



INVER GROVE HEIGHTS SCHOOLS COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDING JUNE 30, 2016



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COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2016

INDEPENDENT SCHOOL DISTRICT NO. 199
INVER GROVE HEIGHTS, MINNESOTA

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

Prepared by
Business Office

Heather Aune – Director of Business Services

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INDEPENDENT SCHOOL DISTRICT NO. 199

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SECTION I

INTRODUCTORY SECTION



District Office
2990 80th St. E.
Inver Grove Heights, MN 55076
651-306-7800
FAX 651-306-7295

December 5, 2016

Simley High School
2920 80th St. E.
Inver Grove Heights, MN 55076
651-306-7000
FAX 651-306-7016

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

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

INTRODUCTION

Hilltop Elementary
3201 68th St. E.
Inver Grove Heights, MN 55076
651-306-7400
FAX 651-306-7444

The following Comprehensive Annual Financial Report (CAFR) of Independent School District No. 199, Inver Grove Heights, Minnesota, also known as Inver Grove Heights Schools (the District), presents the financial position of the District as of June 30, 2016 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.

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

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 Position 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 position should help the reader in answering that question.

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

Community Education
2990 80th St. E.
Inver Grove Heights, MN 55076
651-306-7870
FAX 651-306-7295

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.

Early Learning
3203 68th St. E.
Inver Grove Heights, MN 55076
651-306-7500
FAX 651-306-7521

Spartan Kids' Care
3203 68th Street
Inver Grove Heights, MN 55076
651-306-7502
FAX 651-457-2837

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.

District Website
www.isd199.org

These financial statements have been audited by Malloy, Montague, Karnowski, Radosevich & Co., P.A., 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, 2016 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 unmodified opinion that the District's financial statements for the fiscal year ended June 30, 2016 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 (ASBO) International 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, and serves a general population of approximately 34,709, covers an area of about 22 square miles, and enrolled 3,811 students for the 2015–2016 fiscal year. In terms of number of students, the District is Minnesota’s 53rd 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 to students and families from birth to 21. These include regular and enriched academic education, special education, 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.

Our Mission

Inspire. Innovate. Excel.
A Community Commitment

Our Vision

- Inclusive, Respectful, and Caring Environment
- A Culture of High Expectations
- Whole Student Development
- Personalized Learning
- Involved and Invested Community and District

District Strategic Plan

- Embracing and utilizing the strengths and experience of our staff.
- Creating clear and achievable outcomes for all staff members.
- Clarifying roles and responsibilities for all staff members.
- Seeking to further unite and inspire the community’s students, staff, families and residents.

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, and 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 Director of Business Services 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 Director of Business Services prepares the salary and benefits budget and updates this data to the master budget. The finance/business department staff, along with the Director of Business Services, 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 legal level of budgetary control is at the fund level.

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 Director of Business Services 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. Although recent economic conditions have continued to show signs of improvement for many residents of the District, in the 2015–2016 school year, the District served 6,056 more free meals to its students than the prior year, an increase of 3.4 percent.

Officials at the City of Inver Grove Heights (the City) indicated that the City processed 47 planning applications in 2015, about the same number as in 2014. Most significantly, final approvals were granted to 116 single-family lots. Preliminary approval was given for 46 single-family lots, 36 townhomes, and a future apartment building. These plats are expected to substantially increase residential construction in 2016. To serve this development, the City continued major extensions of sanitary sewer and municipal water trunk utilities and, working with Dakota County, approved the future realignment of Argenta Trail. Planning staff also worked on zoning ordinances pertaining to accessory dwelling units, supervised student housing, tobacco licensing, and solar and wind power generation.

The unemployment rate for Dakota County is currently 3.0 percent, which is a decrease from a rate of 3.2 percent a year ago. This compares favorably to both state and national average unemployment rates of 3.2 percent and 4.7 percent, respectively.

Taxable market value in the District increased 5.5 percent for the year from \$2,518,406,576 to \$2,657,143,330.

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 continuously monitoring the state's financial position.

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 2012, enrollment remained stable from the previous year at 3,770 and then increased slightly to 3,795 (0.7 percent) for fiscal year 2013. In fiscal year 2014, the students served increased to 3,855, or 1.6 percent. The students served decreased to 3,816, a decline of 0.8 percent in fiscal year 2015, and decreased again slightly to 3,811 in 2016. 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 or slightly decrease for the next five years.

Minnesota school districts have the ability to raise additional revenue through voter-approved excess levy referendums. For fiscal year 2016, the additional funding is capped at \$1,870 per adjusted pupil unit as per state statute. For fiscal year 2016, the District has authority for \$562 per adjusted pupil unit of excess levy authority, which raises a total of approximately \$2.37 million. The District is presently \$1,308 below the referendum cap established by the Minnesota Legislature. Despite the projection of stable enrollment, the District is anticipating a \$1.1 million shortfall for fiscal year 2017 as a result of costs increasing at a rate higher than the state funding the District receives.

The District operates five school buildings: one high school (220,728 square feet), one middle school (314,970 square feet), and three elementary buildings (totaling 222,424 square feet). The average age of the five buildings is 36.73 years.

AWARDS AND ACKNOWLEDGEMENTS

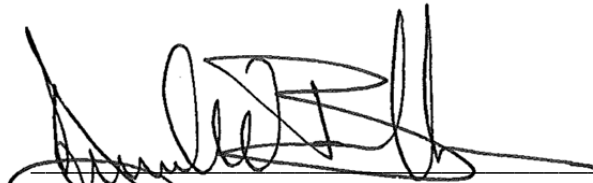
The District was one of a few school districts in Minnesota to be awarded the ASBO International Certificate of Excellence in Financial Reporting for the preparation and issuance of a high-quality CAFR for the fiscal year ending June 30, 2015. This was the eleventh time the District submitted its CAFR for consideration of this award. The Certificate of Excellence, the highest recognition for school district financial operations offered by the ASBO International, 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 the ASBO International 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.

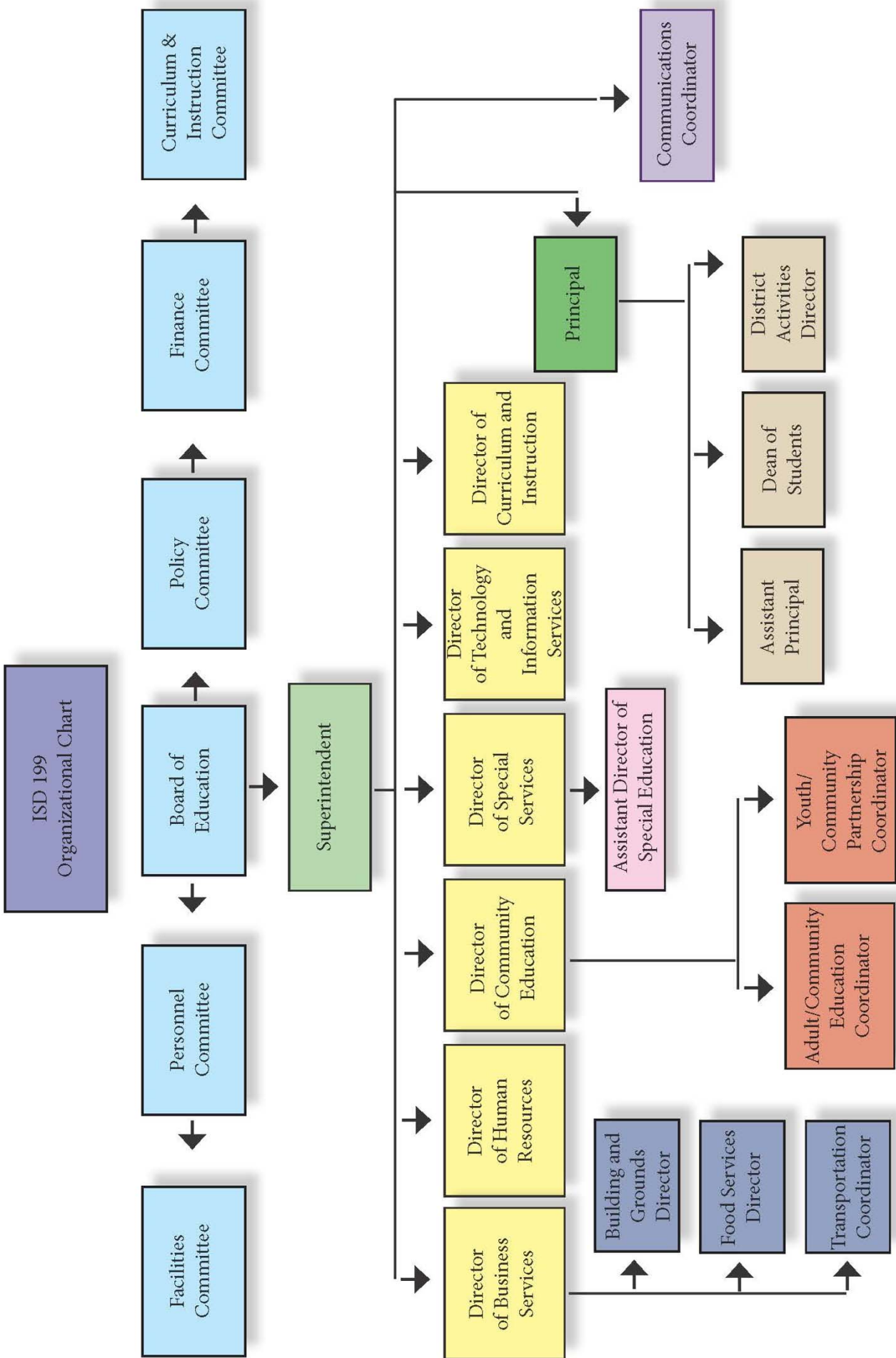
Respectfully submitted,



Dave Bernhardtson
Superintendent



Heather Aune
Director of Business Services



INDEPENDENT SCHOOL DISTRICT NO. 199

School Board and Administration
Year Ended June 30, 2016

SCHOOL BOARD

Position on School Board
During 2015–2016

| | |
|-------------------|----------------------------|
| Cindy Nordstrom | Chairperson |
| Paul Mandell | Vice Chairperson/Treasurer |
| Lynette Stensgard | Clerk |
| Sue Gliva | Director |
| Rachel Hanson | Director |
| Matt Schaefer | Director |
| Sherry Warrick | Director |

ADMINISTRATION

| | |
|----------------------|--|
| Dave Bernhardson | Superintendent |
| Heather Aune | Director of Business Services |
| Mary Garrison | Director of Special Services |
| Julie Coffey | Director of Human Resources |
| Penny Baker | Director of Curriculum and Instruction |
| Lynn Tenney | Director of Technology and Information Systems |
| Bernadette MacKenzie | Director of Community Education |



ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS
INTERNATIONAL

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

Independent School District No. 199

**for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2015.**

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



Brenda Burkett

Brenda R. Burkett, CPA, CSBA, SFO
President

John D. Musso

John D. Musso, CAE, RSBA
Executive Director

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SECTION II

FINANCIAL SECTION



PRINCIPALS

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

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page 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, 2016, 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 accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information (RSI), 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 RSI 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, 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. Such 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.

(continued)

Prior Year Comparative Information

We have previously audited the District's 2015 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated October 19, 2015. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016 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* in considering the District's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota
December 5, 2016

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INDEPENDENT SCHOOL DISTRICT NO. 199

Management's Discussion and Analysis Fiscal Year Ended June 30, 2016

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, 2016. We encourage readers to consider the information presented here in conjunction with the other components of the District's Comprehensive Annual Financial Report (CAFR), including the letter of transmittal located in the introductory section.

FINANCIAL HIGHLIGHTS

- The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2016, resulting in a net position of \$407,912. The unrestricted portion of net position was a deficit of (\$15,034,472). The District had \$4,078,494 of net position available at year-end to meet its ongoing obligations, but restricted for specific uses. The District's total net position increased by \$2,790,349 during the fiscal year ended June 30, 2016.
- At June 30, 2016, the District's governmental funds reported combined ending fund balances of \$16,898,123, a decrease of \$30,993,000 from the prior year. This decrease was primarily the result of the District using the proceeds of refunding bonds issued in the prior year to redeem the outstanding maturities of its General Obligation School Building Bonds, Series 2005A issue, as well as the spend down of a significant portion of its remaining 2014A Building Bond proceeds for capital projects.
- The District's General Fund, its primary operating fund, closed the fiscal year with an unassigned fund balance of \$4,024,741, which represents approximately 9.5 percent of annual General Fund expenditures based on fiscal 2016 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 FINANCIAL STATEMENTS

The government-wide financial statements (Statement of Net Position 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 Position includes *all* of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 financial statements report the District's *net position* and how they have changed. Net position—the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District requires consideration of additional nonfinancial 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 financial 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 Position and a Statement of Changes in Fiduciary Net Position. 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 Position:

| | <u>2016</u> | <u>2015</u> |
|--|------------------------------|------------------------------|
| Assets | | |
| Current and other assets | \$ 45,593,046 | \$ 79,722,432 |
| Capital assets, net of depreciation | <u>68,715,725</u> | <u>64,913,886</u> |
| Total assets | <u>\$ 114,308,771</u> | <u>\$ 144,636,318</u> |
| Deferred outflows of resources | | |
| Pension plan deferments – PERA and TRA | <u>\$ 5,259,444</u> | <u>\$ 3,951,305</u> |
| Liabilities | | |
| Current and other liabilities | \$ 6,149,181 | \$ 8,574,223 |
| Long-term liabilities, including due within one year | <u>97,652,420</u> | <u>122,455,702</u> |
| Total liabilities | <u>\$ 103,801,601</u> | <u>\$ 131,029,925</u> |
| Deferred inflows of resources | | |
| Property taxes levied for subsequent year | \$ 12,018,862 | \$ 12,819,927 |
| Pension plan deferments – PERA and TRA | <u>3,339,840</u> | <u>7,120,208</u> |
| Total deferred inflows of resources | <u>\$ 15,358,702</u> | <u>\$ 19,940,135</u> |
| Net position | | |
| Net investment in capital assets | \$ 11,363,890 | \$ 9,936,693 |
| Restricted | 4,078,494 | 4,466,287 |
| Unrestricted | <u>(15,034,472)</u> | <u>(16,785,417)</u> |
| Total net position | <u>\$ 407,912</u> | <u>\$ (2,382,437)</u> |

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets 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. Another major factor in determining net position as compared to fund balances are liabilities for long-term severance, pension, and other post-employment benefits (OPEB), which impact the unrestricted portion of net position.

Total net position increased by \$2,790,349. As presented in the table above, the District's restricted net position decreased from the prior year, while net investment in capital assets and unrestricted net position increased.

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

| | <u>2016</u> | <u>2015</u> |
|--|--------------------------|------------------------------|
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 2,768,196 | \$ 2,807,443 |
| Operating grants and contributions | 7,537,891 | 6,990,499 |
| General revenues | | |
| Property taxes | 13,899,724 | 12,635,251 |
| General grants and aids | 29,060,036 | 28,045,536 |
| Other | 486,834 | 750,615 |
| Total revenues | <u>53,752,681</u> | <u>51,229,344</u> |
| Expenses | | |
| Administration | 1,668,525 | 1,642,918 |
| District support services | 2,237,559 | 1,436,499 |
| Elementary and secondary regular instruction | 18,123,732 | 17,492,321 |
| Vocational education instruction | 231,331 | 184,107 |
| Special education instruction | 8,107,795 | 7,496,130 |
| Instructional support services | 2,820,805 | 2,981,203 |
| Pupil support services | 3,904,644 | 4,025,098 |
| Sites and buildings | 5,553,004 | 5,232,292 |
| Fiscal and other fixed cost programs | 104,350 | 124,278 |
| Food service | 1,996,766 | 1,854,645 |
| Community service | 2,141,074 | 2,170,270 |
| Unallocated depreciation | 1,771,423 | 1,686,488 |
| Interest on long-term debt | 2,301,324 | 4,040,011 |
| Total expenses | <u>50,962,332</u> | <u>50,366,260</u> |
| Change in net position | 2,790,349 | 863,084 |
| Net position – beginning | <u>(2,382,437)</u> | <u>(3,245,521)</u> |
| Net position – ending | <u><u>\$ 407,912</u></u> | <u><u>\$ (2,382,437)</u></u> |

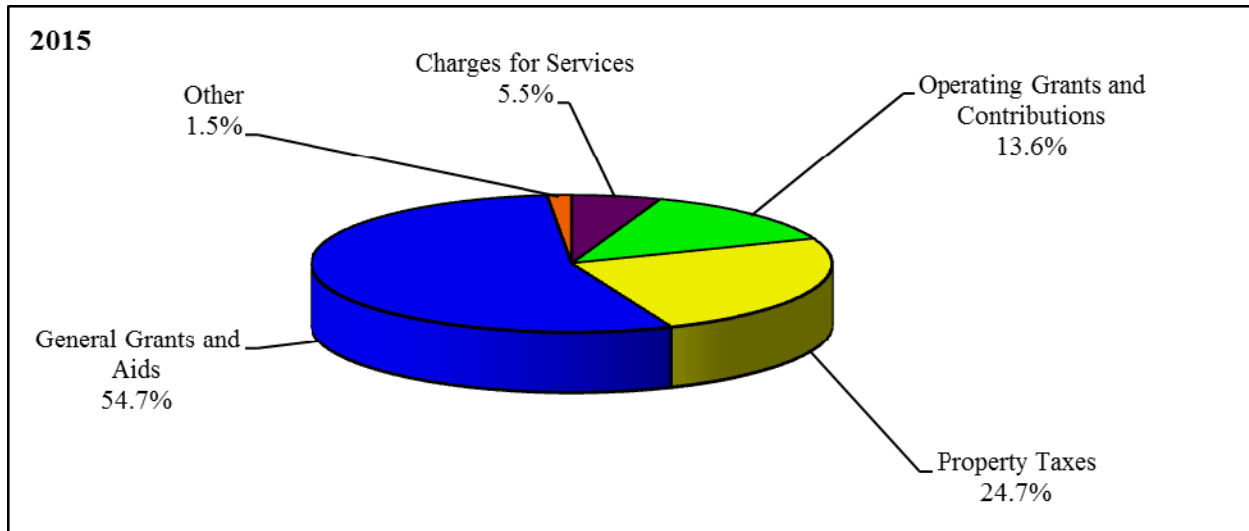
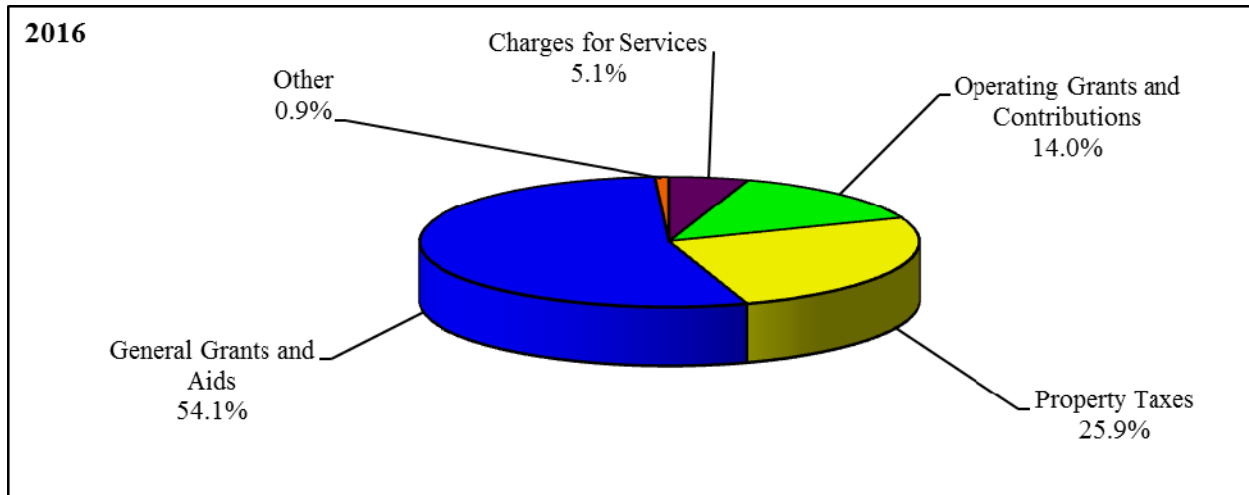
This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This table includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

Revenues in fiscal 2016 were \$2,523,337 higher than the previous year, mainly due to increased general education state aid and property tax levy revenue.

Total expenses for fiscal year 2016 increased \$596,072 (1.2 percent) from the previous year, primarily in district support services, elementary and secondary regular instruction, and special education instruction, offset by a decrease in interest on long-term debt.

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

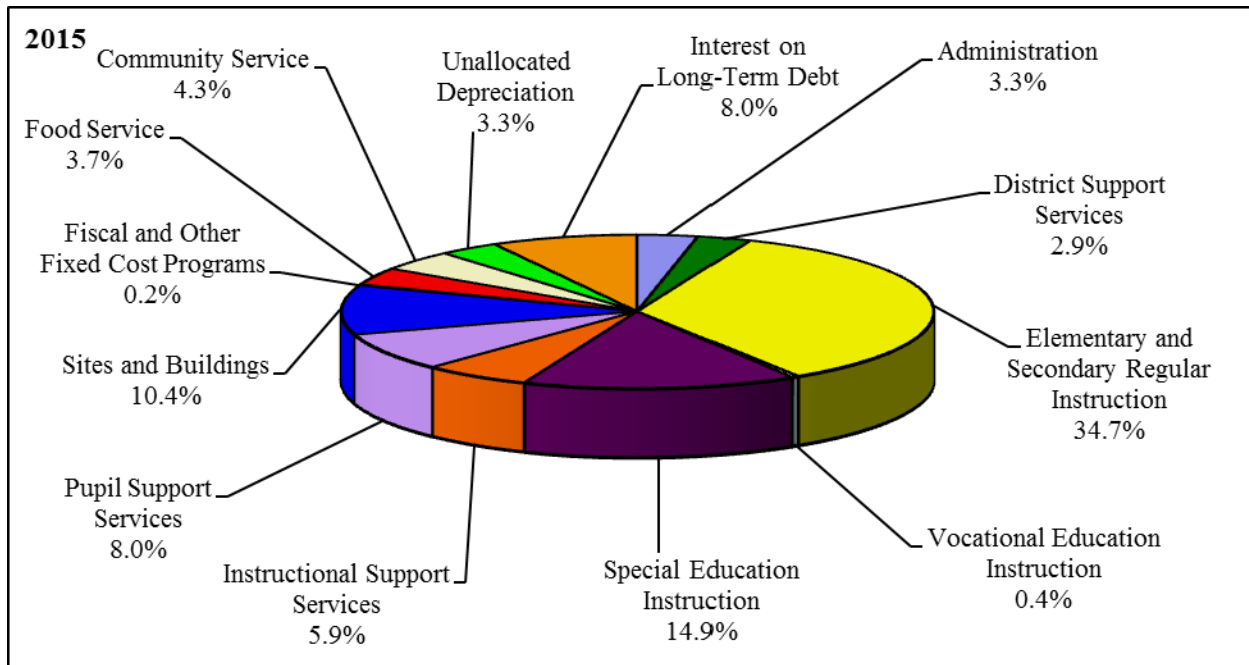
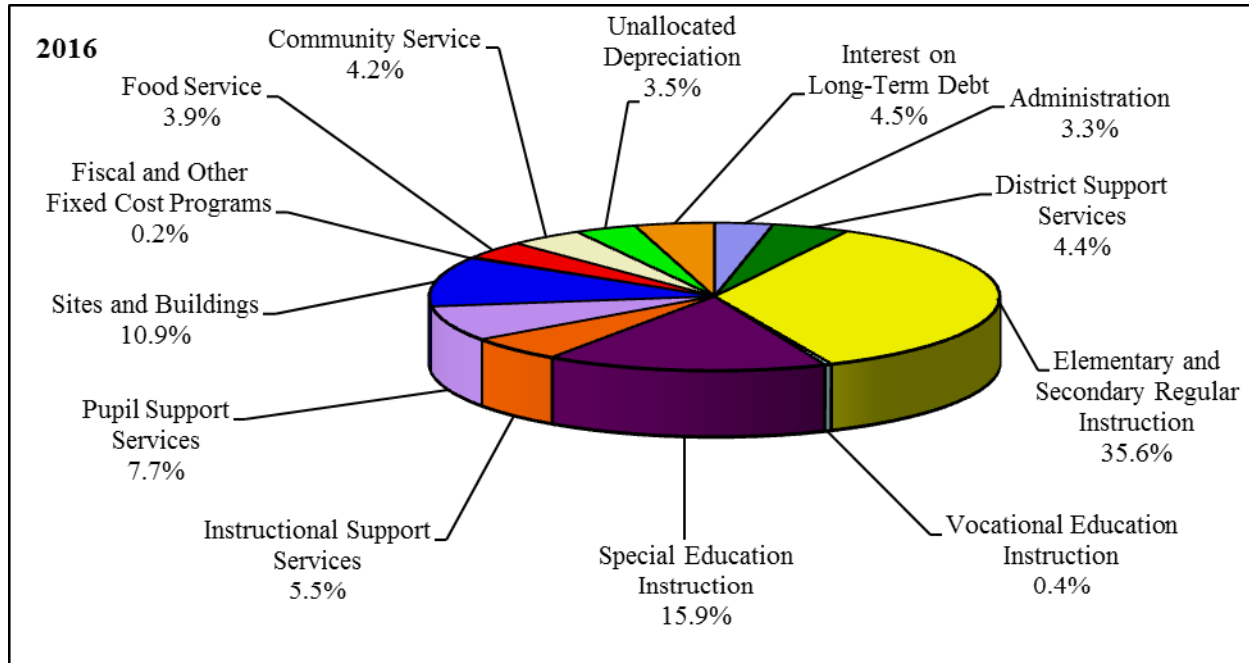
Figure A – Sources of Revenue for Fiscal Years 2016 and 2015



The largest share of the District's revenue is received from the state, including the general education aid formula and most of the operating grants. This significant reliance on the state for funding has placed tremendous pressure on local school districts as a result of limited funding increases in recent years.

Property taxes are generally 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.

Figure B – Expenses for Fiscal Years 2016 and 2015



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:

| | <u>2016</u> | <u>2015</u> | <u>Increase (Decrease)</u> | <u>Total Percent Change</u> |
|-----------------------------------|----------------------|----------------------|--------------------------------|---------------------------------|
| Major funds | | | | |
| General | \$ 12,544,538 | \$ 11,143,882 | \$ 1,400,656 | 12.6% |
| Capital Projects – | | | | |
| Building Construction | 1,575,783 | 7,395,951 | (5,820,168) | (78.7%) |
| Debt Service | 1,041,646 | 27,854,083 | (26,812,437) | (96.3%) |
| Nonmajor funds | | | | |
| Food Service Special Revenue | 1,461,552 | 1,440,397 | 21,155 | 1.5% |
| Community Service Special Revenue | 274,604 | 56,810 | 217,794 | 383.4% |
| Total governmental funds | <u>\$ 16,898,123</u> | <u>\$ 47,891,123</u> | <u>\$ (30,993,000)</u> | (64.7%) |

The fund balance of the General Fund increased from the prior year due to positive operating results for the year. The Capital Projects – Building Construction Fund decreased significantly, as proceeds from building bonds issued in fiscal 2014 were utilized for construction in the current year. The decrease in the Debt Service Fund was due to the refunding payment to the bond escrow agent related to the refunding bonds that were issued in the prior fiscal year. The Food Service Special Revenue Fund was consistent with the prior year. The Community Service Special Revenue Fund increase was attributable to higher revenues from increased participation in the various programs offered by the District during the year.

General Fund

Table 4 summarizes the amendments to the General Fund budget:

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Increase (Decrease)</u> | <u>Percent Change</u> |
|--------------|------------------------|----------------------|--------------------------------|-----------------------|
| Revenue | <u>\$ 43,299,246</u> | <u>\$ 43,380,379</u> | <u>\$ 81,133</u> | <u>0.2%</u> |
| Expenditures | <u>\$ 43,396,307</u> | <u>\$ 43,818,960</u> | <u>\$ 422,653</u> | <u>1.0%</u> |

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to 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. The District amended the budget during the year to adjust for updated enrollment projections, updated special education estimates, known staffing changes, and updated federal funding allocations and budgets.

Table 5 summarizes the operating results of the General Fund:

| | 2016 Actual | Over (Under) Final Budget | | Over (Under) Prior Year | |
|-----------------------------|---------------------|------------------------------|---------|----------------------------|---------|
| | | Amount | Percent | Amount | Percent |
| Revenue | \$ 44,191,228 | \$ 810,849 | 1.9% | \$ 2,864,880 | 6.9% |
| Expenditures | 42,790,572 | \$ (1,028,388) | (2.3%) | \$ 220,648 | 0.5% |
| Other financing sources | — | \$ — | — | \$ (771,042) | — |
| Net change in fund balances | <u>\$ 1,400,656</u> | | | | |

General Fund revenues were \$810,849 over the final budget for fiscal year 2016. State aid revenue was \$555,671 over budget, mainly due to the recognition of a \$479,480 state contribution to the Teachers Retirement Association Pension Benefits Plan on District's behalf. Revenue from other local sources, including gifts, reimbursements from other districts, and medical assistance reimbursements, were also \$188,851 higher than budget.

General Fund expenditures were \$1,028,388 under budget, mainly in salaries and capital outlay costs.

Capital Projects – Building Construction Fund

The District established the Capital Projects – Building Construction Fund in fiscal 2014 to account for the proceeds and capital expenditures related to the issuance of \$24.75 million of general obligation building bonds. In fiscal 2016, the District utilized about \$5.80 million of these proceeds for various construction projects. The year-end fund balance of \$1,575,783 is restricted for future building construction costs.

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 District issued \$24.32 million of crossover refunding bonds in fiscal 2015, which redeemed the remaining principal of the General Obligation School Building Bonds, Series 2005A in fiscal 2016 for \$26,420,000. The Debt Service Fund ended the year with a fund balance of \$1,041,646, which is restricted for debt service.

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, 2016 and 2015:

| | Table 6 Capital Assets | | |
|-------------------------------|-----------------------------------|----------------------|--------------------------------|
| | <u>2016</u> | <u>2015</u> | <u>Increase (Decrease)</u> |
| Land | \$ 421,200 | \$ 421,200 | \$ – |
| Buildings and improvements | 89,454,891 | 75,076,173 | 14,378,718 |
| Furniture and equipment | 3,674,824 | 3,587,275 | 87,549 |
| Construction in progress | 667,349 | 9,488,633 | (8,821,284) |
| Less accumulated depreciation | <u>(25,502,539)</u> | <u>(23,659,395)</u> | <u>(1,843,144)</u> |
| Total | <u>\$ 68,715,725</u> | <u>\$ 64,913,886</u> | <u>\$ 3,801,839</u> |
| Depreciation expense | <u>\$ 1,938,463</u> | <u>\$ 1,857,544</u> | <u>\$ 80,919</u> |

The changes presented in the table above primarily reflect the additional construction in fiscal 2016 on projects financed with the \$24.75 million building bonds issued in fiscal 2014.

Long-Term Liabilities

Table 7 presents the components of the District's long-term liabilities and the change from the prior year:

| | <u>2016</u> | <u>2015</u> | Increase (Decrease) |
|--|----------------------|-----------------------|------------------------|
| General obligation bonds payable | \$ 61,840,000 | \$ 90,595,000 | \$ (28,755,000) |
| Premiums on bonds payable | 3,350,707 | 4,102,419 | (751,712) |
| Discounts on bonds payable | (29,042) | (31,173) | 2,131 |
| Special assessments payable | 56,250 | 68,750 | (12,500) |
| Capital leases payable | 2,581,739 | 3,104,549 | (522,810) |
| Severance payable | 1,150,315 | 1,197,725 | (47,410) |
| Net OPEB obligation | 472,371 | 207,804 | 264,567 |
| Net pension obligation – District Plan | 328,137 | 351,752 | (23,615) |
| Net pension liability – PERA | 5,830,334 | 5,261,199 | 569,135 |
| Net pension liability – TRA | 22,071,609 | 17,597,677 | 4,473,932 |
| Total | <u>\$ 97,652,420</u> | <u>\$ 122,455,702</u> | <u>\$ (24,803,282)</u> |

The District made the \$26,420,000 refunding payment related to the crossover refunding bonds issued in fiscal 2015, along with scheduled bond principal payment of \$2,335,000 in 2016.

The changes in capital leases and special assessments payable are due to scheduled principal payments made in the current year.

The differences in the Public Employees Retirement Association (PERA) and the TRA net pension liabilities reflect the change in the District's proportionate share of these state-wide pension obligations.

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

| | |
|-------------------------|-----------------------|
| District's market value | \$ 2,657,143,330 |
| Limit rate | <u>15.0%</u> |
| Legal debt limit | <u>\$ 398,571,500</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. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. For the 2016 fiscal year, the Legislature added \$117, or 2.0 percent, per pupil to the basic general education funding formula and an additional \$119, or 2.0 percent, per pupil to the formula for fiscal year 2017. The ongoing demands on limited resources continue to present challenges in funding education for Minnesota schools.

During the 2015–2016 school year the District completed a performing arts center addition to the high school. The District continues to improve security to its buildings, update technology, complete various deferred maintenance and facility improvements, and are in the final stages of completing the Spartan Center remodel.

The District strives to maintain its longstanding commitment to academic excellence and educational opportunity for learners within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This CAFR 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 CAFR or need additional financial information, contact the Business Office, Independent School District No. 199, 2990 – 80th Street East, Inver Grove Heights, Minnesota 55076.

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BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Net Position
as of June 30, 2016

(With Partial Comparative Information as of June 30, 2015)

| | Governmental Activities | |
|--|-------------------------|-----------------------|
| | 2016 | 2015 |
| Assets | | |
| Cash and temporary investments | \$ 23,499,369 | \$ 29,181,210 |
| Receivables | | |
| Current taxes | 7,221,152 | 7,538,200 |
| Delinquent taxes | 91,430 | 165,529 |
| Accounts and interest | 113,967 | 105,915 |
| Due from other governmental units | 4,303,234 | 4,818,722 |
| Inventory | 115,506 | 55,800 |
| Prepaid items | 159,205 | 163,036 |
| Restricted assets – temporarily restricted | | |
| Cash and investments for other post-employment benefits | 10,089,183 | 10,481,859 |
| Cash and investments for bond refunding | – | 26,972,339 |
| Cash and investments for construction | – | 239,822 |
| Capital assets | | |
| Not depreciated | 1,088,549 | 9,909,833 |
| Depreciated, net of accumulated depreciation | <u>67,627,176</u> | <u>55,004,053</u> |
| Total capital assets, net of accumulated depreciation | <u>68,715,725</u> | <u>64,913,886</u> |
| Total assets | 114,308,771 | 144,636,318 |
| Deferred outflows of resources | | |
| Pension plan deferments – PERA and TRA | <u>5,259,444</u> | <u>3,951,305</u> |
| Total assets and deferred outflows of resources | <u>\$ 119,568,215</u> | <u>\$ 148,587,623</u> |
| Liabilities | | |
| Salaries payable | \$ 2,871,486 | \$ 1,901,423 |
| Accounts and contracts payable | 1,878,404 | 4,307,143 |
| Accrued interest payable | 1,216,252 | 1,737,744 |
| Due to other governmental units | 145,272 | 347,934 |
| Unearned revenue | 37,767 | 279,979 |
| Long-term liabilities | | |
| Due within one year | 2,863,091 | 29,329,266 |
| Due in more than one year | <u>94,789,329</u> | <u>93,126,436</u> |
| Total long-term liabilities | <u>97,652,420</u> | <u>122,455,702</u> |
| Total liabilities | 103,801,601 | 131,029,925 |
| Deferred inflows of resources | | |
| Property taxes levied for subsequent year | 12,018,862 | 12,819,927 |
| Pension plan deferments – PERA and TRA | <u>3,339,840</u> | <u>7,120,208</u> |
| Total deferred inflows of resources | <u>15,358,702</u> | <u>19,940,135</u> |
| Net position | | |
| Net investment in capital assets | 11,363,890 | 9,936,693 |
| Restricted for | | |
| Capital asset acquisition | 1,851,090 | 1,980,625 |
| Food service | 1,461,552 | 1,440,397 |
| Community service | 277,790 | 62,830 |
| Other post-employment benefits | 438,477 | 913,305 |
| Other purposes (state funding restrictions) | 49,585 | 69,130 |
| Unrestricted | <u>(15,034,472)</u> | <u>(16,785,417)</u> |
| Total net position | <u>407,912</u> | <u>(2,382,437)</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 119,568,215</u> | <u>\$ 148,587,623</u> |

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Activities
 Year Ended June 30, 2016
 (With Partial Comparative Information for the Year Ended June 30, 2015)

| Functions/Programs | 2016 | | | 2015 | |
|---|----------------------|-------------------------|--|--|--|
| | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | Net (Expense) Revenue and Changes in Net Position |
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities | Governmental Activities |
| Governmental activities | | | | | |
| Administration | \$ 1,668,525 | \$ - | \$ - | \$ (1,668,525) | \$ (1,640,021) |
| District support services | 2,237,559 | - | - | (2,237,559) | (1,436,490) |
| Elementary and secondary regular instruction | 18,123,732 | 238,815 | 597,756 | (17,287,161) | (16,660,970) |
| Vocational education instruction | 231,331 | - | 15,749 | (215,582) | (159,226) |
| Special education instruction | 8,107,795 | 169,392 | 4,685,824 | (3,252,579) | (3,055,649) |
| Instructional support services | 2,820,805 | - | 474,765 | (2,346,040) | (2,458,424) |
| Pupil support services | 3,904,644 | 93,553 | 187,071 | (3,624,020) | (3,755,858) |
| Sites and buildings | 5,553,004 | - | - | (5,553,004) | (5,232,292) |
| Fiscal and other fixed cost programs | 104,350 | - | - | (104,350) | (124,278) |
| Food service | 1,996,766 | 709,730 | 1,283,816 | (3,220) | 116,304 |
| Community service | 2,141,074 | 1,556,706 | 292,910 | (291,458) | (434,915) |
| Unallocated depreciation expense | 1,771,423 | - | - | (1,771,423) | (1,686,488) |
| Interest on long-term debt | 2,301,324 | - | - | (2,301,324) | (4,040,011) |
| Total governmental activities | <u>\$ 50,962,332</u> | <u>\$ 2,768,196</u> | <u>\$ 7,537,891</u> | (40,656,245) | (40,568,318) |
| General revenues | | | | | |
| Taxes | | | | | |
| Property taxes levied for general purposes | | | | 8,065,878 | 6,666,391 |
| Property taxes levied for community service | | | | 468,718 | 438,467 |
| Property taxes levied for debt service | | | | 5,365,128 | 5,530,393 |
| General grants and aids | | | | 29,060,036 | 28,045,536 |
| Other general revenues | | | | 547,489 | 557,701 |
| Investment earnings (loss) | | | | (60,655) | 192,914 |
| Total general revenues | | | | <u>43,446,594</u> | <u>41,431,402</u> |
| Change in net position | | | | 2,790,349 | 863,084 |
| Net position – beginning | | | | <u>(2,382,437)</u> | <u>(3,245,521)</u> |
| Net position – ending | | | | <u>\$ 407,912</u> | <u>\$ (2,382,437)</u> |

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Balance Sheet
 Governmental Funds
 as of June 30, 2016
 (With Partial Comparative Information as of June 30, 2015)

| | <u>General Fund</u> | <u>Capital Projects – Building Construction Fund</u> | <u>Debt Service Fund</u> |
|--|-----------------------------|--|------------------------------|
| Assets | | | |
| Cash and temporary investments | \$ 14,530,631 | \$ 1,915,882 | \$ 3,369,699 |
| Cash and investments held by trustee | – | – | – |
| Receivables | | | |
| Current taxes | 4,066,074 | – | 2,895,699 |
| Delinquent taxes | 53,025 | – | 35,219 |
| Accounts and interest | 13,760 | 20,628 | – |
| Due from other governmental units | 4,206,292 | – | 28,290 |
| Due from other funds | 238,335 | – | – |
| Inventory | – | – | – |
| Prepaid items | 159,205 | – | – |
| | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 23,267,322</u> | <u>\$ 1,936,510</u> | <u>\$ 6,328,907</u> |
| Liabilities | | | |
| Salaries payable | \$ 2,792,088 | \$ – | \$ – |
| Accounts and contracts payable | 1,436,025 | 360,727 | – |
| Due to other governmental units | 145,272 | – | – |
| Unearned revenue | – | – | – |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | 4,373,385 | 360,727 | – |
| Deferred inflows of resources | | | |
| Property taxes levied for subsequent year | 6,296,374 | – | 5,252,042 |
| Unavailable revenue – delinquent taxes | 53,025 | – | 35,219 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total deferred inflows of resources | 6,349,399 | – | 5,287,261 |
| Fund balances (deficit) | | | |
| Nonspendable | 159,205 | – | – |
| Restricted | 1,832,711 | 1,575,783 | 1,041,646 |
| Assigned | 6,527,881 | – | – |
| Unassigned | 4,024,741 | – | – |
| | <u> </u> | <u> </u> | <u> </u> |
| Total fund balances | 12,544,538 | 1,575,783 | 1,041,646 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 23,267,322</u> | <u>\$ 1,936,510</u> | <u>\$ 6,328,907</u> |

See notes to basic financial statements

| Nonmajor Funds | Total Governmental Funds | |
|---------------------|--------------------------|----------------------|
| | 2016 | 2015 |
| \$ 1,882,303 | \$ 21,698,515 | \$ 27,382,945 |
| – | – | 27,212,161 |
| 259,379 | 7,221,152 | 7,538,200 |
| 3,186 | 91,430 | 165,529 |
| 79,579 | 113,967 | 105,915 |
| 68,652 | 4,303,234 | 4,818,722 |
| – | 238,335 | 270,750 |
| 115,506 | 115,506 | 55,800 |
| – | 159,205 | 163,036 |
| <u>\$ 2,408,605</u> | <u>\$ 33,941,344</u> | <u>\$ 67,713,058</u> |
| \$ 79,398 | \$ 2,871,486 | \$ 1,901,423 |
| 81,652 | 1,878,404 | 4,307,143 |
| – | 145,272 | 347,934 |
| 37,767 | 37,767 | 279,979 |
| <u>198,817</u> | <u>4,932,929</u> | <u>6,836,479</u> |
| 470,446 | 12,018,862 | 12,819,927 |
| 3,186 | 91,430 | 165,529 |
| <u>473,632</u> | <u>12,110,292</u> | <u>12,985,456</u> |
| 115,506 | 274,711 | 218,836 |
| 1,623,916 | 6,074,056 | 38,692,183 |
| – | 6,527,881 | 4,896,896 |
| (3,266) | 4,021,475 | 4,083,208 |
| <u>1,736,156</u> | <u>16,898,123</u> | <u>47,891,123</u> |
| <u>\$ 2,408,605</u> | <u>\$ 33,941,344</u> | <u>\$ 67,713,058</u> |

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INDEPENDENT SCHOOL DISTRICT NO. 199

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2016

(With Partial Comparative Information as of June 30, 2015)

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-----------------------|
| Total fund balances – governmental funds | \$ 16,898,123 | \$ 47,891,123 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources. | | |
| Cost of capital assets | 94,218,264 | 88,573,281 |
| Accumulated depreciation | (25,502,539) | (23,659,395) |
| Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. | | |
| General obligation bonds | (61,840,000) | (90,595,000) |
| Special assessments payable | (56,250) | (68,750) |
| Capital leases | (2,581,739) | (3,104,549) |
| (Premiums) discounts on bonds | (3,321,665) | (4,071,246) |
| Net pension liability – PERA | (5,830,334) | (5,261,199) |
| Net pension liability – TRA | (22,071,609) | (17,597,677) |
| 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 Position. | | |
| | 9,700,879 | 10,252,093 |
| Accrued interest payable is included in net position, but is excluded from fund balances until due and payable. | | |
| | (1,216,252) | (1,737,744) |
| The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements. | | |
| Deferred outflows – PERA and TRA pension plans | 5,259,444 | 3,951,305 |
| Deferred inflows – PERA and TRA pension plans | (3,339,840) | (7,120,208) |
| Deferred inflows – delinquent property taxes | 91,430 | 165,529 |
| Total net position – governmental activities | <u>\$ 407,912</u> | <u>\$ (2,382,437)</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, 2016
 (With Partial Comparative Information for the Year Ended June 30, 2015)

| | <u>General Fund</u> | <u>Capital Projects – Building Construction Fund</u> | <u>Debt Service Fund</u> |
|--|----------------------|--|------------------------------|
| Revenue | | | |
| Local sources | | | |
| Property taxes | \$ 8,108,315 | \$ – | \$ 5,393,956 |
| Investment earnings | 13,390 | 24,365 | 18,295 |
| Other | 1,049,251 | – | – |
| State sources | 33,586,960 | – | 927 |
| Federal sources | 1,433,312 | – | – |
| Total revenue | <u>44,191,228</u> | <u>24,365</u> | <u>5,413,178</u> |
| Expenditures | | | |
| Current | | | |
| Administration | 1,628,534 | – | – |
| District support services | 2,160,942 | – | – |
| Elementary and secondary regular instruction | 18,088,021 | – | – |
| Vocational education instruction | 229,112 | – | – |
| Special education instruction | 8,023,818 | – | – |
| Instructional support services | 2,763,222 | – | – |
| Pupil support services | 3,916,467 | – | – |
| Sites and buildings | 5,239,014 | – | – |
| Fiscal and other fixed cost programs | 104,350 | – | – |
| Food service | – | – | – |
| Community service | – | – | – |
| Capital outlay | – | 5,844,533 | – |
| Debt service | | | |
| Principal | 535,310 | – | 2,335,000 |
| Interest and fiscal charges | 101,782 | – | 3,470,615 |
| Total expenditures | <u>42,790,572</u> | <u>5,844,533</u> | <u>5,805,615</u> |
| Excess (deficiency) of revenue over expenditures | 1,400,656 | (5,820,168) | (392,437) |
| Other financing sources (uses) | | | |
| Refunding bonds issued | – | – | – |
| Premium on debt issued | – | – | – |
| Capital leases | – | – | – |
| Sale of capital assets | – | – | – |
| Bond refunding payments | – | – | (26,420,000) |
| Total other financing sources (uses) | <u>–</u> | <u>–</u> | <u>(26,420,000)</u> |
| Net change in fund balances | 1,400,656 | (5,820,168) | (26,812,437) |
| Fund balances | | | |
| Beginning of year | <u>11,143,882</u> | <u>7,395,951</u> | <u>27,854,083</u> |
| End of year | <u>\$ 12,544,538</u> | <u>\$ 1,575,783</u> | <u>\$ 1,041,646</u> |

See notes to basic financial statements

| Nonmajor Funds | Total Governmental Funds | |
|---------------------|--------------------------|----------------------|
| | 2016 | 2015 |
| \$ 471,552 | \$ 13,973,823 | \$ 12,624,331 |
| 2,632 | 58,682 | 71,154 |
| 2,266,436 | 3,315,687 | 3,371,742 |
| 393,750 | 33,981,637 | 32,474,952 |
| 1,182,976 | 2,616,288 | 2,500,477 |
| <u>4,317,346</u> | <u>53,946,117</u> | <u>51,042,656</u> |
| – | 1,628,534 | 1,607,222 |
| – | 2,160,942 | 1,536,843 |
| – | 18,088,021 | 17,473,299 |
| – | 229,112 | 182,731 |
| – | 8,023,818 | 7,501,074 |
| – | 2,763,222 | 2,976,754 |
| – | 3,916,467 | 4,035,913 |
| – | 5,239,014 | 6,498,931 |
| – | 104,350 | 124,278 |
| 1,843,175 | 1,843,175 | 1,822,190 |
| 2,096,321 | 2,096,321 | 2,165,402 |
| 138,901 | 5,983,434 | 14,103,768 |
| – | 2,870,310 | 3,376,359 |
| – | 3,572,397 | 3,977,113 |
| <u>4,078,397</u> | <u>58,519,117</u> | <u>67,381,877</u> |
| 238,949 | (4,573,000) | (16,339,221) |
| – | – | 24,320,000 |
| – | – | 3,492,982 |
| – | – | 769,042 |
| – | – | 2,000 |
| – | (26,420,000) | – |
| – | (26,420,000) | 28,584,024 |
| <u>238,949</u> | <u>(30,993,000)</u> | <u>12,244,803</u> |
| 1,497,207 | 47,891,123 | 35,646,320 |
| <u>\$ 1,736,156</u> | <u>\$ 16,898,123</u> | <u>\$ 47,891,123</u> |

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INDEPENDENT SCHOOL DISTRICT NO. 199

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2016

(With Partial Comparative Information for the Year Ended June 30, 2015)

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|-------------------|
| Total net change in fund balances – governmental funds | \$ (30,993,000) | \$ 12,244,803 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Capital outlays are recorded in net position 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 | 5,740,302 | 15,640,458 |
| Depreciation expense | (1,938,463) | (1,857,544) |
| A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances. | | |
| | – | (24,296) |
| 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. | | |
| | – | (25,089,042) |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is included in the governmental activities in the Statement of Activities. | | |
| | (551,214) | (414,791) |
| Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances. | | |
| General obligation bonds | 28,755,000 | 2,865,000 |
| Special assessments payable | 12,500 | 12,500 |
| Capital leases | 522,810 | 498,859 |
| Net pension liability – PERA | (569,135) | 836,164 |
| Net pension liability – TRA | (4,473,932) | 4,511,272 |
| Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due. | | |
| | 521,492 | (444,763) |
| Debt issuance premiums and discounts are included in the change in net position 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. | | |
| | 749,581 | (3,111,117) |
| The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements. | | |
| Deferred outflows – PERA and TRA pension plans | 1,308,139 | 2,304,869 |
| Deferred inflows – PERA and TRA pension plans | 3,780,368 | (7,120,208) |
| Deferred inflows – delinquent property taxes | (74,099) | 10,920 |
| Change in net position – governmental activities | <u>\$ 2,790,349</u> | <u>\$ 863,084</u> |

See notes to basic financial statements

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INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 General Fund
 Year Ended June 30, 2016

| | Budgeted Amounts | | Actual | Over (Under) Final Budget |
|--|--------------------|---------------------|----------------------|------------------------------|
| | Original | Final | | |
| Revenue | | | | |
| Local sources | | | | |
| Property taxes | \$ 7,994,799 | \$ 7,981,987 | \$ 8,108,315 | \$ 126,328 |
| Investment earnings | 12,500 | 12,500 | 13,390 | 890 |
| Other | 904,400 | 860,400 | 1,049,251 | 188,851 |
| State sources | 33,008,598 | 33,031,289 | 33,586,960 | 555,671 |
| Federal sources | 1,378,949 | 1,494,203 | 1,433,312 | (60,891) |
| Total revenue | <u>43,299,246</u> | <u>43,380,379</u> | <u>44,191,228</u> | <u>810,849</u> |
| Expenditures | | | | |
| Current | | | | |
| Administration | 1,752,237 | 1,573,509 | 1,628,534 | 55,025 |
| District support services | 1,898,840 | 2,256,522 | 2,160,942 | (95,580) |
| Elementary and secondary regular instruction | 18,988,736 | 18,735,124 | 18,088,021 | (647,103) |
| Vocational education instruction | 110,367 | 207,930 | 229,112 | 21,182 |
| Special education instruction | 7,793,019 | 8,214,271 | 8,023,818 | (190,453) |
| Instructional support services | 2,922,249 | 2,689,364 | 2,763,222 | 73,858 |
| Pupil support services | 3,947,329 | 4,117,977 | 3,916,467 | (201,510) |
| Sites and buildings | 5,230,710 | 5,271,443 | 5,239,014 | (32,429) |
| Fiscal and other fixed cost programs | 125,000 | 125,000 | 104,350 | (20,650) |
| Debt service | | | | |
| Principal | 478,530 | 478,530 | 535,310 | 56,780 |
| Interest and fiscal charges | 149,290 | 149,290 | 101,782 | (47,508) |
| Total expenditures | <u>43,396,307</u> | <u>43,818,960</u> | <u>42,790,572</u> | <u>(1,028,388)</u> |
| Net change in fund balances | <u>\$ (97,061)</u> | <u>\$ (438,581)</u> | 1,400,656 | <u>\$ 1,839,237</u> |
| Fund balances | | | | |
| Beginning of year | | | <u>11,143,882</u> | |
| End of year | | | <u>\$ 12,544,538</u> | |

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Net Position
 Internal Service Funds
 as of June 30, 2016
 (With Partial Comparative Information as of June 30, 2015)

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and temporary investments | \$ 1,800,854 | \$ 1,798,265 |
| Noncurrent assets | | |
| Restricted assets – temporarily restricted | | |
| Cash and cash equivalents | 4,811,175 | 4,754,746 |
| Investments | <u>5,278,008</u> | <u>5,727,113</u> |
| Total restricted assets – temporarily restricted | <u>10,089,183</u> | <u>10,481,859</u> |
| Total assets | 11,890,037 | 12,280,124 |
| Liabilities | | |
| Current liabilities | | |
| Severance benefits payable | 37,968 | 42,545 |
| Due to other funds | <u>238,335</u> | <u>270,750</u> |
| Total current liabilities | 276,303 | 313,295 |
| Long-term liabilities | | |
| Severance benefits payable | 1,112,347 | 1,155,180 |
| Net OPEB obligation | 472,371 | 207,804 |
| Net pension obligation | <u>328,137</u> | <u>351,752</u> |
| Total long-term liabilities | <u>1,912,855</u> | <u>1,714,736</u> |
| Total liabilities | 2,189,158 | 2,028,031 |
| Net position | | |
| Restricted for other post-employment benefit liabilities | 9,378,477 | 10,003,305 |
| Unrestricted | <u>322,402</u> | <u>248,788</u> |
| Total net position | <u>\$ 9,700,879</u> | <u>\$ 10,252,093</u> |

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Revenue, Expenses, and Changes in Net Position
 Internal Service Funds
 Year Ended June 30, 2016
 (With Partial Comparative Information for the Year Ended June 30, 2015)

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|---------------------|----------------------|
| Operating revenue | | |
| Contributions from governmental funds | \$ 770,473 | \$ 611,093 |
| Operating expenses | | |
| Severance benefits | 121,036 | 68,512 |
| Pension benefits | 302,262 | 297,141 |
| Other post-employment benefits | 779,052 | 781,991 |
| Total operating expenses | <u>1,202,350</u> | <u>1,147,644</u> |
| Operating income (loss) | (431,877) | (536,551) |
| Nonoperating revenues | | |
| Investment earnings (loss) | <u>(119,337)</u> | <u>121,760</u> |
| Change in net position | (551,214) | (414,791) |
| Net position | | |
| Beginning of year | <u>10,252,093</u> | <u>10,666,884</u> |
| End of year | <u>\$ 9,700,879</u> | <u>\$ 10,252,093</u> |

See notes to basic financial statements

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INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Cash Flows
 Internal Service Funds
 Year Ended June 30, 2016
 (With Partial Comparative Information for the Year Ended June 30, 2015)

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Receipts from assessments made to governmental funds | \$ 738,058 | \$ 881,843 |
| Benefit payments | (1,008,808) | (881,843) |
| Net cash flows from operating activities | <u>(270,750)</u> | <u>-</u> |
| Cash flows from investing activities | | |
| Purchase of investments | (2,661,662) | (3,130,323) |
| Sales and maturities of investments | 3,110,767 | 3,402,953 |
| Interest and dividends on investments | (119,337) | 121,760 |
| Net cash flows from investing activities | <u>329,768</u> | <u>394,390</u> |
| Net change in cash and cash equivalents | 59,018 | 394,390 |
| Cash and cash equivalents | | |
| Beginning of year | <u>6,553,011</u> | <u>6,158,621</u> |
| End of year | <u>\$ 6,612,029</u> | <u>\$ 6,553,011</u> |
| Reconciliation of operating income (loss) to net cash flows from operating activities | | |
| Operating income (loss) | \$ (431,877) | \$ (536,551) |
| Adjustments to reconcile operating income (loss) to net cash flows from operating activities | | |
| Changes in assets and liabilities | | |
| Due to other funds | (32,415) | 270,750 |
| Net pension obligation | (23,615) | 32,589 |
| Net OPEB asset or obligation | 264,567 | 211,469 |
| Severance benefits payable | (47,410) | 21,743 |
| Net cash flows from operating activities | <u>\$ (270,750)</u> | <u>\$ -</u> |

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Statement of Fiduciary Net Position
 Fiduciary Funds
 as of June 30, 2016

| | <u>Employee Benefits Trust Fund</u> |
|--|---|
| Assets | |
| Cash and temporary investments | \$ 42,935 |
| Liabilities | |
| Due to plan participants | <u>23,829</u> |
| Net position | |
| Held in trust for flexible benefits and other purposes | <u><u>\$ 19,106</u></u> |

Statement of Changes in Fiduciary Net Position
 Fiduciary Funds
 Year Ended June 30, 2016

| | <u>Employee Benefits Trust Fund</u> |
|-----------------------------------|---|
| Additions | |
| Plan member contributions | \$ 198,262 |
| Deductions | |
| Flexible benefits to plan members | <u>194,144</u> |
| Change in net position | 4,118 |
| Net position | |
| Beginning of year | <u>14,988</u> |
| End of year | <u><u>\$ 19,106</u></u> |

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 199

Notes to Basic Financial Statements
June 30, 2016

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, 2016, the District paid TIES \$618,456 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 Position 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.

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 expense.” 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.

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 capital leases are reported as other financing sources.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 financial statements.

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

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 capital facilities authorized by bond issue.

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Benefits Trust Fund – The Employee Benefits 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 (IRC) § 125 Cafeteria Plan).

E. Budgetary Information

The School Board adopts annual budgets for all governmental funds 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, 2016 exceeded budgeted appropriations by \$565,253 in the Debt Service Fund. The additional expenditures were approved by the School Board as required by Minnesota Statutes, and were financed available fund balances.

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.

Certain cash and investments are held in segregated accounts established for specific purposes. In the OPEB Internal Service Fund, restricted assets are reported for assets held in a revocable trust established to finance the District’s liability for post-employment insurance benefits. These cash and investment balances are reported as restricted assets in the government-wide financial statements. Earnings from these investments are allocated directly to the applicable funds.

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.

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 external investment pools, are reported at amortized cost. Other investments are reported at fair value.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices.

See Note 2 for the District’s recurring fair value measurements as of June 30, 2016.

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, 2016, the District reported the following receivables due from other governmental units:

| | |
|--|---------------------|
| Due from the Minnesota Department of Education | \$ 4,129,693 |
| Due from other Minnesota school districts | 76,266 |
| Due from Dakota County and other | <u>97,275</u> |
| Total due from other governmental units | <u>\$ 4,303,234</u> |

H. Inventories

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

I. Prepaid Items

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

J. Property Taxes

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

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the “tax shift,” which periodically changes the District’s recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year’s levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$1,061,525 of the property tax levy collectible in 2016 as revenue to the District in fiscal year 2015–2016. The remaining portion of the taxes collectible in 2016 is recorded as a deferred inflow of resources (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.

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 reported as a deferred inflow of resources (unavailable revenue) 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 acquisition value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$5,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for buildings and improvements, and 5 to 20 years for furniture and equipment. Land and construction in progress are not depreciated.

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

L. Interfund Balances

The current portions of interfund balances representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported as due to/due from other funds. At June 30, 2016, the General Fund reported a receivable of \$238,335 due from the OPEB Internal Service Fund to reimburse OPEB costs initially paid by the General Fund. Interfund balances are reported in the fund financial statements, but are eliminated in the government-wide financial statements.

M. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts are reported as other financing sources or uses, respectively.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 403(b) individual retirement accounts. An individual's future severance benefits will be reduced by any 403(b) matching payments received. In accordance with Minnesota Statutes, no employee can receive severance or retirement incentive benefits that exceed one year's salary.

P. State-Wide Pension Plans

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) and additions to/deductions from the PERA's and the TRA's fiduciary net positions have been determined on the same basis as they are reported by the PERA and the TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015.

Q. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is the deferred outflows of resources related to pensions reported in the government-wide Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, differences between projected and actual earnings on pension plan investments, and from contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items which qualify for reporting in this category.

The first item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The second item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

The third item, deferred inflows of resources related to pensions, is reported in the government-wide Statement of Net Position. This deferred inflow results from differences between expected and actual experience, changes of assumptions, and differences between projected and actual earnings on pension plan investments. These amounts are deferred and amortized as required under pension standards.

R. 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 2016.

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 amounts reported at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

T. Net Position

In the government-wide and proprietary fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

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

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. 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 Director of Business Services 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.

V. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for 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, 2015, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

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

| | |
|-------------|-----------------------------|
| Deposits | \$ 10,785,570 |
| Investments | 22,835,853 |
| Petty cash | <u>10,064</u> |
| Total | <u><u>\$ 33,631,487</u></u> |

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

| | |
|---|-----------------------------|
| Statement of Net Position | |
| Cash and temporary investments | \$ 23,499,369 |
| Temporarily restricted – cash and investments for OPEB | 10,089,183 |
| Statement of Fiduciary Net Position | |
| Cash and temporary investments – Employee Benefits Trust Fund | <u>42,935</u> |
| Total | <u><u>\$ 33,631,487</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 \$10,785,570, while the balance on the bank records was \$11,887,566. At June 30, 2016, 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:

| Deposits/Investments | Credit Risk | | Fair Value | Interest Risk – Maturity Duration in Years | | | Total |
|-------------------------------|-------------|---------|--------------------|--|------------|-----------|----------------------|
| | Rating | Agency | Measurements Using | Less Than 1 | 1 to 5 | 6 to 10 | |
| U.S. treasury securities | AAA | Moody's | Level 1 | \$ – | \$ 315,797 | \$ – | \$ 315,797 |
| U.S. agency securities | AA | S&P | Level 1 | \$ – | \$ 102,750 | \$ – | 102,750 |
| Corporate obligations | AAA | S&P | Level 1 | \$ 287,362 | \$ – | \$ – | 287,362 |
| Corporate obligations | AA | S&P | Level 1 | \$ – | \$ 255,534 | \$ – | 255,534 |
| Corporate obligations | A | S&P | Level 1 | \$ 531,227 | \$ 582,391 | \$ – | 1,113,618 |
| Corporate obligations | BBB | S&P | Level 1 | \$ – | \$ 291,025 | \$ – | 291,025 |
| Corporate obligations | A | Moody's | Level 1 | \$ 107,072 | \$ 275,852 | \$ – | 382,924 |
| Corporate obligations | BAA | Moody's | Level 1 | \$ 100,230 | \$ – | \$ – | 100,230 |
| Equities | N/R | N/A | Level 1 | N/A | N/A | N/A | 2,277,141 |
| Real asset mutual funds | N/R | N/A | Level 2 | N/A | N/A | N/A | 1,013,524 |
| Real estate investment trusts | N/R | N/A | Level 1 | N/A | N/A | N/A | 29,642 |
| Mutual funds | N/R | N/A | Level 1 | N/A | N/A | N/A | 3,768,009 |
| MNTrust investment pool | AAA | S&P | Level 1 | N/A | N/A | N/A | 12,746,670 |
| Mortgage-backed securities | AAA | S&P | Level 1 | \$ – | \$ 100,067 | \$ 51,560 | 151,627 |
| Total investments | | | | | | | <u>\$ 22,835,853</u> |

N/A – Not Applicable

N/R – Not Rated

At year end, the District had \$12,746,670 invested in the MNTrust Investment Shares Portfolio, which is an external investment pool regulated by Minnesota Statutes not registered with the Securities Exchange Commission.

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 with parties meeting minimum stator requirements; 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.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

For assets held in the District’s revocable other post-employment benefits (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, 2016 is as follows:

| | Balance – 06/30/15 | Additions | Deletions | Transfers | Balance – 06/30/16 |
|---------------------------------------|-----------------------|---------------------|-----------------|---------------------|-----------------------|
| Capital assets, not depreciated | | | | | |
| Land | \$ 421,200 | \$ – | \$ – | \$ – | \$ 421,200 |
| Construction in progress | 9,488,633 | 5,390,596 | – | (14,211,880) | 667,349 |
| Total capital assets, not depreciated | <u>9,909,833</u> | <u>5,390,596</u> | <u>–</u> | <u>(14,211,880)</u> | <u>1,088,549</u> |
| Capital assets, depreciated | | | | | |
| Buildings and improvements | 75,076,173 | 166,838 | – | 14,211,880 | 89,454,891 |
| Furniture and equipment | 3,587,275 | 182,868 | (95,319) | – | 3,674,824 |
| Total capital assets, depreciated | <u>78,663,448</u> | <u>349,706</u> | <u>(95,319)</u> | <u>14,211,880</u> | <u>93,129,715</u> |
| Less accumulated depreciation for | | | | | |
| Buildings and improvements | (21,733,335) | (1,646,080) | – | – | (23,379,415) |
| Furniture and equipment | (1,926,060) | (292,383) | 95,319 | – | (2,123,124) |
| Total accumulated depreciation | <u>(23,659,395)</u> | <u>(1,938,463)</u> | <u>95,319</u> | <u>–</u> | <u>(25,502,539)</u> |
| Net capital assets, depreciated | <u>55,004,053</u> | <u>(1,588,757)</u> | <u>–</u> | <u>14,211,880</u> | <u>67,627,176</u> |
| Total capital assets, net | <u>\$ 64,913,886</u> | <u>\$ 3,801,839</u> | <u>\$ –</u> | <u>\$ –</u> | <u>\$ 68,715,725</u> |

Depreciation expense for the year was charged to the following governmental functions:

| | |
|--|---------------------|
| District support services | \$ 48,821 |
| Elementary and secondary regular instruction | 6,683 |
| Pupil support services | 89,130 |
| Sites and buildings | 20,402 |
| Food service | 2,004 |
| Unallocated depreciation expense | <u>1,771,423</u> |
| Total depreciation expense | <u>\$ 1,938,463</u> |

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

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

| Issue | Issue Date | Interest Rate | Face/Par Value | Remaining Maturities | Principal Outstanding |
|--|------------|---------------|----------------|-----------------------|-----------------------|
| 2009A Taxable OPEB Bonds | 01/06/2009 | 6.00–6.75% | \$ 9,220,000 | 02/01/2017–02/01/2028 | \$ 8,940,000 |
| 2010A Refunding Bonds | 11/04/2010 | 2.00–3.00% | \$ 3,945,000 | 02/01/2017–02/01/2017 | 695,000 |
| 2011A Alternative Facilities Bonds | 02/16/2011 | 0.50–4.00% | \$ 6,690,000 | 02/01/2017–02/01/2026 | 4,670,000 |
| 2014A Building Bonds | 02/06/2014 | 3.00–5.00% | \$ 24,750,000 | 02/01/2027–02/01/2033 | 24,315,000 |
| 2014B Refunding Bonds | 07/17/2014 | 4.00–5.00% | \$ 24,320,000 | 02/01/2017–02/01/2026 | 23,220,000 |
| Total general obligation bonds payable | | | | | <u>\$ 61,840,000</u> |

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

The District issued \$24,320,000 of General Obligation School Building Refunding Bonds, Series 2014B, the proceeds of which were used to refund, in advance of their stated maturities, the 2016 through 2026 maturities of the District’s General Obligation School Building Bonds, Series 2005A on their August 1, 2015 call date. This “crossover refunding” reduced total debt service payments by \$2,259,793 and resulted in an economic gain of \$1,958,607.

B. Special Assessments Payable

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

C. Capital Leases Payable

The District has entered into two capital lease agreements for computers. The leases bear interest rates ranging from 2.50 to 2.65 percent, require three equal annual payments, and mature in July 2016 and 2017. The individual values of the leased assets were below the District’s capitalization threshold, and they have not been recorded as capital assets. The leases are paid by the General Fund.

The District entered into a capital lease agreement to finance a building addition at Hilltop Elementary School. The lease bears an interest rate of 3.95 percent, and requires equal semiannual payments through January 15, 2029. The addition has been capitalized in buildings and improvements at a value of \$2,458,600. Accumulated depreciation on this asset as of June 30, 2016 was \$98,344. The lease is being paid through the General Fund.

The District entered into a capital lease agreement for cleaning equipment. The lease requires equal monthly payments through June 30, 2017. The additions have been capitalized in furniture and equipment at a value of \$129,190. Accumulated depreciation on these assets as of June 30, 2016 was \$17,225. The lease is being paid through the General Fund.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

D. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including: severance, pension benefits, and OPEB, the details of which are discussed elsewhere in these notes. The District has established two internal service funds to account for the financing of these benefits.

E. 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 |
| 2017 | \$ 2,425,000 | \$ 2,804,050 | \$ 12,500 | \$ 3,094 | \$ 387,623 | \$ 94,521 |
| 2018 | 2,595,000 | 2,705,733 | 12,500 | 2,406 | 246,007 | 83,757 |
| 2019 | 2,725,000 | 2,584,658 | 12,500 | 1,719 | 144,533 | 75,537 |
| 2020 | 2,850,000 | 2,455,868 | 12,500 | 1,031 | 150,298 | 69,772 |
| 2021 | 2,985,000 | 2,319,628 | 6,250 | 344 | 156,294 | 63,776 |
| 2022–2026 | 17,205,000 | 9,340,388 | – | – | 880,112 | 220,237 |
| 2027–2031 | 21,160,000 | 4,774,360 | – | – | 616,872 | 43,336 |
| 2032–2033 | 9,895,000 | 597,598 | – | – | – | – |
| | <u>\$ 61,840,000</u> | <u>\$ 27,582,283</u> | <u>\$ 56,250</u> | <u>\$ 8,594</u> | <u>\$ 2,581,739</u> | <u>\$ 650,935</u> |

F. Changes in Long-Term Liabilities

| | June 30, 2015 | Additions | Retirements | June 30, 2016 | Due Within One Year |
|----------------------------------|-----------------------|---------------------|----------------------|----------------------|------------------------|
| General obligation bonds payable | \$ 90,595,000 | \$ – | \$ 28,755,000 | \$ 61,840,000 | \$ 2,425,000 |
| Premiums | 4,102,419 | – | 751,712 | 3,350,707 | – |
| Discounts | (31,173) | – | (2,131) | (29,042) | – |
| Special assessments payable | 68,750 | – | 12,500 | 56,250 | 12,500 |
| Capital leases payable | 3,104,549 | – | 522,810 | 2,581,739 | 387,623 |
| Severance payable | 1,197,725 | 121,036 | 168,446 | 1,150,315 | 37,968 |
| Net OPEB obligation | 207,804 | 779,052 | 514,485 | 472,371 | – |
| Net pension obligation | 351,752 | 302,262 | 325,877 | 328,137 | – |
| Net pension liability – PERA | 5,261,199 | 1,450,570 | 881,435 | 5,830,334 | – |
| Net pension liability – TRA | 17,597,677 | 6,375,393 | 1,901,461 | 22,071,609 | – |
| | <u>\$ 122,455,702</u> | <u>\$ 9,028,313</u> | <u>\$ 33,831,595</u> | <u>\$ 97,652,420</u> | <u>\$ 2,863,091</u> |

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, 2016, 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 | | | | | |
| Inventory | \$ – | \$ – | \$ – | \$ 115,506 | \$ 115,506 |
| Prepaid items | 159,205 | – | – | – | 159,205 |
| Total nonspendable | <u>159,205</u> | <u>–</u> | <u>–</u> | <u>115,506</u> | <u>274,711</u> |
| Restricted | | | | | |
| Deferred maintenance | 1,035,214 | – | – | – | 1,035,214 |
| Operating capital | 747,912 | – | – | – | 747,912 |
| Teacher development and evaluation | 49,585 | – | – | – | 49,585 |
| Building construction | – | 1,575,783 | – | – | 1,575,783 |
| General debt service | – | – | 896,104 | – | 896,104 |
| OPEB bonds debt service | – | – | 145,542 | – | 145,542 |
| Food service | – | – | – | 1,346,046 | 1,346,046 |
| Community education | – | – | – | 259,140 | 259,140 |
| School readiness | – | – | – | 18,730 | 18,730 |
| Total restricted | <u>1,832,711</u> | <u>1,575,783</u> | <u>1,041,646</u> | <u>1,623,916</u> | <u>6,074,056</u> |
| Assigned | | | | | |
| Next year’s budget | 1,151,112 | – | – | – | 1,151,112 |
| Third party billing | 491,769 | – | – | – | 491,769 |
| Separation and severance | 1,650,000 | – | – | – | 1,650,000 |
| Curriculum adoption | 350,000 | – | – | – | 350,000 |
| Program carryover | 75,000 | – | – | – | 75,000 |
| Other capital projects | 2,810,000 | – | – | – | 2,810,000 |
| Total assigned | <u>6,527,881</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>6,527,881</u> |
| Unassigned | | | | | |
| Health and safety restricted account deficit | (194,188) | – | – | – | (194,188) |
| Early childhood and family education restricted account deficit | – | – | – | (3,266) | (3,266) |
| Unassigned | 4,218,929 | – | – | – | 4,218,929 |
| Total unassigned | <u>4,024,741</u> | <u>–</u> | <u>–</u> | <u>(3,266)</u> | <u>4,021,475</u> |
| Total | <u>\$ 12,544,538</u> | <u>\$ 1,575,783</u> | <u>\$ 1,041,646</u> | <u>\$ 1,736,156</u> | <u>\$ 16,898,123</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 (excluding any restricted account deficits) of 8 percent of the annual projected expenditures. At June 30, 2016, the unassigned fund balance of the General Fund was 9.5 percent of General Fund expenditures budgeted for the subsequent year.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

The District participates in the following cost-sharing, multiple-employer defined benefit pension plans administered by the PERA and the TRA. The PERA's and the TRA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes. The PERA's and the TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the IRC.

1. General Employees Retirement Fund (GERF)

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Teachers Retirement Association (TRA)

The TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. The TRA is a separate statutory entity and administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the City of St. Paul and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by Minnesota State Colleges and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement (DCR) Plan administered by MnSCU.

B. Benefits Provided

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature.

- **PERA** – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded, or have fallen below 80.0 percent, are given 1.0 percent increases.
- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0 percent. After the TRA funded ratio exceeds 90.0 percent for two consecutive years, the annual post-retirement benefit will increase to 2.5 percent.

The benefit provisions stated in the following 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.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

1. GERF Benefits

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 the 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 members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. TRA Benefits

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

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

Tier I Benefits

| Step Rate Formula | Percentage per Year |
|---|------------------------|
| Basic Plan | |
| First 10 years of service | 2.2% |
| All years after | 2.7% |
| Coordinated | |
| First 10 years if service years are up to July 1, 2006 | 1.2% |
| First 10 years if service years are July 1, 2006 or after | 1.4% |
| All other years of service if service years are up to July 1, 2006 | 1.7% |
| All other years of service if service years are July 1, 2006 or after | 1.9% |

With these provisions:

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Tier II Benefits

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. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statutes. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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 that 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.

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for the Coordinated Plan. The District's contributions to the GERF for the year ended June 30, 2016 were \$503,385. The District's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

| | Year Ended June 30, | | | |
|-------------------------|---------------------|----------|----------|----------|
| | 2015 | | 2016 | |
| | Employee | Employer | Employee | Employer |
| Basic Plan | 11.0% | 11.5% | 11.0% | 11.5% |
| Coordinated Plan | 7.5% | 7.5% | 7.5% | 7.5% |

The District's contributions to the TRA for the plan's fiscal year ended June 30, 2016, were \$1,412,855. The District's contributions were equal to the required contributions for each year as set by state statutes.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

The following is a reconciliation of employer contributions in the TRA's Comprehensive Annual Financial Report (CAFR) Statement of Changes in Fiduciary Net Position to the employer contributions used in the Schedule of Employer and Non-Employer Pension Allocations:

| | |
|---|-----------------------|
| Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position | \$ 340,207,590 |
| Deduct employer contributions not related to future contribution efforts | (704,635) |
| Deduct TRA's contributions not included in allocation | <u>(435,999)</u> |
| Total employer contributions | 339,066,956 |
| Total non-employer contributions | <u>41,587,410</u> |
| Total contributions reported in Schedule of Employer and Non-Employer Pension Allocations | <u>\$ 380,654,366</u> |

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. The TRA has rounded percentage amounts to the nearest ten thousandths.

D. Merger of Duluth Teachers Retirement Fund Association (DTRFA)

Legislation enacted in 2014 merged the DTRFA with the TRA effective June 30, 2015. The beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of the DTRFA.

| | June 30, 2014 <u>CAFR</u> | <u>Restated</u> |
|---------------------------------|------------------------------|-------------------------|
| Total pension liability (a) | \$ 24,901,612,000 | \$ 25,299,564,000 |
| Plan fiduciary net position (b) | <u>20,293,684,000</u> | <u>20,519,756,000</u> |
| Net pension liability (a-b) | <u>\$ 4,607,928,000</u> | <u>\$ 4,779,808,000</u> |

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

E. Pension Costs

1. GERF Pension Costs

At June 30, 2016, the District reported a liability of \$5,830,334 for its proportionate share of the GERF’s net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of the PERA’s participating employers. At June 30, 2015, the District’s proportion was 0.1125 percent, which was an increase of 0.0005 percent from its proportion measured as of June 30, 2014.

The GERF benefit provision changes during the measurement period included (1) the merger of the former Minneapolis Employees Retirement Fund division into the GERF, effective January 1, 2015, and (2) revisions to Minnesota Statutes to make changes to contribution rates less prescriptive and more flexible.

The discount rate used to calculate liabilities for the June 30, 2015, measurement date was 7.9 percent. The Legislature has since set the discount rate in statute at 8.0 percent. Beginning with the June 30, 2016, measurement date the discount rate used when calculating liabilities based on GASB Statement No. 68 accounting requirements will be increased to 8.0 percent to be consistent with the rate set in statute used for funding purposes.

For the year ended June 30, 2016, the District recognized pension expense of \$632,554 for its proportionate share of the GERF’s pension expense.

At June 30, 2016, the District reported its proportionate share of the GERF’s deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual economic experience | \$ 54,069 | \$ 293,948 |
| Changes in actuarial assumptions | 363,093 | – |
| Difference between projected and actual investment earnings | – | 519,007 |
| Changes in proportion | 20,290 | – |
| District’s contributions to the GERF subsequent to the measurement date | <u>503,385</u> | <u>–</u> |
| Total | <u>\$ 940,837</u> | <u>\$ 812,955</u> |

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

A total of \$503,385 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to the GERP pensions will be recognized in pension expense as follows:

| Year Ending June 30, | Pension Expense Amount |
|-------------------------|------------------------------|
| 2017 | \$ (101,635) |
| 2018 | \$ (101,635) |
| 2019 | \$ (310,216) |
| 2020 | \$ 137,983 |

2. TRA Pension Costs

At June 30, 2016, the District reported a liability of \$22,071,609 for its proportionate share of the TRA’s net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District’s proportionate share was 0.3568 percent at the end of the measurement period and 0.3819 percent for the beginning of the period.

The pension liability amount reflected a reduction due to direct aid provided to the TRA. The amount recognized by the District as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the District were as follows:

| | |
|--|-----------------------------|
| District’s proportionate share of net pension liability | \$ 22,071,609 |
| State’s proportionate share of the net pension liability associated with the District | <u>2,707,530</u> |
| Total | <u><u>\$ 24,779,139</u></u> |

For the year ended June 30, 2016, the District recognized pension expense of \$1,256,160. It also recognized \$478,614 as an increase to pension expense for the support provided by direct aid.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

At June 30, 2016, the District reported its proportionate share of the TRA’s deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 1,209,032 | \$ – |
| Changes in actuarial assumptions | 1,696,720 | – |
| Difference between projected and actual investment earnings | – | 1,960,800 |
| Changes in proportion | – | 566,085 |
| District’s contributions to the TRA subsequent to the measurement date | <u>1,412,855</u> | <u>–</u> |
| Total | <u>\$ 4,318,607</u> | <u>\$ 2,526,885</u> |

A total of \$1,412,855 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to the TRA will be recognized in pension expense as follows:

| <u>Year Ending June 30,</u> | <u>Pension Expense Amount</u> |
|---------------------------------|---------------------------------------|
| 2017 | \$ (236,429) |
| 2018 | \$ (236,429) |
| 2019 | \$ (236,429) |
| 2020 | \$ 1,088,154 |

F. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

| <u>Assumptions</u> | <u>GERF</u> | <u>TRA</u> |
|------------------------------|----------------|---------------------------------------|
| Inflation | 2.75% per year | 3.00% |
| Active member payroll growth | 3.50% per year | 3.50–12.00% based on years of service |
| Investment rate of return | 7.90% | 8.00% |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Actuarial assumptions used in the June 30, 2015, valuation for the GERF were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for the PERA's other plans, but assumptions are reviewed annually.

The actuarial assumptions used in the June 30, 2015, valuation for the TRA were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB Statement No. 67 valuation.

There was a change in actuarial assumptions that affected the measurement of the total liability for the TRA since the prior measurement date. Post-retirement benefit adjustments are now assumed to be 2.0 percent annually with no increase to 2.5 percent projected. The prior year valuation assumed a 2.5 percent increase commencing July 1, 2034.

The long-term expected rate of return on pension plan investments is 7.90 percent for the GERF and 8.00 percent for the TRA. The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Rate of Return</u> |
|----------------------|--------------------------|--|
| Domestic stocks | 45% | 5.50% |
| International stocks | 15% | 6.00% |
| Bonds | 18% | 1.45% |
| Alternative assets | 20% | 6.40% |
| Cash | 2% | 0.50% |
| Total | <u>100%</u> | |

G. Discount Rate

The discount rate used to measure the total pension liability was 7.90 percent for the GERF and 8.00 percent for the TRA. This is a decrease from the discount rate at the prior measurement date of 8.25 percent for the TRA. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the fiscal 2016 contribution rates, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, each of the pension plan's fiduciary net positions were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

H. Pension Liability Sensitivity

The following table presents the District’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

| | <u>1% Decrease in Discount Rate</u> | <u>Discount Rate</u> | <u>1% Increase in Discount Rate</u> |
|---|---|--------------------------|---|
| GERF discount rate | 6.90% | 7.90% | 8.90% |
| District’s proportionate share of the GERF net pension liability | \$ 9,167,357 | \$ 5,830,334 | \$ 3,074,465 |
| TRA discount rate | 7.00% | 8.00% | 9.00% |
| District’s proportionate share of the TRA net pension liability | \$ 33,595,846 | \$ 22,071,609 | \$ 12,454,300 |

I. Pension Plan Fiduciary Net Position

Detailed information about the GERF’s fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the PERA website at www.mnpera.org; by writing to the PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or (800) 652-9026.

Detailed information about the TRA’s fiduciary net position is available in a separately issued TRA financial report. That report can be obtained at the TRA website at www.MinnesotaTRA.org; by writing to the TRA at 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-2088; or by calling (651) 296-2409 or (800) 657-3669.

NOTE 7 – 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. The plan does not issue a publically available financial report.

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 these assets are held in a revocable trust, 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:

| | | |
|---|----|-----------------------|
| ARC | \$ | 781,854 |
| Interest on net OPEB obligation | | 10,390 |
| Adjustment to ARC | | (13,192) |
| Annual OPEB cost | | <u>779,052</u> |
| Contributions made | | <u>514,485</u> |
| Increase in net OPEB obligation | | 264,567 |
| Net OPEB obligation – beginning of year | | <u>207,804</u> |
| Net OPEB obligation – end of year | \$ | <u><u>472,371</u></u> |

NOTE 7 – 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 (asset) obligation for the past three years are as follows:

| Fiscal Year Ended | Net OPEB (Asset) Obligation Beginning of Year | Annual OPEB Cost | Employer Contribution | Percentage of Annual OPEB Cost Contributed | Net OPEB (Asset) Obligation End of Year |
|----------------------|---|---------------------|--------------------------|--|--|
| June 30, 2014 | \$ (72,947) | \$ 729,793 | \$ 660,511 | 90.5 % | \$ (3,665) |
| June 30, 2015 | \$ (3,665) | \$ 781,991 | \$ 570,522 | 73.0 % | \$ 207,804 |
| June 30, 2016 | \$ 207,804 | \$ 779,052 | \$ 514,485 | 66.0 % | \$ 472,371 |

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits and unfunded actuarial accrued liability (UAAL) were both \$6,119,917, as the plan is unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$23,088,446, and the ratio of the UAAL to the covered payroll was 26.5 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 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, 2014 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 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after 6 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, 2014 for the various amortization layers ranged from 26 to 30 years.

NOTE 8 – 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. The plan does not issue a publically available financial report.

Plan 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 five 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 the 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:

| | | |
|--|----|-----------------------|
| ARC | \$ | 319,215 |
| Interest on net pension obligation | | 14,070 |
| Adjustment to ARC | | (31,023) |
| Annual pension cost | | <u>302,262</u> |
| Contributions made | | <u>325,877</u> |
| Increase in net pension obligation | | (23,615) |
| Net pension obligation – beginning of year | | <u>351,752</u> |
| Net pension obligation – end of year | \$ | <u><u>328,137</u></u> |

NOTE 8 – 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 past three years 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, 2014 | \$ 486,549 | \$ 299,696 | \$ 467,082 | 155.9 % | \$ 319,163 |
| June 30, 2015 | \$ 319,163 | \$ 297,141 | \$ 264,552 | 89.0 % | \$ 351,752 |
| June 30, 2016 | \$ 351,752 | \$ 302,262 | \$ 325,877 | 107.8 % | \$ 328,137 |

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits and UAAL were both \$2,296,946, as the plan is unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$4,554,932, and the ratio of the UAAL to the covered payroll was 50.4 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 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, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.0 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, 2014 for the various amortization layers ranged from 25 to 30 years.

NOTE 9 – FLEXIBLE BENEFIT PLAN

The District has established a Flexible Benefit Plan (FBP). The FBP is a “cafeteria plan” under § 125 of the IRC. 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 the FBP for healthcare and dependent care benefits.

Before the beginning of the FBP year, which is from January 1 to December 31, each participant designates a total amount of pre-tax dollars to be contributed to the 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 the FBP, whether or not such contributions have been made.

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

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

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

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. Operating Lease – 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. The lease term runs for 20 years beginning December 1, 1995 and calls for annual rental payments of \$100,000 payable in two equal payments due July 15 and December 15 of each year beginning July 15, 1995. The lease was subsequently extended for an additional two-year period ending November 30, 2017, subject to the same terms as the original agreement. During the year ended June 30, 2016, the District paid rent of \$100,000 under this agreement.

B. Operating Lease – The Grove Aquatic and Fitness Center

In December 1999, the District entered into an agreement with the City to lease the use of space in The Grove Aquatic and Fitness Center. The lease term runs for 20 years commencing July 1, 2001 and calls for annual rental payments 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, 2016, the District paid rent of \$249,000 under this agreement.

C. 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.

D. 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.

G. Construction Contracts

At June 30, 2016, the District had commitments totaling approximately \$692,851 under various construction contracts for which the work was not yet completed.

NOTE 11 – SUBSEQUENT EVENT

A. Refunding Bonds

In November 2016, the District issued \$9,725,000 of General Obligation Taxable OPEB Refunding Bonds, Series 2016A. The bonds will be used to redeem the 2020 through 2028 maturities of the District's 2009A General Obligation Taxable OPEB Bonds on their January 2019 call date. The 2016A bonds bear interest rates between 2.00 and 2.50 percent and mature in 2028. This refunding will reduce the District's future debt service payments by \$2,323,339, and produce a present value savings of \$1,986,164.

B. Operating Lease

The District has entered into a new operating lease agreement with the City of Inver Grove Heights to lease space at the Veterans Memorial Community Center, The Grove Aquatic and Fitness Center, and National Guard Armory for a 10-year period beginning January 1, 2017. This agreement calls for annual rental payments ranging from \$250,000 to \$275,000 for the first five years, with rates for the last five years to be mutually determined at a later date. This lease will replace the two separate operating lease agreements described in Note 10.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of District's Proportionate Share of Net Pension Liability
Public Employees Retirement Association Pension Benefits Plan
Year Ended June 30, 2016

| District Fiscal Year-End Date | PERA Fiscal Year-End Date (Measurement Date) | District's Proportion of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability | District's Covered Payroll | District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-------------------------------|--|--|---|----------------------------|--|--|
| 06/30/2015 | 06/30/2014 | 0.1120% | \$ 5,261,199 | \$ 5,890,917 | 89.31% | 78.70% |
| 06/30/2016 | 06/30/2015 | 0.1125% | \$ 5,830,334 | \$ 6,594,924 | 88.41% | 78.20% |

Schedule of District Contributions
Public Employees Retirement Association Pension Benefits Plan
Year Ended June 30, 2016

| District Fiscal Year-End Date | PERA Fiscal Year-End Date (Measurement Date) | Statutorily Required Contributions | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-------------------------------|--|------------------------------------|---|----------------------------------|-----------------|--|
| 06/30/2007 | 06/30/2007 | \$ 324,659 | \$ 324,659 | \$ - | \$ 5,299,048 | 6.13% |
| 06/30/2008 | 06/30/2008 | \$ 334,672 | \$ 334,672 | \$ - | \$ 5,245,408 | 6.38% |
| 06/30/2009 | 06/30/2009 | \$ 344,900 | \$ 344,900 | \$ - | \$ 5,204,322 | 6.63% |
| 06/30/2010 | 06/30/2010 | \$ 363,625 | \$ 363,625 | \$ - | \$ 5,286,160 | 6.88% |
| 06/30/2011 | 06/30/2011 | \$ 376,891 | \$ 376,891 | \$ - | \$ 5,286,160 | 7.13% |
| 06/30/2012 | 06/30/2012 | \$ 385,453 | \$ 385,453 | \$ - | \$ 5,316,581 | 7.25% |
| 06/30/2013 | 06/30/2013 | \$ 409,864 | \$ 409,864 | \$ - | \$ 5,652,639 | 7.25% |
| 06/30/2014 | 06/30/2014 | \$ 427,149 | \$ 427,149 | \$ - | \$ 5,890,917 | 7.25% |
| 06/30/2015 | 06/30/2015 | \$ 486,524 | \$ 486,524 | \$ - | \$ 6,594,924 | 7.38% |
| 06/30/2016 | 06/30/2016 | \$ 503,385 | \$ 503,385 | \$ - | \$ 6,711,800 | 7.50% |

Note 1: **Changes of Benefit Terms.** (1) The Minneapolis Employees Retirement Fund was merged into the GERF on January 1, 2015. (2) Revisions to Minnesota Statutes to make changes to contribution rates less prescriptive and more flexible.

Note 2: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). The District's proportionate share of net pension liability is not available for previous fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
 Teachers Retirement Association Pension Benefits Plan
 Year Ended June 30, 2016

| District Fiscal Year-End Date | TRA Fiscal Year-End Date (Measurement Date) | District's Proportion of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability | District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability | Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability | District's Covered Payroll | District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-------------------------------|---|--|---|---|--|----------------------------|--|--|
| 06/30/2015 | 06/30/2014 | 0.3819% | \$ 17,597,677 | \$ 1,238,076 | \$ 18,835,753 | \$ 17,432,274 | 100.95% | 81.50% |
| 06/30/2016 | 06/30/2015 | 0.3568% | \$ 22,071,609 | \$ 2,707,530 | \$ 24,779,139 | \$ 17,930,286 | 123.10% | 76.80% |

Schedule of District Contributions
 Teachers Retirement Association Pension Benefits Plan
 Year Ended June 30, 2016

| District Fiscal Year-End Date | TRA Fiscal Year-End Date (Measurement Date) | Statutorily Required Contributions | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-------------------------------|---|------------------------------------|---|----------------------------------|-----------------|--|
| 06/30/2007 | 06/30/2007 | \$ 813,311 | \$ 813,311 | \$ - | \$ 16,271,748 | 5.00% |
| 06/30/2008 | 06/30/2008 | \$ 923,630 | \$ 923,630 | \$ - | \$ 16,792,241 | 5.50% |
| 06/30/2009 | 06/30/2009 | \$ 934,510 | \$ 934,510 | \$ - | \$ 16,991,061 | 5.50% |
| 06/30/2010 | 06/30/2010 | \$ 933,867 | \$ 933,867 | \$ - | \$ 16,979,331 | 5.50% |
| 06/30/2011 | 06/30/2011 | \$ 921,699 | \$ 921,699 | \$ - | \$ 16,758,090 | 5.50% |
| 06/30/2012 | 06/30/2012 | \$ 1,018,124 | \$ 1,018,124 | \$ - | \$ 16,964,296 | 6.00% |
| 06/30/2013 | 06/30/2013 | \$ 1,118,923 | \$ 1,118,923 | \$ - | \$ 17,255,343 | 6.48% |
| 06/30/2014 | 06/30/2014 | \$ 1,220,263 | \$ 1,220,263 | \$ - | \$ 17,467,417 | 6.99% |
| 06/30/2015 | 06/30/2015 | \$ 1,340,261 | \$ 1,340,261 | \$ - | \$ 17,930,286 | 7.47% |
| 06/30/2016 | 06/30/2016 | \$ 1,412,855 | \$ 1,412,855 | \$ - | \$ 18,839,547 | 7.50% |

Note 1: **Changes of Benefit Terms.** The DTRFA was merged into the TRA on June 30, 2015.

Note 2: **Change of Assumptions.** The annual cost of living adjustment for the June 30, 2015 valuation assumed 2.00 percent. The prior year valuation used 2.00 percent with an increase to 2.50 percent commencing in 2034. The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent. Details, if necessary, can be obtained from the TRA's CAFR.

Note 3: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). The District's and non-employer proportionate share of net pension liability is not available for previous fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. 199

Schedule of Funding Progress
 Other Post-Employment Benefits Plan
 Year Ended June 30, 2016

| 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, 2010 | \$ 7,100,277 | \$ - | \$ 7,100,277 | - % | \$ 19,203,164 | 37.0 % |
| July 1, 2012 | \$ 6,396,886 | \$ - | \$ 6,396,886 | - % | \$ 20,549,837 | 31.1 % |
| July 1, 2014 | \$ 6,119,917 | \$ - | \$ 6,119,917 | - % | \$ 23,088,446 | 26.5 % |

Schedule of Funding Progress
 Pension Benefits Plan
 Year Ended June 30, 2016

| 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, 2010 | \$ 2,582,625 | \$ - | \$ 2,582,625 | - % | \$ 5,561,581 | 46.4 % |
| July 1, 2012 | \$ 2,547,116 | \$ - | \$ 2,547,116 | - % | \$ 5,293,381 | 48.1 % |
| July 1, 2014 | \$ 2,296,946 | \$ - | \$ 2,296,946 | - % | \$ 4,554,932 | 50.4 % |

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 199

Nonmajor Governmental Funds
 Combining Balance Sheet
 as of June 30, 2016

| | Special Revenue Funds | | Total |
|--|-----------------------|-------------------|---------------------|
| | Food Service | Community Service | |
| Assets | | | |
| Cash and temporary investments | \$ 1,413,974 | \$ 468,329 | \$ 1,882,303 |
| Receivables | | | |
| Current taxes | – | 259,379 | 259,379 |
| Delinquent taxes | – | 3,186 | 3,186 |
| Accounts and interest | – | 79,579 | 79,579 |
| Due from other governmental units | 22,747 | 45,905 | 68,652 |
| Inventory | 115,506 | – | 115,506 |
| Total assets | \$ 1,552,227 | \$ 856,378 | \$ 2,408,605 |
| Liabilities | | | |
| Salaries payable | \$ 14,942 | \$ 64,456 | \$ 79,398 |
| Accounts and contracts payable | 37,966 | 43,686 | 81,652 |
| Unearned revenue | 37,767 | – | 37,767 |
| Total liabilities | 90,675 | 108,142 | 198,817 |
| Deferred inflows of resources | | | |
| Property taxes levied for subsequent year | – | 470,446 | 470,446 |
| Unavailable revenue – delinquent taxes | – | 3,186 | 3,186 |
| Total deferred inflows of resources | – | 473,632 | 473,632 |
| Fund balances (deficit) | | | |
| Nonspendable | 115,506 | – | 115,506 |
| Restricted | 1,346,046 | 277,870 | 1,623,916 |
| Unassigned | – | (3,266) | (3,266) |
| Total fund balances | 1,461,552 | 274,604 | 1,736,156 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 1,552,227 | \$ 856,378 | \$ 2,408,605 |

INDEPENDENT SCHOOL DISTRICT NO. 199

Nonmajor Governmental Funds
 Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Year Ended June 30, 2016

| | Special Revenue Funds | | Total |
|-----------------------------|-----------------------|-------------------|---------------------|
| | Food Service | Community Service | |
| Revenue | | | |
| Local sources | | | |
| Property taxes | \$ - | \$ 471,552 | \$ 471,552 |
| Investment earnings | 1,992 | 640 | 2,632 |
| Other | 709,730 | 1,556,706 | 2,266,436 |
| State sources | 100,840 | 292,910 | 393,750 |
| Federal sources | 1,182,976 | - | 1,182,976 |
| Total revenue | <u>1,995,538</u> | <u>2,321,808</u> | <u>4,317,346</u> |
| Expenditures | | | |
| Current | | | |
| Food service | 1,843,175 | - | 1,843,175 |
| Community service | - | 2,096,321 | 2,096,321 |
| Capital outlay | 131,208 | 7,693 | 138,901 |
| Total expenditures | <u>1,974,383</u> | <u>2,104,014</u> | <u>4,078,397</u> |
| Net change in fund balances | 21,155 | 217,794 | 238,949 |
| Fund balances | | | |
| Beginning of year | <u>1,440,397</u> | <u>56,810</u> | <u>1,497,207</u> |
| End of year | <u>\$ 1,461,552</u> | <u>\$ 274,604</u> | <u>\$ 1,736,156</u> |

INDEPENDENT SCHOOL DISTRICT NO. 199

General Fund
Comparative Balance Sheet
as of June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Assets | | |
| Cash and temporary investments | \$ 14,530,631 | \$ 12,893,042 |
| Cash and investments held by trustee | – | 239,822 |
| Receivables | | |
| Current taxes | 4,066,074 | 4,360,586 |
| Delinquent taxes | 53,025 | 95,462 |
| Accounts and interest | 13,760 | 64,890 |
| Due from other governmental units | 4,206,292 | 4,601,687 |
| Due from other funds | 238,335 | 270,750 |
| Prepaid items | <u>159,205</u> | <u>157,622</u> |
| Total assets | <u>\$ 23,267,322</u> | <u>\$ 22,683,861</u> |
| Liabilities | | |
| Salaries payable | \$ 2,792,088 | \$ 1,842,752 |
| Accounts and contracts payable | 1,436,025 | 2,174,749 |
| Due to other governmental units | 145,272 | 223,980 |
| Unearned revenue | <u>–</u> | <u>239,822</u> |
| Total liabilities | 4,373,385 | 4,481,303 |
| Deferred inflows of resources | | |
| Property taxes levied for subsequent year | 6,296,374 | 6,963,214 |
| Unavailable revenue – delinquent taxes | <u>53,025</u> | <u>95,462</u> |
| Total deferred inflows of resources | 6,349,399 | 7,058,676 |
| Fund balances (deficits) | | |
| Nonspendable for prepaid items | 159,205 | 157,622 |
| Restricted for deferred maintenance | 1,035,214 | 898,911 |
| Restricted for operating capital | 747,912 | 1,038,115 |
| Restricted for career and technical programs | – | 8,470 |
| Restricted for teacher development and evaluation | 49,585 | 60,660 |
| Assigned for next year's budget | 1,151,112 | 97,061 |
| Assigned for third party billing | 491,769 | 629,835 |
| Assigned for separation and severance | 1,650,000 | 1,500,000 |
| Assigned for curriculum adoption | 350,000 | 350,000 |
| Assigned for program carryover | 75,000 | 75,000 |
| Assigned for other capital projects | 2,810,000 | 2,245,000 |
| Unassigned – health and safety restricted account deficit | (194,188) | (768,215) |
| Unassigned | <u>4,218,929</u> | <u>4,851,423</u> |
| Total fund balances | <u>12,544,538</u> | <u>11,143,882</u> |
| Total liabilities, deferred inflows resources, and fund balances | <u>\$ 23,267,322</u> | <u>\$ 22,683,861</u> |

INDEPENDENT SCHOOL DISTRICT NO. 199

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2016
 (With Comparative Actual Amounts for the Year Ended June 30, 2015)

| | 2016 | | 2015 | |
|--|--------------|--------------|------------------------|--------------|
| | Budget | Actual | Over (Under) Budget | Actual |
| Revenue | | | | |
| Local sources | | | | |
| Property taxes | \$ 7,981,987 | \$ 8,108,315 | \$ 126,328 | \$ 6,666,863 |
| Investment earnings | 12,500 | 13,390 | 890 | 18,547 |
| Other | 860,400 | 1,049,251 | 188,851 | 1,089,792 |
| State sources | 33,031,289 | 33,586,960 | 555,671 | 32,128,383 |
| Federal sources | 1,494,203 | 1,433,312 | (60,891) | 1,422,763 |
| Total revenue | 43,380,379 | 44,191,228 | 810,849 | 41,326,348 |
| Expenditures | | | | |
| Current | | | | |
| Administration | | | | |
| Salaries | 1,101,609 | 1,145,898 | 44,289 | 1,170,239 |
| Employee benefits | 337,250 | 357,932 | 20,682 | 349,256 |
| Purchased services | 70,700 | 78,859 | 8,159 | 40,973 |
| Supplies and materials | 13,800 | 5,059 | (8,741) | 8,224 |
| Other expenditures | 50,150 | 40,786 | (9,364) | 38,530 |
| Total administration | 1,573,509 | 1,628,534 | 55,025 | 1,607,222 |
| District support services | | | | |
| Salaries | 876,042 | 909,963 | 33,921 | 541,918 |
| Employee benefits | 300,180 | 305,799 | 5,619 | 179,420 |
| Purchased services | 608,500 | 516,054 | (92,446) | 295,419 |
| Supplies and materials | 56,200 | 21,599 | (34,601) | 16,516 |
| Capital expenditures | 410,000 | 392,086 | (17,914) | 497,371 |
| Other expenditures | 5,600 | 15,441 | 9,841 | 6,199 |
| Total district support services | 2,256,522 | 2,160,942 | (95,580) | 1,536,843 |
| Elementary and secondary regular instruction | | | | |
| Salaries | 13,425,573 | 12,064,189 | (1,361,384) | 12,002,253 |
| Employee benefits | 4,125,971 | 4,301,609 | 175,638 | 4,043,229 |
| Purchased services | 555,391 | 921,687 | 366,296 | 813,638 |
| Supplies and materials | 593,490 | 741,472 | 147,982 | 603,600 |
| Capital expenditures | 24,199 | 45,763 | 21,564 | 974 |
| Other expenditures | 10,500 | 13,301 | 2,801 | 9,605 |
| Total elementary and secondary regular instruction | 18,735,124 | 18,088,021 | (647,103) | 17,473,299 |

(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, 2016
 (With Comparative Actual Amounts for the Year Ended June 30, 2015)

| | 2016 | | Over (Under) Budget | 2015 |
|--|-----------|-----------|------------------------|-----------|
| | Budget | Actual | | Actual |
| Expenditures (continued) | | | | |
| Current (continued) | | | | |
| Vocational education instruction | | | | |
| Salaries | 155,840 | 157,155 | 1,315 | 155,333 |
| Employee benefits | 42,090 | 49,357 | 7,267 | 22,581 |
| Purchased services | — | 16,136 | 16,136 | 257 |
| Supplies and materials | 10,000 | 2,794 | (7,206) | 1,594 |
| Capital expenditures | — | 3,670 | 3,670 | 2,966 |
| Total vocational education instruction | 207,930 | 229,112 | 21,182 | 182,731 |
| Special education instruction | | | | |
| Salaries | 5,368,283 | 5,296,818 | (71,465) | 5,209,931 |
| Employee benefits | 1,737,019 | 1,876,429 | 139,410 | 1,621,286 |
| Purchased services | 979,204 | 765,032 | (214,172) | 589,914 |
| Supplies and materials | 123,765 | 73,486 | (50,279) | 76,003 |
| Capital expenditures | 6,000 | 8,631 | 2,631 | — |
| Other expenditures | — | 3,422 | 3,422 | 3,940 |
| Total special education instruction | 8,214,271 | 8,023,818 | (190,453) | 7,501,074 |
| Instructional support services | | | | |
| Salaries | 1,985,054 | 1,960,036 | (25,018) | 2,211,333 |
| Employee benefits | 437,599 | 508,138 | 70,539 | 522,636 |
| Purchased services | 209,376 | 214,051 | 4,675 | 221,320 |
| Supplies and materials | 57,335 | 80,997 | 23,662 | 20,548 |
| Other expenditures | — | — | — | 917 |
| Total instructional support services | 2,689,364 | 2,763,222 | 73,858 | 2,976,754 |
| Pupil support services | | | | |
| Salaries | 1,633,959 | 1,606,843 | (27,116) | 1,447,649 |
| Employee benefits | 467,764 | 482,392 | 14,628 | 421,321 |
| Purchased services | 1,675,365 | 1,535,578 | (139,787) | 1,884,889 |
| Supplies and materials | 160,889 | 124,251 | (36,638) | 181,859 |
| Capital expenditures | 180,000 | 165,855 | (14,145) | 99,933 |
| Other expenditures | — | 1,548 | 1,548 | 262 |
| Total pupil support services | 4,117,977 | 3,916,467 | (201,510) | 4,035,913 |

(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, 2016
 (With Comparative Actual Amounts for the Year Ended June 30, 2015)

| | 2016 | | Over (Under) Budget | 2015 |
|---|--------------|---------------|------------------------|---------------|
| | Budget | Actual | | Actual |
| Expenditures (continued) | | | | |
| Current (continued) | | | | |
| Sites and buildings | | | | |
| Salaries | 1,395,330 | 1,495,944 | 100,614 | 1,356,392 |
| Employee benefits | 403,909 | 462,873 | 58,964 | 420,058 |
| Purchased services | 1,360,346 | 1,916,704 | 556,358 | 1,383,446 |
| Supplies and materials | 665,450 | 661,690 | (3,760) | 621,031 |
| Capital expenditures | 1,405,314 | 675,143 | (730,171) | 2,684,195 |
| Other expenditures | 41,094 | 26,660 | (14,434) | 33,809 |
| Total sites and buildings | 5,271,443 | 5,239,014 | (32,429) | 6,498,931 |
| Fiscal and other fixed cost programs | | | | |
| Purchased services | 125,000 | 104,350 | (20,650) | 124,278 |
| Debt service | | | | |
| Principal | 478,530 | 535,310 | 56,780 | 511,359 |
| Interest and fiscal charges | 149,290 | 101,782 | (47,508) | 121,520 |
| Total debt service | 627,820 | 637,092 | 9,272 | 632,879 |
| Total expenditures | 43,818,960 | 42,790,572 | (1,028,388) | 42,569,924 |
| Excess (deficiency) of revenue over expenditures | (438,581) | 1,400,656 | 1,839,237 | (1,243,576) |
| Other financing sources | | | | |
| Capital leases | — | — | — | 769,042 |
| Sale of capital assets | — | — | — | 2,000 |
| Total other financing sources | — | — | — | 771,042 |
| Net change in fund balances | \$ (438,581) | 1,400,656 | \$ 1,839,237 | (472,534) |
| Fund balances | | | | |
| Beginning of year | | 11,143,882 | | 11,616,416 |
| End of year | | \$ 12,544,538 | | \$ 11,143,882 |

INDEPENDENT SCHOOL DISTRICT NO. 199

Food Service Special Revenue Fund
 Comparative Balance Sheet
 as of June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|-------------------------------------|---------------------|---------------------|
| Assets | | |
| Cash and temporary investments | \$ 1,413,974 | \$ 1,366,214 |
| Receivables | | |
| Due from other governmental units | 22,747 | 111,291 |
| Inventory | 115,506 | 55,800 |
| Prepaid items | <u>–</u> | <u>5,414</u> |
| Total assets | <u>\$ 1,552,227</u> | <u>\$ 1,538,719</u> |
| Liabilities | | |
| Salaries payable | \$ 14,942 | \$ 12,437 |
| Accounts and contracts payable | 37,966 | 45,728 |
| Unearned revenue | <u>37,767</u> | <u>40,157</u> |
| Total liabilities | 90,675 | 98,322 |
| Fund balances | | |
| Nonspendable for inventories | 115,506 | 55,800 |
| Nonspendable for prepaid items | – | 5,414 |
| Restricted for food service | <u>1,346,046</u> | <u>1,379,183</u> |
| Total fund balances | <u>1,461,552</u> | <u>1,440,397</u> |
| Total liabilities and fund balances | <u>\$ 1,552,227</u> | <u>\$ 1,538,719</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, 2016
 (With Comparative Actual Amounts for the Year Ended June 30, 2015)

| | 2016 | | Over (Under) Budget | 2015 |
|------------------------------|--------------------|---------------------|------------------------|---------------------|
| | Budget | Actual | | Actual |
| Revenue | | | | |
| Local sources | | | | |
| Investment earnings | \$ 1,800 | \$ 1,992 | \$ 192 | \$ 1,893 |
| Other – primarily meal sales | 777,806 | 709,730 | (68,076) | 787,788 |
| State sources | 100,115 | 100,840 | 725 | 105,447 |
| Federal sources | 1,131,809 | 1,182,976 | 51,167 | 1,077,714 |
| Total revenue | <u>2,011,530</u> | <u>1,995,538</u> | <u>(15,992)</u> | <u>1,972,842</u> |
| Expenditures | | | | |
| Current | | | | |
| Salaries | 702,027 | 687,165 | (14,862) | 679,667 |
| Employee benefits | 228,714 | 218,522 | (10,192) | 224,448 |
| Purchased services | 91,400 | 70,862 | (20,538) | 70,755 |
| Supplies and materials | 913,612 | 864,833 | (48,779) | 845,487 |
| Other expenditures | 2,295 | 1,793 | (502) | 1,833 |
| Capital outlay | 154,000 | 131,208 | (22,792) | 24,014 |
| Total expenditures | <u>2,092,048</u> | <u>1,974,383</u> | <u>(117,665)</u> | <u>1,846,204</u> |
| Net change in fund balances | <u>\$ (80,518)</u> | 21,155 | <u>\$ 101,673</u> | 126,638 |
| Fund balances | | | | |
| Beginning of year | | <u>1,440,397</u> | | <u>1,313,759</u> |
| End of year | | <u>\$ 1,461,552</u> | | <u>\$ 1,440,397</u> |

INDEPENDENT SCHOOL DISTRICT NO. 199

Community Service Special Revenue Fund
 Comparative Balance Sheet
 as of June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Assets | | |
| Cash and temporary investments | \$ 468,329 | \$ 402,463 |
| Receivables | | |
| Current taxes | 259,379 | 255,372 |
| Delinquent taxes | 3,186 | 6,020 |
| Accounts and interest | 79,579 | 17,552 |
| Due from other governmental units | <u>45,905</u> | <u>62,740</u> |
| Total assets | <u>\$ 856,378</u> | <u>\$ 744,147</u> |
| Liabilities | | |
| Salaries payable | \$ 64,456 | \$ 46,234 |
| Accounts and contracts payable | 43,686 | 40,448 |
| Due to other governmental units | <u>–</u> | <u>123,954</u> |
| Total liabilities | 108,142 | 210,636 |
| Deferred inflows of resources | | |
| Property taxes levied for subsequent year | 470,446 | 470,681 |
| Unavailable revenue – delinquent taxes | <u>3,186</u> | <u>6,020</u> |
| Total deferred inflows of resources | 473,632 | 476,701 |
| Fund balances (deficit) | | |
| Restricted for community education programs | 259,140 | 27,549 |
| Restricted for early childhood family education programs | – | 10,531 |
| Restricted for school readiness | 18,730 | 18,730 |
| Unassigned – early childhood family education programs account deficit | <u>(3,266)</u> | <u>–</u> |
| Total fund balances | <u>274,604</u> | <u>56,810</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 856,378</u> | <u>\$ 744,147</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, 2016
 (With Comparative Actual Amounts for the Year Ended June 30, 2015)

| | 2016 | | Over (Under) Budget | 2015 |
|------------------------------------|------------------|-------------------|------------------------|------------------|
| | Budget | Actual | | Actual |
| Revenue | | | | |
| Local sources | | | | |
| Property taxes | \$ 470,603 | \$ 471,552 | \$ 949 | \$ 438,277 |
| Investment earnings | — | 640 | 640 | 453 |
| Other – primarily tuition and fees | 1,461,502 | 1,556,706 | 95,204 | 1,494,162 |
| State sources | 290,974 | 292,910 | 1,936 | 240,586 |
| Total revenue | <u>2,223,079</u> | <u>2,321,808</u> | <u>98,729</u> | <u>2,173,478</u> |
| Expenditures | | | | |
| Current | | | | |
| Salaries | 1,188,815 | 1,176,395 | (12,420) | 1,204,618 |
| Employee benefits | 332,164 | 313,061 | (19,103) | 315,138 |
| Purchased services | 552,941 | 545,190 | (7,751) | 530,967 |
| Supplies and materials | 48,510 | 57,522 | 9,012 | 57,796 |
| Other expenditures | 4,772 | 4,153 | (619) | 56,883 |
| Capital outlay | 6,450 | 7,693 | 1,243 | 4,253 |
| Total expenditures | <u>2,133,652</u> | <u>2,104,014</u> | <u>(29,638)</u> | <u>2,169,655</u> |
| Net change in fund balances | <u>\$ 89,427</u> | 217,794 | <u>\$ 128,367</u> | 3,823 |
| Fund balances | | | | |
| Beginning of year | | <u>56,810</u> | | <u>52,987</u> |
| End of year | | <u>\$ 274,604</u> | | <u>\$ 56,810</u> |

INDEPENDENT SCHOOL DISTRICT NO. 199

Capital Projects – Building Construction Fund
 Comparative Balance Sheet
 as of June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|---------------------|---------------------|
| Assets | | |
| Cash and temporary investments | \$ 1,915,882 | \$ 9,418,696 |
| Receivables | | |
| Accounts and interest | <u>20,628</u> | <u>23,473</u> |
| Total assets | <u>\$ 1,936,510</u> | <u>\$ 9,442,169</u> |
| Liabilities | | |
| Accounts and contracts payable | \$ 360,727 | \$ 2,046,218 |
| Fund balances | | |
| Restricted for building construction | <u>1,575,783</u> | <u>7,395,951</u> |
| Total liabilities and fund balances | <u>\$ 1,936,510</u> | <u>\$ 9,442,169</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, 2016
 (With Comparative Actual Amounts for the Year Ended June 30, 2015)

| | 2016 | | Over (Under) Budget | 2015 |
|-----------------------------|-----------------------|---------------------|------------------------|---------------------|
| | Budget | Actual | | Actual |
| Revenue | | | | |
| Local sources | | | | |
| Investment earnings | \$ 15,000 | \$ 24,365 | \$ 9,365 | \$ 30,626 |
| Expenditures | | | | |
| Capital outlay | | | | |
| Purchased services | – | 175,025 | 175,025 | 1,105,581 |
| Capital expenditures | 7,410,951 | 5,669,508 | (1,741,443) | 12,969,920 |
| Total expenditures | <u>7,410,951</u> | <u>5,844,533</u> | <u>(1,566,418)</u> | <u>14,075,501</u> |
| Net change in fund balances | <u>\$ (7,395,951)</u> | (5,820,168) | <u>\$ 1,575,783</u> | (14,044,875) |
| Fund balances | | | | |
| Beginning of year | | <u>7,395,951</u> | | <u>21,440,826</u> |
| End of year | | <u>\$ 1,575,783</u> | | <u>\$ 7,395,951</u> |

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INDEPENDENT SCHOOL DISTRICT NO. 199

Debt Service Fund
Balance Sheet
as of June 30, 2016

(With Comparative Totals as of June 30, 2015)

| | Regular | OPEB | Totals | |
|--|-------------------------|-------------------------|---------------------|----------------------|
| | Debt Service Account | Debt Service Account | 2016 | 2015 |
| Assets | | | | |
| Cash and temporary investments | \$ 2,887,493 | \$ 482,206 | \$ 3,369,699 | \$ 3,302,530 |
| Cash and investments held by trustee | – | – | – | 26,972,339 |
| Receivables | | | | |
| Current taxes | 2,476,965 | 418,734 | 2,895,699 | 2,922,242 |
| Delinquent taxes | 30,065 | 5,154 | 35,219 | 64,047 |
| Due from other governmental units | 24,213 | 4,077 | 28,290 | 43,004 |
| Total assets | \$ 5,418,736 | \$ 910,171 | \$ 6,328,907 | \$ 33,304,162 |
| Deferred inflows of resources | | | | |
| Property taxes levied for subsequent year | \$ 4,492,567 | \$ 759,475 | \$ 5,252,042 | \$ 5,386,032 |
| Unavailable revenue – delinquent taxes | 30,065 | 5,154 | 35,219 | 64,047 |
| Total deferred inflows of resources | 4,522,632 | 764,629 | 5,287,261 | 5,450,079 |
| Fund balances | | | | |
| Restricted for bond refundings | – | – | – | 26,972,339 |
| Restricted for debt service | 896,104 | 145,542 | 1,041,646 | 881,744 |
| Total fund balances | 896,104 | 145,542 | 1,041,646 | 27,854,083 |
| Total deferred inflows of resources and fund balances | \$ 5,418,736 | \$ 910,171 | \$ 6,328,907 | \$ 33,304,162 |

INDEPENDENT SCHOOL DISTRICT NO. 199

Debt Service Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2016
 (With Comparative Actual Amounts for the Year Ended June 30, 2015)

| | 2016 | | | Total |
|---|------------------------|------------------------------------|---------------------------------|---------------------|
| | Budget | Actual | | |
| | | Regular Debt Service Account | OPEB Debt Service Account | |
| Revenue | | | | |
| Local sources | | | | |
| Property taxes | \$ 5,386,250 | \$ 4,620,258 | \$ 773,698 | \$ 5,393,956 |
| Investment earnings | – | 17,606 | 689 | 18,295 |
| State sources | – | 794 | 133 | 927 |
| Total revenue | <u>5,386,250</u> | <u>4,638,658</u> | <u>774,520</u> | <u>5,413,178</u> |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | 2,335,000 | 2,185,000 | 150,000 | 2,335,000 |
| Interest | 2,902,537 | 2,863,815 | 604,548 | 3,468,363 |
| Fiscal charges and other | 2,825 | 1,801 | 451 | 2,252 |
| Total expenditures | <u>5,240,362</u> | <u>5,050,616</u> | <u>754,999</u> | <u>5,805,615</u> |
| Excess (deficiency) of revenue over expenditures | 145,888 | (411,958) | 19,521 | (392,437) |
| Other financing sources (uses) | | | | |
| Refunding bonds issued | – | – | – | – |
| Premium on debt issued | – | – | – | – |
| Bond refunding payments | (27,595,659) | (26,420,000) | – | (26,420,000) |
| Total other financing sources (uses) | <u>(27,595,659)</u> | <u>(26,420,000)</u> | <u>–</u> | <u>(26,420,000)</u> |
| Net change in fund balances | <u>\$ (27,449,771)</u> | (26,831,958) | 19,521 | (26,812,437) |
| Fund balances | | | | |
| Beginning of year | | <u>27,728,062</u> | <u>126,021</u> | <u>27,854,083</u> |
| End of year | | <u>\$ 896,104</u> | <u>\$ 145,542</u> | <u>\$ 1,041,646</u> |

| | | <u>2015</u> | |
|--------------|-------------------|----------------------|--|
| Over (Under) | Budget | Actual | |
| | \$ 7,706 | \$ 5,519,191 | |
| | 18,295 | 19,635 | |
| | 927 | 536 | |
| | <u>26,928</u> | <u>5,539,362</u> | |
| | | | |
| | – | 2,865,000 | |
| | 565,826 | 3,614,126 | |
| | (573) | 241,467 | |
| | <u>565,253</u> | <u>6,720,593</u> | |
| | | | |
| | (538,325) | (1,181,231) | |
| | | | |
| | – | 24,320,000 | |
| | – | 3,492,982 | |
| | 1,175,659 | – | |
| | <u>1,175,659</u> | <u>27,812,982</u> | |
| | | | |
| | <u>\$ 637,334</u> | 26,631,751 | |
| | | | |
| | | <u>1,222,332</u> | |
| | | <u>\$ 27,854,083</u> | |

INDEPENDENT SCHOOL DISTRICT NO. 199

Internal Service Funds
 Combining Statement of Net Position
 as of June 30, 2016
 (With Comparative Totals as of June 30, 2015)

| | Severance and Pension Benefits Fund | Other Post-Employment Benefits Fund | Totals | |
|--|---|---|--------------|---------------|
| | | | 2016 | 2015 |
| Assets | | | | |
| Current assets | | | | |
| Cash and temporary investments | \$ 1,800,854 | \$ – | \$ 1,800,854 | \$ 1,798,265 |
| Noncurrent assets | | | | |
| Restricted assets – temporarily restricted | | | | |
| Cash and cash equivalents | – | 4,811,175 | 4,811,175 | 4,754,746 |
| Investments | – | 5,278,008 | 5,278,008 | 5,727,113 |
| Total restricted assets – temporarily restricted | – | 10,089,183 | 10,089,183 | 10,481,859 |
| Total assets | 1,800,854 | 10,089,183 | 11,890,037 | 12,280,124 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Severance benefits payable | 37,968 | – | 37,968 | 42,545 |
| Due to other funds | – | 238,335 | 238,335 | 270,750 |
| Total current liabilities | 37,968 | 238,335 | 276,303 | 313,295 |
| Long-term liabilities | | | | |
| Severance benefits payable | 1,112,347 | – | 1,112,347 | 1,155,180 |
| Net OPEB obligation | – | 472,371 | 472,371 | 207,804 |
| Net pension obligation | 328,137 | – | 328,137 | 351,752 |
| Total long-term liabilities | 1,440,484 | 472,371 | 1,912,855 | 1,714,736 |
| Total liabilities | 1,478,452 | 710,706 | 2,189,158 | 2,028,031 |
| Net position | | | | |
| Restricted for other post-employment liabilities | | | | |
| | – | 9,378,477 | 9,378,477 | 10,003,305 |
| Unrestricted | 322,402 | – | 322,402 | 248,788 |
| Total net position | \$ 322,402 | \$ 9,378,477 | \$ 9,700,879 | \$ 10,252,093 |

INDEPENDENT SCHOOL DISTRICT NO. 199

Internal Service Funds
 Combining Statement of Revenue, Expenses, and Changes in Net Position
 Year Ended June 30, 2016
 (With Comparative Totals for the Year Ended June 30, 2015)

| | Severance and Pension Benefits Fund | Other Post-Employment Benefits Fund | Totals | |
|--|---|---|---------------------|----------------------|
| | | | 2016 | 2015 |
| Operating revenue | | | | |
| Contributions from governmental funds | \$ 494,323 | \$ 276,150 | \$ 770,473 | \$ 611,093 |
| Operating expenses | | | | |
| Severance benefits | 121,036 | – | 121,036 | 68,512 |
| Pension benefits | 302,262 | – | 302,262 | 297,141 |
| Other post-employment benefits | – | 779,052 | 779,052 | 781,991 |
| Total operating expenses | <u>423,298</u> | <u>779,052</u> | <u>1,202,350</u> | <u>1,147,644</u> |
| Operating income (loss) | 71,025 | (502,902) | (431,877) | (536,551) |
| Nonoperating revenues | | | | |
| Investment earnings (loss) | <u>2,589</u> | <u>(121,926)</u> | <u>(119,337)</u> | <u>121,760</u> |
| Change in net position | 73,614 | (624,828) | (551,214) | (414,791) |
| Net position | | | | |
| Beginning of year | <u>248,788</u> | <u>10,003,305</u> | <u>10,252,093</u> | <u>10,666,884</u> |
| End of year | <u>\$ 322,402</u> | <u>\$ 9,378,477</u> | <u>\$ 9,700,879</u> | <u>\$ 10,252,093</u> |

INDEPENDENT SCHOOL DISTRICT NO. 199

Internal Service Funds
 Combining Statement of Cash Flows
 Year Ended June 30, 2016
 (With Comparative Totals for the Year Ended June 30, 2015)

| | Severance and Pension Benefits Fund | Other Post-Employment Benefits Fund | Totals | |
|--|---|---|--------------|--------------|
| | | | 2016 | 2015 |
| Cash flows from operating activities | | | | |
| Receipts from assessments made to governmental funds | \$ 494,323 | \$ 243,735 | \$ 738,058 | \$ 881,843 |
| Benefit payments | (494,323) | (514,485) | (1,008,808) | (881,843) |
| Net cash flows from operating activities | – | (270,750) | (270,750) | – |
| Cash flows from investing activities | | | | |
| Purchases of investments | – | (2,661,662) | (2,661,662) | (3,130,323) |
| Sales and maturities of investments | – | 3,110,767 | 3,110,767 | 3,402,953 |
| Interest and dividends on investments | 2,589 | (121,926) | (119,337) | 121,760 |
| Net cash flows from investing activities | 2,589 | 327,179 | 329,768 | 394,390 |
| Net change in cash and cash equivalents | 2,589 | 56,429 | 59,018 | 394,390 |
| Cash and cash equivalents | | | | |
| Beginning of year | 1,798,265 | 4,754,746 | 6,553,011 | 6,158,621 |
| End of year | \$ 1,800,854 | \$ 4,811,175 | \$ 6,612,029 | \$ 6,553,011 |
| Reconciliation of operating income (loss) to net cash flows from operating activities | | | | |
| Operating income (loss) | \$ 71,025 | \$ (502,902) | \$ (431,877) | \$ (536,551) |
| Adjustments to reconcile operating income (loss) to net cash flows from operating activities | | | | |
| Changes in assets and liabilities | | | | |
| Due to other funds | – | (32,415) | (32,415) | 270,750 |
| Net pension obligation | (23,615) | – | (23,615) | 32,589 |
| Net OPEB asset or obligation | – | 264,567 | 264,567 | 211,469 |
| Severance benefits payable | (47,410) | – | (47,410) | 21,743 |
| Net cash flows from operating activities | \$ – | \$ (270,750) | \$ (270,750) | \$ – |

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:

| | Page |
|--|-------------|
| Financial Trends | 79 |
| <p>These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.</p> | |
| Revenue Capacity | 88 |
| <p>These schedules contain information to help the reader assess the District's most significant local revenue source, property taxes.</p> | |
| Debt Capacity | 95 |
| <p>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.</p> | |
| Demographic and Economic Information | 101 |
| <p>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</p> | |
| Operating Indicators | 105 |
| <p>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.</p> | |

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

| | Fiscal Year | | | |
|--|----------------------|---------------------|----------------------|----------------------|
| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
| Governmental activities | | | | |
| Net investment in capital assets | \$ 8,703,834 | \$ 5,638,108 | \$ 5,096,314 | \$ 5,009,958 |
| Restricted | 2,757,107 | 2,403,846 | 2,367,912 | 3,382,349 |
| Unrestricted | <u>(788,222)</u> | <u>(668,081)</u> | <u>4,457,391</u> | <u>5,311,127</u> |
| Total governmental activities net position | <u>\$ 10,672,719</u> | <u>\$ 7,373,873</u> | <u>\$ 11,921,617</u> | <u>\$ 13,703,434</u> |

Note: The District implemented GASB Statement No. 68 in 2015, which resulted in a \$26,559,876 reduction of beginning net position. Prior year information has not been restated.

| <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|----------------------|----------------------|----------------------|----------------------|-----------------------|---------------------|
| \$ 4,944,787 | \$ 6,978,207 | \$ 8,200,160 | \$ 8,787,376 | \$ 9,936,693 | \$ 11,363,890 |
| 3,574,911 | 4,082,980 | 4,477,781 | 4,815,014 | 4,466,287 | 4,078,494 |
| <u>8,510,376</u> | <u>8,942,609</u> | <u>9,418,692</u> | <u>9,711,965</u> | <u>(16,785,417)</u> | <u>(15,034,472)</u> |
| <u>\$ 17,030,074</u> | <u>\$ 20,003,796</u> | <u>\$ 22,096,633</u> | <u>\$ 23,314,355</u> | <u>\$ (2,382,437)</u> | <u>\$ 407,912</u> |

INDEPENDENT SCHOOL DISTRICT NO. 199

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

| | Fiscal Year | | | |
|--|-----------------------|-----------------------|-------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 |
| Governmental activities | | | | |
| Expenses | | | | |
| Administration | \$ 1,568,141 | \$ 1,267,400 | \$ 1,568,100 | \$ 1,410,292 |
| District support services | 1,028,908 | 1,026,514 | 1,028,899 | 996,250 |
| Elementary and secondary regular instruction | 15,941,838 | 16,638,409 | 16,499,940 | 16,389,973 |
| Vocational education instruction | 213,260 | 411,009 | 392,126 | 389,560 |
| Special education instruction | 7,738,399 | 8,388,707 | 7,398,059 | 7,313,624 |
| Instructional support services | 2,315,947 | 2,370,339 | 2,541,338 | 2,361,213 |
| Pupil support services | 2,861,214 | 2,971,179 | 3,189,324 | 3,293,788 |
| Sites and buildings | 7,337,423 | 8,226,708 | 5,583,255 | 4,511,048 |
| Fiscal and other fixed cost programs | 168,440 | 102,736 | 80,594 | 86,525 |
| Food service | 1,682,282 | 1,678,391 | 1,690,081 | 1,716,313 |
| Community service | 2,000,399 | 2,021,807 | 2,120,802 | 2,240,630 |
| Unallocated depreciation | 593,763 | 690,032 | 1,137,350 | 1,130,667 |
| Interest on long-term debt | 1,757,200 | 1,715,119 | 1,931,424 | 2,253,696 |
| Total governmental activities expenses | <u>45,207,214</u> | <u>47,508,350</u> | <u>45,161,292</u> | <u>44,093,579</u> |
| Program revenues | | | | |
| Charges for services | | | | |
| Administration and district support services | 49,564 | 3,849 | - | - |
| Elementary and secondary regular instruction | 16,040 | 169,842 | 157,396 | 144,052 |
| Special education instruction | 492,229 | 328,464 | 590,234 | 429,820 |
| Pupil support services | 219,827 | 143,485 | 164,525 | 147,858 |
| Sites and buildings | 161,876 | 188,387 | 175,842 | 161,396 |
| Food service | 1,043,878 | 980,081 | 1,007,980 | 953,106 |
| Community service | 1,399,290 | 1,488,458 | 1,451,597 | 1,522,329 |
| Operating grants and contributions | 5,846,537 | 6,622,615 | 5,642,691 | 6,286,933 |
| Capital grants and contributions | - | - | - | - |
| Total governmental activities program revenues | <u>9,229,241</u> | <u>9,925,181</u> | <u>9,190,265</u> | <u>9,645,494</u> |
| Net (expense) revenue | (35,977,973) | (37,583,169) | (35,971,027) | (34,448,085) |
| General revenues and other changes in net position | | | | |
| Taxes | | | | |
| Property taxes levied for general purposes | 6,030,960 | 6,374,827 | 7,349,291 | 6,928,603 |
| Property taxes levied for community service | 311,020 | 216,873 | 215,590 | 322,935 |
| Property taxes levied for debt service | 2,344,447 | 2,548,573 | 2,664,904 | 3,360,096 |
| General grants and aids | 23,347,968 | 24,160,613 | 24,939,865 | 24,903,135 |
| Other general revenues | 466,095 | 308,398 | 410,537 | 518,200 |
| Investment earnings (loss) | 1,719,471 | 675,039 | 542,895 | 196,933 |
| Total general revenues and other changes in net position | <u>34,219,961</u> | <u>34,284,323</u> | <u>36,123,082</u> | <u>36,229,902</u> |
| Change in net position | <u>\$ (1,758,012)</u> | <u>\$ (3,298,846)</u> | <u>\$ 152,055</u> | <u>\$ 1,781,817</u> |

| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------|--------------|--------------|--------------|--------------|--------------|
| \$ 1,413,246 | \$ 1,571,141 | \$ 1,446,535 | \$ 1,692,441 | \$ 1,642,918 | \$ 1,668,525 |
| 951,640 | 1,063,783 | 1,303,225 | 1,367,090 | 1,436,499 | 2,237,559 |
| 16,281,999 | 16,436,834 | 17,460,869 | 17,186,229 | 17,492,321 | 18,123,732 |
| 324,273 | 174,094 | 177,379 | 214,654 | 184,107 | 231,331 |
| 7,577,765 | 7,396,600 | 7,562,831 | 7,214,834 | 7,496,130 | 8,107,795 |
| 2,499,693 | 2,480,524 | 2,481,273 | 3,100,949 | 2,981,203 | 2,820,805 |
| 3,420,588 | 3,302,748 | 3,445,482 | 3,776,803 | 4,025,098 | 3,904,644 |
| 4,599,496 | 4,911,665 | 4,878,372 | 5,366,312 | 5,232,292 | 5,553,004 |
| 90,121 | 78,415 | 154,018 | 122,697 | 124,278 | 104,350 |
| 1,708,253 | 1,766,823 | 1,648,479 | 1,789,311 | 1,854,645 | 1,996,766 |
| 2,215,072 | 1,942,620 | 2,052,248 | 2,192,959 | 2,170,270 | 2,141,074 |
| 1,128,902 | 1,137,795 | 1,266,355 | 1,257,548 | 1,686,488 | 1,771,423 |
| 2,211,874 | 2,190,369 | 2,329,636 | 2,632,077 | 4,040,011 | 2,301,324 |
| 44,422,922 | 44,453,411 | 46,206,702 | 47,913,904 | 50,366,260 | 50,962,332 |
| — | — | — | — | — | — |
| 165,337 | 176,353 | 173,884 | 170,300 | 244,580 | 238,815 |
| 312,294 | 260,796 | 287,407 | 307,058 | 172,095 | 169,392 |
| 192,874 | 153,817 | 153,669 | 92,698 | 108,818 | 93,553 |
| 161,895 | 168,303 | 129,048 | 40,292 | — | — |
| 868,675 | 844,226 | 832,278 | 817,497 | 787,788 | 709,730 |
| 1,544,349 | 1,382,837 | 1,476,055 | 1,379,546 | 1,494,162 | 1,556,706 |
| 6,416,700 | 6,591,869 | 6,180,347 | 6,933,645 | 6,990,499 | 7,537,891 |
| — | 127,140 | — | — | — | — |
| 9,662,124 | 9,705,341 | 9,232,688 | 9,741,036 | 9,797,942 | 10,306,087 |
| (34,760,798) | (34,748,070) | (36,974,014) | (38,172,868) | (40,568,318) | (40,656,245) |
| 9,562,072 | 7,155,582 | 7,191,177 | 4,675,431 | 6,666,391 | 8,065,878 |
| 534,266 | 444,587 | 506,407 | 261,765 | 438,467 | 468,718 |
| 3,397,061 | 4,073,847 | 4,303,885 | 4,230,516 | 5,530,393 | 5,365,128 |
| 22,943,298 | 25,739,132 | 25,919,822 | 28,483,217 | 28,045,536 | 29,060,036 |
| 375,119 | 558,391 | 408,392 | 647,393 | 557,701 | 547,489 |
| 1,275,622 | (249,747) | 737,168 | 1,092,268 | 192,914 | (60,655) |
| 38,087,438 | 37,721,792 | 39,066,851 | 39,390,590 | 41,431,402 | 43,446,594 |
| \$ 3,326,640 | \$ 2,973,722 | \$ 2,092,837 | \$ 1,217,722 | \$ 863,084 | \$ 2,790,349 |

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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 |
| 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 |
| 2013 | 7,191,177 | 506,407 | 4,303,885 | 12,001,469 |
| 2014 | 4,675,431 | 261,765 | 4,230,516 | 9,167,712 |
| 2015 | 6,666,391 | 438,467 | 5,530,393 | 12,635,251 |
| 2016 | 8,065,878 | 468,718 | 5,365,128 | 13,899,724 |

Note: Legislative “tax shift” changes impacted the amount of tax revenue recognized in fiscal years 2011 and 2014. These changes were offset by an adjustment to state aid payments of an equal amount.

INDEPENDENT SCHOOL DISTRICT NO. 199

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

| | Fiscal Year | | | |
|------------------------------------|----------------------|---------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 |
| General Fund | | | | |
| Reserved | \$ 2,277,612 | \$ 2,094,736 | \$ 1,103,635 | \$ 2,145,632 |
| Unreserved | 2,989,523 | 2,724,191 | 4,801,090 | 5,774,808 |
| Nonspendable | - | - | - | - |
| Restricted | - | - | - | - |
| Assigned | - | - | - | - |
| Unassigned | - | - | - | - |
| Total General Fund | <u>\$ 5,267,135</u> | <u>\$ 4,818,927</u> | <u>\$ 5,904,725</u> | <u>\$ 7,920,440</u> |
| All other governmental funds | | | | |
| Reserved | \$ 579,176 | \$ 502,077 | \$ 342,687 | \$ 117,264 |
| Unreserved, reported in | | | | |
| Special revenue funds | 671,948 | 699,750 | 783,702 | 949,039 |
| Capital projects funds | 11,109,687 | 2,273,852 | 193,387 | 166,822 |
| Debt service funds | 347,678 | 498,963 | 590,200 | 623,086 |
| Nonspendable | - | - | - | - |
| Restricted | - | - | - | - |
| Unassigned, reported in | | | | |
| Special revenue funds | - | - | - | - |
| Total all other governmental funds | <u>\$ 12,708,489</u> | <u>\$ 3,974,642</u> | <u>\$ 1,909,976</u> | <u>\$ 1,856,211</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.

| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - |
| 96,952 | 132,061 | 156,185 | 149,699 | 157,622 | 159,205 |
| 1,694,849 | 2,732,525 | 2,424,347 | 2,283,187 | 2,006,156 | 1,832,711 |
| 3,477,118 | 3,587,226 | 4,129,697 | 4,295,345 | 4,896,896 | 6,527,881 |
| 4,722,067 | 5,083,385 | 4,910,213 | 4,888,185 | 4,083,208 | 4,024,741 |
| <u>\$ 9,990,986</u> | <u>\$ 11,535,197</u> | <u>\$ 11,620,442</u> | <u>\$ 11,616,416</u> | <u>\$ 11,143,882</u> | <u>\$ 12,544,538</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 38,024 | 38,159 | 53,387 | 50,824 | 61,214 | 115,506 |
| 4,272,215 | 1,949,259 | 2,259,419 | 23,979,080 | 36,686,027 | 4,241,345 |
| (15,201) | - | - | - | - | (3,266) |
| <u>\$ 4,295,038</u> | <u>\$ 1,987,418</u> | <u>\$ 2,312,806</u> | <u>\$ 24,029,904</u> | <u>\$ 36,747,241</u> | <u>\$ 4,353,585</u> |

INDEPENDENT SCHOOL DISTRICT NO. 199

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

| | Fiscal Year | | | |
|---|------------------------|-----------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 |
| Revenues | | | | |
| Local sources | | | | |
| Taxes | \$ 8,672,109 | \$ 9,108,006 | \$ 10,196,250 | \$ 10,609,388 |
| Investment earnings | 1,637,890 | 606,139 | 162,672 | 27,024 |
| Other | 3,848,799 | 3,841,302 | 4,229,261 | 4,247,921 |
| State sources | 27,297,876 | 28,745,668 | 28,146,841 | 25,781,668 |
| Federal sources | 1,896,629 | 1,807,223 | 2,164,565 | 5,037,240 |
| Total revenues | <u>43,353,303</u> | <u>44,108,338</u> | <u>44,899,589</u> | <u>45,703,241</u> |
| Expenditures | | | | |
| Current | | | | |
| Administration | 1,640,986 | 1,448,291 | 1,950,035 | 1,381,411 |
| District support services | 1,031,478 | 1,067,131 | 1,160,932 | 982,611 |
| Elementary and secondary regular instruction | 15,438,015 | 16,281,280 | 21,084,417 | 16,383,527 |
| Vocational education instruction | 213,260 | 411,009 | 486,383 | 383,786 |
| Special education instruction | 7,762,976 | 8,401,644 | 9,038,200 | 7,159,504 |
| Instructional support services | 2,311,834 | 2,418,803 | 3,135,025 | 2,331,760 |
| Pupil support services | 2,878,685 | 2,955,188 | 3,633,832 | 3,259,511 |
| Sites and buildings | 4,796,627 | 4,882,944 | 5,440,052 | 4,468,467 |
| Fiscal and other fixed cost programs | 168,440 | 102,736 | 80,594 | 86,525 |
| Food service | 1,634,090 | 1,678,522 | 1,849,531 | 1,646,175 |
| Community service | 1,873,041 | 2,006,623 | 2,440,545 | 2,164,896 |
| Capital outlay | 22,083,398 | 9,121,987 | 2,162,373 | 106,699 |
| Debt service | | | | |
| Principal | 724,855 | 823,611 | 1,172,424 | 1,222,782 |
| Interest and fiscal charges | 1,780,707 | 1,750,502 | 1,739,514 | 2,327,376 |
| Total expenditures | <u>64,338,392</u> | <u>53,350,271</u> | <u>55,373,857</u> | <u>43,905,030</u> |
| Excess of revenues over (under) expenditures | (20,985,089) | (9,241,933) | (10,474,268) | 1,798,211 |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| Sale of capital assets | - | 29,878 | 17,600 | 13,835 |
| Bonds issued | - | - | 9,220,000 | - |
| Capital leases | - | - | 380,000 | 149,904 |
| Premiums on bonds issued | - | - | - | - |
| Discounts on bonds issued | - | - | (92,200) | - |
| Bond refunding payments | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>29,878</u> | <u>9,525,400</u> | <u>163,739</u> |
| Net change in fund balances | <u>\$ (20,985,089)</u> | <u>\$ (9,212,055)</u> | <u>\$ (948,868)</u> | <u>\$ 1,961,950</u> |
| Debt service as a percentage of noncapital expenditures | <u>5.9%</u> | <u>5.8%</u> | <u>5.5%</u> | <u>8.1%</u> |

| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------|---------------|---------------|---------------|---------------|-----------------|
| \$ 13,453,639 | \$ 11,728,856 | \$ 11,972,988 | \$ 9,176,288 | \$ 12,624,331 | \$ 13,973,823 |
| 30,196 | 9,663 | 19,222 | 35,373 | 71,154 | 58,682 |
| 3,905,729 | 3,894,796 | 3,775,555 | 3,466,844 | 3,371,742 | 3,315,687 |
| 26,081,228 | 29,195,998 | 29,351,454 | 33,046,899 | 32,474,952 | 33,981,637 |
| 2,993,584 | 2,912,070 | 2,433,893 | 2,357,903 | 2,500,477 | 2,616,288 |
| 46,464,376 | 47,741,383 | 47,553,112 | 48,083,307 | 51,042,656 | 53,946,117 |
| 1,369,667 | 1,506,391 | 1,612,578 | 1,708,563 | 1,607,222 | 1,628,534 |
| 944,729 | 1,058,242 | 1,296,135 | 1,360,469 | 1,536,843 | 2,160,942 |
| 16,057,579 | 16,202,886 | 17,142,676 | 17,164,911 | 17,473,299 | 18,088,021 |
| 320,750 | 172,127 | 175,070 | 212,314 | 182,731 | 229,112 |
| 7,491,184 | 7,328,521 | 7,483,176 | 7,138,434 | 7,501,074 | 8,023,818 |
| 2,474,662 | 2,456,551 | 2,463,443 | 3,077,640 | 2,976,754 | 2,763,222 |
| 3,411,187 | 3,316,172 | 3,446,495 | 3,838,459 | 4,035,913 | 3,916,467 |
| 4,569,602 | 5,850,073 | 5,582,440 | 7,867,523 | 6,498,931 | 5,239,014 |
| 90,121 | 78,415 | 154,018 | 122,697 | 124,278 | 104,350 |
| 1,642,749 | 1,679,588 | 1,639,183 | 1,742,822 | 1,822,190 | 1,843,175 |
| 2,177,391 | 1,923,328 | 2,031,991 | 2,169,621 | 2,165,402 | 2,096,321 |
| 4,261,912 | 2,530,042 | 5,700 | 3,280,455 | 14,103,768 | 5,983,434 |
| 1,548,894 | 2,331,479 | 2,248,698 | 2,491,798 | 3,376,359 | 2,870,310 |
| 2,280,597 | 2,280,768 | 2,196,515 | 2,308,781 | 3,977,113 | 3,572,397 |
| 48,641,024 | 48,714,583 | 47,478,118 | 54,484,487 | 67,381,877 | 58,519,117 |
| (2,176,648) | (973,200) | 74,994 | (6,401,180) | (16,339,221) | (4,573,000) |
| 165,890 | - | - | - | - | - |
| (165,890) | - | - | - | - | - |
| 4,500 | 5,500 | 7,100 | 4,000 | 2,000 | - |
| 10,635,000 | - | - | 24,750,000 | 24,320,000 | - |
| - | 204,291 | 328,539 | 2,862,783 | 769,042 | - |
| 172,018 | - | - | 497,469 | 3,492,982 | - |
| (40,497) | - | - | - | - | - |
| (4,085,000) | - | - | - | - | (26,420,000) |
| 6,686,021 | 209,791 | 335,639 | 28,114,252 | 28,584,024 | (26,420,000) |
| \$ 4,509,373 | \$ (763,409) | \$ 410,633 | \$ 21,713,072 | \$ 12,244,803 | \$ (30,993,000) |
| 8.6% | 10.2% | 9.5% | 9.9% | 14.2% | 12.2% |

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INDEPENDENT SCHOOL DISTRICT NO. 199

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

| Fiscal Year | Property Tax | | | Total |
|-------------|--------------|--|----------------------|--------------|
| | General Fund | Community Service Special Revenue Fund | Debt Service Fund | |
| 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 |
| 2013 | 7,175,770 | 504,826 | 4,292,392 | 11,972,988 |
| 2014 | 4,682,086 | 261,704 | 4,232,498 | 9,176,288 |
| 2015 | 6,666,863 | 438,277 | 5,519,191 | 12,624,331 |
| 2016 | 8,108,315 | 471,552 | 5,393,956 | 13,973,823 |

Note: Legislative “tax shift” changes impacted the amount of tax revenue recognized in fiscal years 2011 and 2014. These changes were offset by an adjustment to state aid payments of an equal amount.

INDEPENDENT SCHOOL DISTRICT NO. 199

Tax Capacities and Estimated Market Values
Last Ten Fiscal Years

| For Taxes Collectible | Tax Capacities | | | |
|--------------------------|----------------|------------------|--------------------|--------------|
| | Agricultural | Non-Agricultural | Fiscal Disparities | |
| | | | Contribution | Distribution |
| 2007 | \$ 102,354 | \$ 32,506,513 | \$ (2,750,325) | \$ 2,818,984 |
| 2008 | 90,937 | 33,970,218 | (3,166,165) | 3,303,563 |
| 2009 | 103,720 | 34,600,216 | (3,502,411) | 3,645,662 |
| 2010 | 100,890 | 32,486,454 | (3,760,334) | 3,860,888 |
| 2011 | 89,207 | 30,733,443 | (3,813,453) | 4,128,921 |
| 2012 | 83,825 | 28,562,147 | (3,714,033) | 3,574,158 |
| 2013 | 80,016 | 27,179,844 | (3,666,211) | 3,250,870 |
| 2014 | 89,149 | 27,491,499 | (3,620,945) | 3,177,462 |
| 2015 | 95,856 | 29,087,123 | (3,708,676) | 3,190,379 |
| 2016 | 96,649 | 30,828,616 | (3,735,815) | 3,228,581 |

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

| <u>Tax Increment</u> | <u>Total</u> | <u>Total Direct Tax Rate</u> | <u>Estimated Market Value</u> | <u>Percentage Total Tax Capacity of Estimated Market Value</u> |
|----------------------|---------------|----------------------------------|-----------------------------------|--|
| \$ (2,206,874) | \$ 30,470,652 | 16.607 | \$ 2,791,586,500 | 1.09 % |
| (2,402,315) | 31,796,238 | 19.764 | 2,885,381,800 | 1.10 |
| (2,494,099) | 32,353,088 | 19.303 | 2,910,481,100 | 1.11 |
| (2,380,830) | 30,307,068 | 21.795 | 2,697,857,700 | 1.12 |
| (2,112,612) | 29,025,506 | 24.679 | 2,541,648,200 | 1.14 |
| (1,969,109) | 26,536,988 | 28.363 | 2,483,223,500 | 1.07 |
| (1,872,808) | 24,971,711 | 27.556 | 2,350,262,850 | 1.06 |
| (1,631,509) | 25,505,656 | 33.418 | 2,374,607,550 | 1.07 |
| (1,923,157) | 26,741,525 | 34.864 | 2,518,406,576 | 1.06 |
| (1,824,068) | 28,593,963 | 30.272 | 2,657,143,330 | 1.08 |

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INDEPENDENT SCHOOL DISTRICT NO. 199

Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

| <u>Tax Collection Year</u> | <u>ISD No. 199</u> | <u>City of Inver Grove Heights</u> | <u>Dakota County</u> | <u>Other</u> | <u>Total</u> |
|--------------------------------|--------------------|--|----------------------|--------------|--------------|
| 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 |
| 2013 | 27.556 | 46.312 | 33.421 | 5.341 | 112.630 |
| 2014 | 33.418 | 46.128 | 31.827 | 4.993 | 116.366 |
| 2015 | 34.864 | 48.131 | 29.633 | 4.567 | 117.195 |
| 2016 | 30.272 | 49.266 | 28.570 | 4.614 | 112.722 |

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 Nine Years Ago

| Taxpayer | Type of Property | 2016 | | |
|--|------------------------|---------------------|------|----------------------------------|
| | | Tax Capacity | Rank | Percentage of Total Tax Capacity |
| Flint Hills Resources LP (aka Great Northern Oil Company) | Industrial | \$ 2,712,778 | 1 | 9.49 % |
| Xcel Energy | Utility | 1,243,418 | 2 | 4.35 |
| WOP Southview Gables, LLC | Apartments | 545,111 | 3 | 1.91 |
| Lake Cove Village Apartments | Apartments | 364,735 | 4 | 1.28 |
| PHM Inver Grove, Inc. | Apartments | 347,267 | 5 | 1.21 |
| Salem Green Limited Partnership | Apartments | 286,439 | 6 | 1.00 |
| Vansouth Limited Partnership | Distribution center | 284,646 | 7 | 1.00 |
| Brentwood Hills Limited Partnership | Apartments | 250,747 | 8 | 0.88 |
| Farmers Union Central Exchange | Farm supplies/services | 248,978 | 9 | 0.87 |
| Pearlwood Estates Limited | Apartments | 240,446 | 10 | 0.84 |
| I&G Southview, LLC | Apartments | — | — | — |
| Koch Refining Company (aka Flint Hills Resources) | Refining | — | — | — |
| Total | | <u>\$ 6,524,565</u> | | <u>22.82 %</u> |

Source: Dakota County

| 2007 | | |
|---------------------|-------------|---|
| <u>Tax Capacity</u> | <u>Rank</u> | <u>Percentage of Total Tax Capacity</u> |
| \$ 1,271,864 | 1 | 4.17 % |
| 1,050,670 | 2 | 3.45 |
| – | – | – |
| 359,576 | 5 | 1.18 |
| 354,534 | 6 | 1.16 |
| 262,501 | 10 | 0.86 |
| 287,796 | 8 | 0.94 |
| 275,000 | 9 | 0.90 |
| 290,918 | 7 | 0.95 |
| – | – | – |
| 425,000 | 3 | 1.39 |
| <u>424,099</u> | 4 | <u>1.39</u> |
| <u>\$ 5,001,958</u> | | <u>16.43 %</u> |

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 |
| 2007 | \$ 9,335,736 | \$ 9,231,277 | 98.88 % | \$ 99,783 | \$ 9,331,060 | 99.95 % |
| 2008 | 10,433,109 | 10,292,351 | 98.65 | 119,273 | 10,411,624 | 99.79 |
| 2009 | 10,645,460 | 10,504,703 | 98.68 | 133,719 | 10,638,422 | 99.93 |
| 2010 | 11,129,562 | 10,980,962 | 98.66 | 144,151 | 11,125,113 | 99.96 |
| 2011 | 11,565,988 | 11,423,540 | 98.77 | 137,557 | 11,561,097 | 99.96 |
| 2012 | 12,066,839 | 11,932,610 | 98.89 | 127,225 | 12,059,835 | 99.94 |
| 2013 | 11,821,440 | 11,689,887 | 98.89 | 122,549 | 11,812,436 | 99.92 |
| 2014 | 12,713,543 | 12,486,635 | 98.22 | 207,114 | 12,693,749 | 99.84 |
| 2015 | 13,874,201 | 13,764,307 | 99.21 | 68,770 | 13,833,077 | 99.70 |
| 2016 | (1) 13,080,386 | N/A | N/A | N/A | N/A | N/A |

N/A – Not Applicable

(1) Only a portion of the calendar year 2016, totaling \$5,859,234, was collected by June 30, 2016.

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 | | | Total Primary Government | Percentage of Personal Income (1) | Per Capita (1) |
|------------------------|--------------------------------|-------------------|------------|-----------------------------|---|----------------|
| | General Obligation Bonds | Capital Leases | Other | | | |
| 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 | 4.17 | 1,447 |
| 2013 | 46,625,000 | 215,881 | 93,750 | 46,934,631 | 4.05 | 1,390 |
| 2014 | 69,140,000 | 2,834,366 | 81,250 | 72,055,616 | 6.05 | 2,108 |
| 2015 | 90,595,000 | 3,104,549 | 68,750 | 93,768,299 | 8.68 | 2,721 |
| 2016 | 61,840,000 | 2,581,739 | 56,250 | 64,477,989 | 5.28 | 1,858 |

(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 Market Value and Net General Obligation Bonded Debt per Capita
Last Ten Fiscal Years

| Year Ended June 30, | Gross Bonded Debt | Less Debt Service Funds on Hand | Net Bonded Debt | Estimated Market Value | Percentage of of Net Debt to Estimated Market Value |
|------------------------|----------------------|---------------------------------------|--------------------|---------------------------|--|
| 2007 | \$ 39,105,000 | \$ 347,678 | \$ 38,757,322 | \$ 2,791,586,500 | 1.39 % |
| 2008 | 38,310,000 | 498,963 | 37,811,037 | 2,885,381,800 | 1.31 |
| 2009 | 46,530,000 | 590,200 | 45,939,800 | 2,910,481,100 | 1.58 |
| 2010 | 45,380,000 | 623,086 | 44,756,914 | 2,697,857,700 | 1.66 |
| 2011 | 50,620,000 | 810,779 | 49,809,221 | 2,541,648,200 | 1.96 |
| 2012 | 48,680,000 | 900,151 | 47,779,849 | 2,483,223,500 | 1.92 |
| 2013 | 46,625,000 | 943,048 | 45,681,952 | 2,350,262,850 | 1.94 |
| 2014 | 69,140,000 | 1,222,332 | 67,917,668 | 2,374,607,550 | 2.86 |
| 2015 | 90,595,000 | 27,854,083 | 62,740,917 | 2,518,406,576 | 2.49 |
| 2016 | 61,840,000 | 1,041,646 | 60,798,354 | 2,657,143,330 | 2.29 |

Sources: Tax capacity information – School Tax Report from the Minnesota Department of Education
Population estimates from the City of Inver Grove Heights’ CAFR

| <u>Estimated Population</u> | <u>Net Bonded Debt per Capita</u> |
|---------------------------------|---------------------------------------|
| 33,195 | \$ 1,168 |
| 33,608 | 1,125 |
| 33,917 | 1,354 |
| 34,086 | 1,313 |
| 33,880 | 1,470 |
| 33,774 | 1,415 |
| 33,774 | 1,353 |
| 34,189 | 1,987 |
| 34,458 | 1,821 |
| 34,709 | 1,752 |

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INDEPENDENT SCHOOL DISTRICT NO. 199

Direct and Overlapping Debt
June 30, 2016

| <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 | \$ 61,840,000 | 100.00 % | \$ 61,840,000 |
| Overlapping debt | | | |
| Dakota County | 21,455,000 | 6.26 | 1,343,963 |
| City of Inver Grove Heights | 22,981,870 | 73.42 | 16,873,128 |
| City of Rosemount | 11,355,000 | 6.89 | 782,791 |
| City of St. Paul | 249,770,888 | 0.73 | 1,830,821 |
| Metropolitan Council | 187,745,000 | 0.82 | 1,534,815 |
| Total overlapping debt | | | <u>22,365,518</u> |
| Total direct and overlapping debt | | | <u>\$ 84,205,518</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 | | | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2007 | 2008 | 2009 | 2010 |
| Debt limit | \$ 418,737,975 | \$ 432,807,270 | \$ 436,572,165 | \$ 404,678,655 |
| Total net debt applicable to limit | <u>38,757,322</u> | <u>37,811,037</u> | <u>45,939,800</u> | <u>44,756,914</u> |
| Legal debt margin | <u>\$ 855,178,153</u> | <u>\$ 394,996,233</u> | <u>\$ 390,632,365</u> | <u>\$ 359,921,741</u> |
| Total net debt applicable to the limit as a percentage of debt limit | 9.26% | 8.74% | 10.52% | 11.06% |

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

| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| \$ 381,247,230 | \$ 372,483,525 | \$ 352,539,428 | \$ 356,191,133 | \$ 377,760,986 | \$ 398,571,500 |
| 49,809,221 | 47,779,849 | 45,681,952 | 67,917,668 | 62,740,917 | 60,798,354 |
| <u>\$ 331,438,009</u> | <u>\$ 324,703,676</u> | <u>\$ 306,857,476</u> | <u>\$ 288,273,465</u> | <u>\$ 315,020,069</u> | <u>\$ 337,773,146</u> |
| 13.06% | 12.83% | 12.96% | 19.07% | 16.61% | 15.25% |

Legal Debt Margin Calculation for Fiscal Year 2016

| | |
|---|-----------------------|
| Market value | \$2,657,143,330 |
| Debt limit (15% of market value) | 398,571,500 |
| Debt applicable to limit | |
| General obligation bonds | 61,840,000 |
| Less amount set aside for repayment of general obligation debt | <u>(1,041,646)</u> |
| Total net debt applicable to limit | <u>60,798,354</u> |
| Legal debt margin | <u>\$ 337,773,146</u> |

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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 | |
| 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 | 7.3 | 3,770 |
| 2012 | 33,774 | 1,170,302,874 | 34,651 | 6.2 | 3,770 |
| 2013 | 33,774 | 1,159,022,358 | 34,317 | 5.3 | 3,795 |
| 2014 | 34,189 | 1,190,529,358 | 34,822 | 4.7 | 3,855 |
| 2015 | 34,458 | 1,080,533,964 | 31,358 | 3.9 | 3,816 |
| 2016 | 34,709 | 1,222,173,308 | 35,212 | 3.5 | 3,811 |

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

INDEPENDENT SCHOOL DISTRICT NO. 199

Principal Employers
Current Year and Nine Years Ago

| Employer | 2016 | | |
|--|--------------|------|--------------------------------|
| | Employees | Rank | Percentage of Total Employment |
| Flint Hills Resources | 1,200 | 1 | 3.44 % |
| Cenex/CHS Cooperatives | 1,014 | 2 | 2.91 |
| City of Inver Grove Heights | 584 | 3 | 1.68 |
| Inver Hills Community College | 484 | 4 | 1.39 |
| Independent School District No. 199 | 476 | 5 | 1.37 |
| Gertens | 470 | 6 | 1.35 |
| Travel Tags | 350 | 7 | 1.00 |
| Total Construction | 250 | 8 | 0.72 |
| Wal-Mart | 210 | 9 | 0.60 |
| Cub Foods | 160 | 10 | 0.46 |
| Evergreen Industries | – | – | – |
| Allied Waste Services (aka BFI Waste Services) | – | – | – |
| Southview Chevrolet | – | – | – |
| Lofton Label, Inc. | – | – | – |
| Total | 5,198 | | 14.91 % |

Source: Minnesota Department of Employment and Economic Development

2007

| <u>Employees</u> | <u>Rank</u> | <u>Percentage of Total Employment</u> |
|------------------|-------------|---|
| - | - | - % |
| 1,000 | 1 | 4.78 |
| 130 | 10 | 0.62 |
| 425 | 4 | 2.03 |
| 469 | 2 | 2.24 |
| - | - | - |
| 430 | 3 | 2.05 |
| - | - | - |
| 270 | 6 | 1.29 |
| - | - | - |
| 300 | 5 | 1.43 |
| 140 | 7 | 0.67 |
| 135 | 8 | 0.65 |
| 133 | 9 | 0.64 |
| <u>3,432</u> | | <u>16.40 %</u> |

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INDEPENDENT SCHOOL DISTRICT NO. 199

Employees by Classification
Last Ten Fiscal Years

| Employees (1) | Fiscal Year | | | | | | | | | |
|--|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| District directors/superintendent | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Principals | 7 | 7 | 7 | 7 | 7 | 8 | 9 | 9 | 9 | 9 |
| Teachers | 255 | 254 | 248 | 240 | 232 | 228 | 239 | 245 | 248 | 265 |
| Coordinators, supervisors, specialists, and technical support | 48 | 48 | 47 | 46 | 46 | 46 | 44 | 43 | 46 | 49 |
| Paraprofessionals | 81 | 83 | 84 | 84 | 86 | 88 | 88 | 85 | 78 | 85 |
| Food service | 27 | 22 | 24 | 24 | 23 | 23 | 22 | 22 | 23 | 27 |
| Custodians | 26 | 25 | 23 | 23 | 23 | 23 | 24 | 27 | 25 | 30 |
| Community education leads and assistants | 24 | 24 | 24 | 24 | 24 | 25 | 20 | 19 | 19 | 27 |
| Total | 469 | 464 | 458 | 449 | 442 | 442 | 447 | 451 | 449 | 493 |

(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 | | | |
|--------------------------------|-------------|-------|-------|-------|
| | 2007 | 2008 | 2009 | 2010 |
| Standardized tests | | | | |
| MCA reading (1) | | | | |
| Grade 3 | 82 % | 76 % | 82 % | 72 % |
| Grade 5 | 78 | 81 | 81 | 80 |
| Grade 7 | 67 | 59 | 58 | 66 |
| Grade 10 | 73 | 74 | 33 | 76 |
| MCA math (1) | | | | |
| Grade 3 | 76 | 75 | 81 | 77 |
| Grade 5 | 64 | 73 | 69 | 68 |
| Grade 7 | 60 | 61 | 60 | 69 |
| Grade 11 | 44 | 51 | 50 | 48 |
| ACT | | | | |
| Average composite score | 22.3 | 22.7 | 23.1 | 23.4 |
| Graduation data | | | | |
| District graduation rates | 97 | 97 | 98 | 97 |
| State graduation rate | 75 | 74 | 74 | 75 |
| Post graduation student survey | | | | |
| Four-year college/university | 47 | 52 | 50 | 47 |
| Two-year college | 27 | 25 | 28 | 23 |
| Vocational/technical college | 16 | 15 | 14 | 11 |
| Employment | 5 | 2 | 1 | 3 |
| Military | 2 | 1 | 3 | 5 |
| No response/undecided | 3 | 5 | 4 | 11 |
| | 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

| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------|-------|-------|-------|-------|-------|
| 81 % | 81 % | 59 % | 61 % | 60 % | 59 % |
| 89 | 79 | 71 | 72 | 70 | 72 |
| 75 | 73 | 58 | 44 | 57 | 59 |
| 74 | 74 | 56 | 62 | 53 | 62 |
| 78 | 81 | 77 | 75 | 73 | 71 |
| 68 | 63 | 67 | 72 | 61 | 61 |
| 58 | 54 | 64 | 46 | 51 | 53 |
| 56 | 42 | 52 | 51 | 48 | 42 |
| 22.6 | 23.6 | 23.4 | 23.8 | 21.0 | 22.8 |
| 95 | 85 | 89 | 90 | 91 | 84 |
| 77 | 78 | 80 | 81 | 82 | N/A |
| 51 | 55 | 57 | 51 | 52 | 52 |
| 27 | 30 | 23 | 33 | 34 | 32 |
| 7 | 4 | 5 | 4 | 4 | 9 |
| 4 | 1 | 4 | 5 | 4 | 4 |
| 3 | 4 | 4 | 3 | 3 | 3 |
| 8 | 6 | 7 | 4 | 3 | – |
| 100 % | 100 % | 100 % | 100 % | 100 % | 100 % |

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INDEPENDENT SCHOOL DISTRICT NO. 199

School Facilities
as of June 30, 2016

| <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 2016 | 9–12 | 220,728 |
| Inver Grove Heights Middle School | 1959 | 1962 1967 1980 1990 1997 2009 | 6–8 | 314,970 |
| Hilltop Elementary School | 1964 | 1968 2007 2014 | K–5 | 92,793 |
| Pine Bend Elementary School | 1958 | 1960 1991 2009 | K–5 | 73,425 |
| Salem Hills Elementary School | 1953 | 1964 1986 1987 1988 2009 2014 | K–5 | 56,206 |

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 | | | |
|--|------------------|------------------|------------------|------------------|
| | 2007 | 2008 | 2009 | 2010 |
| Administration | \$ 430 | \$ 387 | \$ 512 | \$ 357 |
| District support services | 271 | 285 | 305 | 254 |
| Elementary and secondary regular instruction | 4,049 | 4,351 | 5,531 | 4,237 |
| Vocational education instruction | 56 | 110 | 128 | 99 |
| Special education instruction | 2,036 | 2,245 | 2,371 | 1,851 |
| Instructional support services | 606 | 646 | 822 | 603 |
| Pupil support services | 755 | 790 | 953 | 843 |
| Sites and buildings | 1,258 | 1,305 | 1,427 | 1,156 |
| Fiscal and other fixed cost programs | 44 | 27 | 21 | 22 |
| Food service | 429 | 449 | 485 | 426 |
| Community service | 491 | 536 | 640 | 570 |
| Capital outlay | 5,792 | 2,438 | 567 | 17 |
| Debt service | 657 | 688 | 764 | 918 |
| Total expenditures | <u>\$ 16,873</u> | <u>\$ 14,257</u> | <u>\$ 14,526</u> | <u>\$ 11,354</u> |
| Average daily membership | <u>3,813</u> | <u>3,742</u> | <u>3,812</u> | <u>3,867</u> |

Note: Includes all governmental fund expenditures.

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

| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$ 363 | \$ 400 | \$ 425 | \$ 443 | \$ 421 | \$ 427 |
| 251 | 281 | 342 | 353 | 403 | 567 |
| 4,259 | 4,298 | 4,517 | 4,453 | 4,579 | 4,746 |
| 85 | 46 | 46 | 55 | 48 | 60 |
| 1,987 | 1,944 | 1,972 | 1,852 | 1,966 | 2,105 |
| 656 | 652 | 649 | 798 | 780 | 725 |
| 905 | 880 | 908 | 996 | 1,058 | 1,028 |
| 1,212 | 1,552 | 1,471 | 2,041 | 1,703 | 1,375 |
| 24 | 21 | 41 | 32 | 33 | 27 |
| 436 | 446 | 432 | 452 | 478 | 484 |
| 578 | 510 | 535 | 563 | 567 | 550 |
| 1,130 | 671 | 2 | 851 | 3,696 | 1,570 |
| 1,016 | 1,223 | 1,171 | 1,245 | 1,927 | 1,690 |
| <u>\$ 12,902</u> | <u>\$ 12,922</u> | <u>\$ 12,511</u> | <u>\$ 14,133</u> | <u>\$ 17,658</u> | <u>\$ 15,355</u> |
| <u>3,770</u> | <u>3,770</u> | <u>3,795</u> | <u>3,855</u> | <u>3,816</u> | <u>3,811</u> |

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 | |
| 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 | 78.34 | 260.90 | 1,706.14 | 1,724.71 | 3,770.09 | 4,346.02 |
| 2013 | 83.65 | 252.92 | 1,745.84 | 1,712.86 | 3,795.27 | 4,373.86 |
| 2014 | 76.42 | 281.67 | 1,747.31 | 1,749.87 | 3,855.27 | 4,431.85 |
| 2015 | 67.45 | 255.62 | 1,765.45 | 1,727.34 | 3,815.86 | 4,161.27 |
| 2016 | 70.16 | 221.20 | 1,751.83 | 1,767.94 | 3,811.13 | 4,164.70 |

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: ADM is weighted as follows in computing pupil units:

| | Pre-Kindergarten | Handicapped Kindergarten | Part-Time/All-Day Kindergarten | Elementary 1–3 | Elementary 4–6 | Secondary |
|-----------------------------|------------------|-----------------------------|-----------------------------------|-------------------|-------------------|-----------|
| Fiscal 2007 | 1.250 | 1.000 | 0.557 | 1.115 | 1.060 | 1.300 |
| Fiscal 2008 through 2014 | 1.250 | 1.000 | 0.612 | 1.115 | 1.060 | 1.300 |
| Fiscal 2015 through 2016 | 1.000 | 1.000 | 0.550/1.000 | 1.000 | 1.000 | 1.200 |

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 | |
| 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 |
| 2013 | 227,401 | 31,518 | 164,282 | 423,201 | 3,233 |
| 2014 | 229,536 | 31,177 | 163,363 | 424,076 | 2,417 |
| 2015 | 228,568 | 37,900 | 179,216 | 445,684 | 1,780 |
| 2016 | 206,888 | 39,883 | 185,272 | 432,043 | 2,630 |

| Year Ended June 30, | Student Regular Lunch Prices | | | |
|------------------------|------------------------------|--------------|--------------------------|---------------|
| | Regular Priced Lunches | | Reduced Price Lunches | Adult Lunches |
| | Elementary | Secondary | | |
| 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 |
| 2013 | 1.80 | 1.90/1.95 | 0.40 | 3.25 |
| 2014 | 1.80 | 1.90/1.95 | 0.40 | 3.35 |
| 2015 | 1.80 | 1.90/1.95 | 0.40 | 3.40 |
| 2016 | 1.80 | 1.90/1.95 | 0.40 | 3.50 |

Source: The District's Food Service Department

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