	330,115	424,092	466,095	308,398	410,537	518,200	375,119	558,391
Investment earnings (loss)	421,443	399,106	556,395	1,741,818	1,719,471	675,039	542,895	196,933	1,275,622	(249,747)
Total general revenues and other changes in net assets	29,707,607	29,684,026	29,383,095	30,371,872	34,219,961	34,284,323	36,123,082	36,229,902	38,087,438	37,721,792
Change in net assets	\$ 1,626,788	\$ 478,245	\$ 1,068,125	\$ (2,829,774)	\$ (1,758,012)	\$ (3,298,846)	\$ 152,055	\$ 1,781,817	\$ 3,326,640	\$ 2,973,722

INDEPENDENT SCHOOL DISTRICT NO. 199

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

Fiscal Year	Property Tax			
	General Purpose	Community Service	Debt Service	Total
2003	\$ 2,881,536	\$ 63,794	\$ 1,520,846	\$ 4,466,176
2004	5,821,753	312,345	1,104,525	7,238,623
2005	4,842,108	381,960	1,301,087	6,525,155
2006	3,640,097	133,702	391,896	4,165,695
2007	6,030,960	311,020	2,344,447	8,686,427
2008	6,374,827	216,873	2,548,573	9,140,273
2009	7,349,291	215,590	2,664,904	10,229,785
2010	6,928,603	322,935	3,360,096	10,611,634
2011	9,562,072	534,266	3,397,061	13,493,399
2012	7,155,582	444,587	4,073,847	11,674,016

INDEPENDENT SCHOOL DISTRICT NO. 199

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Reserved	\$ 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	4,024,153	2,867,159	2,903,381	2,914,956	2,989,523	2,724,191	4,801,090	5,774,808	—	—
Nonspendable	—	—	—	—	—	—	—	—	96,952	132,061
Restricted	—	—	—	—	—	—	—	—	1,694,849	2,732,525
Assigned	—	—	—	—	—	—	—	—	3,477,118	3,587,226
Unassigned	—	—	—	—	—	—	—	—	4,722,067	5,083,385
Total General Fund	<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>	<u>\$ 9,990,986</u>	<u>\$ 11,535,197</u>
All other governmental funds										
Reserved	\$ 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	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	722,824	603,023	686,172	306,832	347,678	498,963	590,200	623,086	—	—
Nonspendable	—	—	—	—	—	—	—	—	38,024	38,159
Restricted	—	—	—	—	—	—	—	—	4,272,215	1,949,259
Unassigned, reported in										
Special revenue funds	—	—	—	—	—	—	—	—	(15,201)	—
Total all other governmental funds	<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>	<u>\$ 4,295,038</u>	<u>\$ 1,987,418</u>

Note: The District implemented GASB Statement No. 54 in fiscal 2011, which established new fund balance classifications. Prior year amounts have not been restated.

INDEPENDENT SCHOOL DISTRICT NO. 199

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Local sources										
Taxes	\$ 4,487,263	\$ 7,261,072	\$ 6,515,876	\$ 4,180,980	\$ 8,672,109	\$ 9,108,006	\$ 10,196,250	\$ 10,609,388	\$ 13,453,639	\$ 11,728,856
Investment earnings	421,443	399,106	524,619	1,676,304	1,637,890	606,139	162,672	27,024	30,196	9,663
Other	4,029,291	3,656,650	3,906,782	4,047,754	3,848,799	3,841,302	4,229,261	4,247,921	3,905,729	3,894,796
State sources	27,313,644	26,068,679	26,152,864	28,287,342	27,297,876	28,745,668	28,146,841	25,781,668	26,081,228	29,195,998
Federal sources	1,732,336	1,714,996	1,955,750	1,939,579	1,896,629	1,807,223	2,164,565	5,037,240	2,993,584	2,912,070
Total revenues	37,983,977	39,100,503	39,055,891	40,131,959	43,353,303	44,108,338	44,899,589	45,703,241	46,464,376	47,741,383
Expenditures										
Current										
Administration	1,428,714	1,504,648	1,488,699	1,475,273	1,640,986	1,448,291	1,950,035	1,381,411	1,369,667	1,506,391
District support services	807,796	865,114	957,265	958,308	1,031,478	1,067,131	1,160,932	982,611	944,729	1,058,242
Elementary and secondary regular instruction	14,789,762	15,278,136	15,564,164	15,203,414	15,438,015	16,281,280	21,084,417	16,383,527	16,057,579	16,202,886
Vocational education instruction	132,594	125,145	132,070	160,949	213,260	411,009	486,383	383,786	320,750	172,127
Special education instruction	6,456,673	6,926,654	6,924,290	7,252,145	7,762,976	8,401,644	9,038,200	7,159,504	7,491,184	7,328,521
Instructional support services	1,720,146	1,998,337	2,042,778	2,556,829	2,311,834	2,418,803	3,135,025	2,331,760	2,474,662	2,456,551
Pupil support services	2,556,416	2,614,666	2,799,914	2,996,724	2,878,685	2,955,188	3,633,832	3,259,511	3,411,187	3,316,172
Sites and buildings	4,733,126	4,164,862	3,687,982	4,789,336	4,796,627	4,882,944	5,440,052	4,468,467	4,569,602	5,850,073
Fiscal and other fixed cost programs	142,253	166,037	172,638	170,317	168,440	102,736	80,594	86,525	90,121	78,415
Food service	1,485,162	1,543,191	1,614,168	1,599,683	1,634,090	1,678,522	1,849,531	1,646,175	1,642,749	1,679,588
Community service	1,934,213	1,888,769	1,878,801	1,835,889	1,873,041	2,006,623	2,440,545	2,164,896	2,177,391	1,923,328
Capital outlay	76,025	3,834	88,981	2,568,122	22,083,398	9,121,987	2,162,373	106,699	4,261,912	2,530,042
Debt service										
Principal	1,014,842	1,039,800	1,093,187	643,917	724,855	823,611	1,172,424	1,222,782	1,548,894	2,331,479
Interest and fiscal charges	835,837	816,597	774,662	1,598,826	1,780,707	1,750,502	1,739,514	2,327,376	2,280,597	2,280,768
Total expenditures	38,113,559	38,935,790	39,219,599	43,809,732	64,338,392	53,350,271	55,373,857	43,905,030	48,641,024	48,714,583
Excess of revenues over (under) expenditures	(129,582)	164,713	(163,708)	(3,677,773)	(20,985,089)	(9,241,933)	(10,474,268)	1,798,211	(2,176,648)	(973,200)
Other financing sources (uses)										
Transfers in	—	—	—	—	—	—	—	—	165,890	—
Transfers out	—	(1,500,000)	—	—	—	—	—	—	(165,890)	—
Proceeds from sale of capital assets	826,666	450,000	—	—	—	29,878	17,600	13,835	4,500	5,500
Bonds issued	—	—	—	33,000,000	—	—	9,220,000	—	10,635,000	—
Capital leases	531,722	169,518	49,000	159,924	—	—	380,000	149,904	—	204,291
Premiums on bonds issued	—	—	—	784,182	—	—	—	—	172,018	—
Discounts on bonds issued	—	—	—	—	—	—	(92,200)	—	(40,497)	—
Payments to refund bonds	—	—	—	(6,700,000)	—	—	—	—	(4,085,000)	—
Total other financing sources (uses)	1,358,388	(880,482)	49,000	27,244,106	—	29,878	9,525,400	163,739	6,686,021	209,791
Net change in fund balances	\$ 1,228,806	\$ (715,769)	\$ (114,708)	\$ 23,566,333	\$ (20,985,089)	\$ (9,212,055)	\$ (948,868)	\$ 1,961,950	\$ 4,509,373	\$ (763,409)
Debt service as a percentage of noncapital expenditures	4.9%	4.8%	4.8%	5.4%	5.9%	5.8%	5.5%	8.1%	8.6%	10.0%

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		
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
2011	9,535,438	532,823	3,385,378		13,453,639
2012	7,197,208	445,434	4,086,214		11,728,856

INDEPENDENT SCHOOL DISTRICT NO. 199

Tax Capacities and Estimated Market Values
Last Ten Fiscal Years

For Taxes Collectible	Tax Capacities						Total Direct Tax Rate	Estimated Market Value	Percentage Total Tax Capacity of Estimated Market Value
	Agricultural	Non-Agricultural	Fiscal Disparities		Tax Increment	Total			
			Contribution	Distribution					
2003	\$ 80,898	\$ 20,701,199	\$ (2,031,456)	\$ 2,188,737	\$ (2,797,214)	\$ 18,142,164	14.565	\$ 1,725,871,000	1.05 %
2004	78,201	23,037,037	(2,233,100)	2,381,264	(1,243,606)	22,019,796	10.032	1,957,405,600	1.12
2005	119,659	25,837,109	(2,381,465)	2,416,504	(1,367,636)	24,624,171	7.793	2,220,321,700	1.11
2006	135,971	29,650,251	(2,553,746)	2,615,750	(2,010,301)	27,837,925	17.796	2,554,381,600	1.09
2007	102,354	32,506,513	(2,750,325)	2,818,984	(2,206,874)	30,470,652	16.607	2,791,586,500	1.09
2008	90,937	33,970,218	(3,166,165)	3,303,563	(2,402,315)	31,796,238	19.764	2,885,381,800	1.10
2009	103,720	34,600,216	(3,502,411)	3,645,662	(2,494,099)	32,353,088	19.303	2,910,481,100	1.11
2010	100,890	32,486,454	(3,760,334)	3,860,888	(2,380,830)	30,307,068	21.795	2,697,857,700	1.12
2011	89,207	30,733,443	(3,813,453)	4,128,921	(2,112,612)	29,025,506	24.679	2,541,648,200	1.14
2012	83,825	28,562,147	(3,714,033)	3,574,158	(1,969,109)	26,536,988	28.363	2,483,223,500	1.07

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 the 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>
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
2011	24.679	43.169	29.149	4.644	101.641
2012	28.363	44.883	31.426	5.021	109.693

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 Seven Years Ago

Taxpayer	Type of Property	2012			2005		
		Tax Capacity	Rank	Percentage of Total Tax Capacity	Tax Capacity	Rank	Percentage of Total Tax Capacity
Great Northern Oil Company	Utility	\$ 1,454,504	1	5.08 %	\$ 1,058,790	1	4.08 %
Xcel Energy	Utility	1,103,840	2	3.85	997,814	2	3.84
Koch Refining Company (aka Flint Hills Resources)	Refining	815,516	3	2.85	367,873	4	1.42
ML MASA IV LP	Apartments	396,504	4	1.38	368,750	3	1.42
Lake Cove Village Apartments	Apartments	325,466	5	1.14	337,568	6	1.30
PHM Inver Grove, Inc.	Apartments	322,181	6	1.12	339,072	5	1.31
Vansouth Limited Partnership	Distribution center	284,646	7	0.99	209,348	9	0.81
Farmers Union Central Exchange	Farm supplies/services	256,006	8	0.89	274,670	7	1.06
Salem Green Limited Partnership	Apartments	244,927	9	0.86	225,000	8	0.87
Brentwood Hills Limited Partnership	Apartments	218,400	10	0.76	–	–	–
Private individual	Apartments	–	–	–	193,750	10	0.75
Total		<u>\$ 5,421,990</u>		<u>18.93 %</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 Collections
Last Ten Fiscal Years

Fiscal Year Ended December 31,	Total Tax Levy for Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2003	\$ 6,300,698	\$ 6,253,308	99.25 %	\$ 44,355	\$ 6,297,663	99.95 %
2004	6,153,857	6,115,456	99.38	34,930	6,150,386	99.94
2005	5,768,616	5,722,850	99.21	43,601	5,766,451	99.96
2006	8,871,333	8,788,542	99.07	75,619	8,864,161	99.92
2007	9,335,736	9,231,277	98.88	95,174	9,326,451	99.90
2008	10,433,109	10,292,351	98.65	128,544	10,420,895	99.88
2009	10,645,460	10,504,703	98.68	127,625	10,632,328	99.88
2010	11,129,562	10,980,962	98.66	120,463	11,101,425	99.75
2011	11,565,988	11,423,540	98.77	86,680	11,510,220	99.52
2012	(1) 12,066,839	N/A	N/A	N/A	N/A	N/A

N/A – Not Applicable

- (1) Only a portion of the calendar year 2012 taxes are collected by June 30, 2012. A total of \$5,378,000 of 2012 taxes were collected by June 30, 2012.

Source: Dakota County Department of Property Tax and Public Records

INDEPENDENT SCHOOL DISTRICT NO. 199

Outstanding Debt by Type
Last Ten Fiscal Years

Year Ended June 30,	Governmental Activities				Percentage of Personal Income (1)	Per Capita (1)
	General Obligation Bonds	Capital Leases	Other	Total Primary Government		
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	2.83	1,349
2011	50,620,000	243,228	118,750	50,981,978	3.14	1,505
2012	48,680,000	68,540	106,250	48,854,790	3.01	1,447

(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>Estimated Market Value</u>	<u>Percentage of of Net Debt to Estimated Market Value</u>	<u>Estimated Population</u>	<u>Net Bonded Debt per Capita</u>
2003	\$ 15,700,000	\$ 7,504,447	\$ 8,195,553	\$ 1,725,871,000	0.47 %	30,150	\$ 272
2004	14,850,000	7,382,990	7,467,010	1,957,405,600	0.38	30,708	243
2005	13,955,000	7,515,590	6,439,410	2,220,321,700	0.29	31,053	207
2006	39,805,000	306,832	39,498,168	2,554,381,600	1.55	32,193	1,227
2007	39,105,000	347,678	38,757,322	2,791,586,500	1.39	33,195	1,168
2008	38,310,000	498,963	37,811,037	2,885,381,800	1.31	33,608	1,125
2009	46,530,000	590,200	45,939,800	2,910,481,100	1.58	33,917	1,354
2010	45,380,000	623,086	44,756,914	2,697,857,700	1.66	34,086	1,313
2011	50,620,000	810,779	49,809,221	2,541,648,200	1.96	33,880	1,470
2012	48,680,000	900,151	47,779,849	2,483,223,500	1.92	33,774	1,415

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

INDEPENDENT SCHOOL DISTRICT NO. 199

Direct and Overlapping Debt
June 30, 2012

<u>Governmental Unit</u>	<u>Gross Bonded Debt Outstanding</u>	<u>Percent Allocable to ISD No. 199</u>	<u>Portion Allocable to ISD No. 199</u>
Independent School District No. 199	\$ 48,680,000	100.00 %	\$ 48,680,000
Overlapping debt			
Dakota County	462,933,873	6.45	29,851,365
City of Inver Grove Heights	60,604,586	64.25	38,939,174
City of Rosemount	21,000,000	5.78	1,213,086
City of South St. Paul	12,135,000	0.52	63,320
Metropolitan Council	349,552,846	0.70	2,457,706
Total overlapping debt			<u>72,524,651</u>
Total direct and overlapping debt			<u>\$ 121,204,651</u>

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the District. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents of the District. The percentage is estimated taking the taxable market value of the overlapping government within the District's boundaries divided by the overlapping government's total taxable market value.

Source: Dakota County

INDEPENDENT SCHOOL DISTRICT NO. 199

Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	\$ 258,880,650	\$ 293,610,840	\$ 333,048,255	\$ 383,157,240	\$ 418,737,975	\$ 432,807,270	\$ 436,572,165	\$ 404,678,655	\$ 381,247,230	\$ 372,483,525
Total net debt applicable to limit	8,195,553	7,467,010	6,439,410	39,498,168	38,757,322	37,811,037	45,939,800	44,756,914	49,809,221	47,779,849
Legal debt margin	<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>	<u>\$ 331,438,009</u>	<u>\$ 324,703,676</u>
Total net debt applicable to the limit as a percentage of debt limit	3.17%	2.54%	1.93%	10.31%	9.26%	8.74%	10.52%	11.06%	13.06%	12.83%

Legal Debt Margin Calculation for Fiscal Year 2012	
Market value	\$ 2,483,223,500
Debt limit (15% of market value)	372,483,525
Debt applicable to limit	
General obligation bonds	48,680,000
Less amount set aside for repayment of general obligation debt	<u>(900,151)</u>
Total net debt applicable to limit	<u>47,779,849</u>
Legal debt margin	<u>\$ 324,703,676</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

Fiscal Year Ended June 30,	City of Inver Grove Heights (1)				School Enrollment
	Population	Personal Income	Per Capita Personal Income	Unemployment Rate	
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	1,623,345,750	47,625	7.4	3,867
2011	33,880	1,621,598,440	47,863	6.3	3,766
2012	33,774	1,625,643,942	48,133	5.2	3,770

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

INDEPENDENT SCHOOL DISTRICT NO. 199

Principal Employers
Current Year and Seven Years Ago

Employer	2012			2005		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Cenex/CHS Cooperatives	840	1	4.10 %	1,000	1	5.02 %
Inver Hills Community College	550	2	2.69	343	4	1.72
Evergreen Industries	500	3	2.44	300	5	1.50
Independent School District No. 199	442	4	2.16	472	2	2.35
Travel Tags	425	5	2.08	350	3	1.76
Wal-Mart	300	6	1.46	270	6	1.36
Allied Waste Services (aka BFI Waste Services)	145	7	0.71	140	7	0.70
Southview Chevrolet	140	8	0.68	135	8	0.68
Lofton Label, Inc.	135	9	0.66	—	—	—
City of Inver Grove Heights	131	10	0.64	130	9	0.65
Inver Grove Ford	—	—	—	100	10	0.50
Total	3,608		17.62 %	3,240		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 Ten Fiscal Years

Employees (1)	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
District directors/superintendent	1	1	1	1	1	1	1	1	1	1
Principals	8	7	7	7	7	7	7	7	7	8
Teachers	248	254	256	257	255	254	248	240	232	228
Coordinators, supervisors, specialists, and technical support	50	48	48	48	48	48	47	46	46	46
Paraprofessionals	65	72	79	79	81	83	84	84	86	88
Food service	29	29	28	27	27	22	24	24	23	23
Custodians	26	26	26	26	26	25	23	23	23	23
Community education leads and assistants	36	28	27	24	24	24	24	24	24	25
Total	<u>463</u>	<u>465</u>	<u>472</u>	<u>469</u>	<u>469</u>	<u>464</u>	<u>458</u>	<u>449</u>	<u>442</u>	<u>442</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.

Source: The District's Human Resources Department

INDEPENDENT SCHOOL DISTRICT NO. 199

Operating Indicators
Standardized Testing and Graduation Rates
Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Standardized tests										
MCA reading (1)										
Grade 3	80 %	75 %	81 %	81 %	82 %	76 %	82 %	72 %	81 %	81 %
Grade 5	87	77	83	78	78	81	81	80	89	79
Grade 7	Not tested	69	74	57	67	59	58	66	75	73
Grade 10	85	87	85	69	73	74	33	76	74	74
MCA math (1)										
Grade 3	73	74	79	75	76	75	81	77	78	81
Grade 5	83	77	82	60	64	73	69	68	68	63
Grade 7	Not tested	63	75	46	60	61	60	69	58	54
Grade 11	91	81	88	39	44	51	50	48	56	42
ACT										
Average composite score	21.9	22.6	21.5	22.0	22.3	22.7	23.1	23.4	22.6	23.6
Graduation data										
District graduation rates	96	98	97	97	97	97	98	97	95	85
State graduation rate	88	89	90	91	N/A	N/A	N/A	N/A	N/A	77
Post graduation student survey										
Four-year college/university	47	48	48	46	47	52	50	47	51	55
Two-year college	23	23	19	31	27	25	28	23	27	30
Vocational/technical college	20	18	16	14	16	15	14	11	7	4
Employment	7	4	7	5	5	2	1	3	4	1
Military	3	2	3	2	2	1	3	5	3	4
No response/undecided	–	5	7	2	3	5	4	11	8	6
	100 %	100 %	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.

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

INDEPENDENT SCHOOL DISTRICT NO. 199

School Facilities
as of June 30, 2012

<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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Administration	\$ 362	\$ 387	\$ 390	\$ 391	\$ 430	\$ 387	\$ 512	\$ 357	\$ 363	\$ 400
District support services	204	223	251	254	271	285	305	254	251	281
Elementary and secondary regular instruction	3,743	3,930	4,073	4,028	4,049	4,351	5,531	4,237	4,259	4,298
Vocational education instruction	34	32	35	43	56	110	128	99	85	46
Special education instruction	1,634	1,782	1,812	1,922	2,036	2,245	2,371	1,851	1,987	1,944
Instructional support services	435	514	535	677	606	646	822	603	656	652
Pupil support services	647	672	733	794	755	790	953	843	905	880
Sites and buildings	1,198	1,071	965	1,269	1,258	1,305	1,427	1,156	1,212	1,552
Fiscal and other fixed cost programs	36	43	45	45	44	27	21	22	24	21
Food service	376	397	422	424	429	449	485	426	436	446
Community service	490	486	492	486	491	536	640	570	578	510
Capital outlay	19	1	23	680	5,792	2,438	567	17	1,130	671
Debt service	468	477	489	594	657	688	764	918	1,016	1,223
Total expenditures	<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>\$ 11,354</u>	<u>\$ 12,902</u>	<u>\$ 12,922</u>
Average daily membership	<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>	<u>3,770</u>	<u>3,770</u>

Note: Includes all governmental fund expenditures.

Source: Average daily membership (ADM) – 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	
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	4,454.46
2011	59.66	208.52	1,756.67	1,744.78	3,769.63	4,376.90
2012	79.02	260.90	1,706.03	1,724.01	3,769.96	4,345.83

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 2003 through 2007	1.250	1.000	0.557	1.115	1.060	1.300
Fiscal 2008 through 2012	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	
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
2011	275,733	38,955	148,044	462,732	6,540
2012	258,418	32,004	160,118	450,540	4,188

Year Ended June 30,	Student Regular Lunch Prices			
	Regular Priced Lunches		Reduced Price Lunches	Adult Lunches
	Elementary	Secondary		
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
2011	1.65	1.75/1.80	0.40	3.10
2012	1.70	1.80/1.85	0.40	3.15

Source: The District's Food Service Department