INDEPENDENT SCHOOL DISTRICT NO. 273
EDINA, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
June 30, 2013

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INDEPENDENT SCHOOL DISTRICT NO. 273

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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 273

School Board and Administration
Year Ended June 30, 2013

SCHOOL BOARD

	Position
Randy Meyer	Chairperson
Idith Almog	Vice Chairperson
Cathy Cella	Treasurer
Leny Wallen-Friedman	Assistant Treasurer
Regina Neville	Clerk
Sarah Patzloff	Assistant Clerk
Lonni Skrentner	Assistant Clerk

ADMINISTRATION

Dr. Ric Dressen	Superintendent
Margo Bauck	Director of Business Services
James Gilligan	Controller
Robert Plombon	Assistant Controller

FINANCIAL SECTION

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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. 273
Edina, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 273, Edina, Minnesota (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The prior year partial comparative information presented has been derived from the District's financial statements for the year ended June 30, 2012, and in our report dated October 10, 2012, we expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

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.

(continued)

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, 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.

EMPHASIS OF MATTER

The financial statements include prior year partial comparative information, which does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2012, from which it was derived.

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

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 other district information, 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 accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

(continued)

The supplemental information, the Schedule of Expenditures of Federal Awards, and the UFARS Compliance Table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 section and other district information 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.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013 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
October 11, 2013

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This section of Independent School District No. 273, Edina, Minnesota's (the District) annual financial report presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2013. Please read it in conjunction with the other components of the District's annual financial report.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of the following parts:

- Independent Auditor's Report;
- Management's Discussion and Analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information; and
- Combining and individual fund statements and schedules presented as supplemental information.

The following explains the two types of statements included in the basic financial statements:

Government-Wide Statements

The government-wide 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 (if any), 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 statements report the District's *net position* and how it has changed. Net position—the difference between the District's assets, deferred outflows of resources (if any), 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 non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

Fund Financial Statements

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

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with statutory requirements and accounting principles generally accepted in the United States of America.

- Some funds are required by state law and by bond covenants.

- The District can establish other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The District maintains the following kinds 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 funds 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 funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

Proprietary Funds – The District maintains one type of proprietary fund. Internal service funds are used as an accounting device to accumulate and allocate costs internally among the District's various functions. The District uses its Internal Service Fund to account for its self-insured employee dental program. These services have been included within governmental activities in the government-wide financial statements. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

Table 1
Summary Statement of Net Position
as of June 30, 2013 and 2012

	2013	2012
Assets		
Current and other assets	$ 62,716,357	$ 124,385,630
Capital assets, net of depreciation	96,663,281	96,167,283
Total assets	**$ 159,379,638**	**$ 220,552,913**
Liabilities		
Current and other liabilities	$ 14,023,538	$ 29,084,932
Long-term liabilities, including due within one year	81,491,053	131,670,543
Total liabilities	**$ 95,514,591**	**$ 160,755,475**
Deferred inflows of resources		
Property taxes levied for subsequent year	**$ 23,618,541**	**$ 25,300,487**
Net position		
Net investment in capital assets	$ 31,185,673	$ 28,640,024
Restricted	1,934,927	1,693,537
Unrestricted	7,125,906	4,163,390
Total net position	**$ 40,246,506**	**$ 34,496,951**

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, may produce a significant difference in the calculated amounts.

Total net position increased by $5,749,555, which reflects the current year operating results. The District's net investment in capital assets increased $2,545,649 from the prior year. Restricted and unrestricted net position also increased $241,390 and $2,962,516, respectively. The decrease in the District's current and other assets, and corresponding decrease in long-term liabilities, is due to the District redeeming the outstanding principal of a building bond issue with the proceeds of a crossover refunding bond issue that were held in an escrow account until the call date of the refunded bonds in the current year.

Table 2 presents a condensed version of the Statement of Activities of the District:

Table 2
Summary Statement of Activities
for the Years Ended June 30, 2013 and 2012

	2013	2012
Revenues		
Program revenues		
Charges for services	$ 10,259,382	$ 10,477,064
Operating grants and contributions	11,988,447	11,623,300
General revenues		
Property taxes	40,899,226	36,951,246
General grants and aids	52,770,405	51,397,390
All other	1,138,293	1,081,010
Total revenues	117,055,753	111,530,010
Expenses		
Administration	2,985,592	2,794,268
District support services	2,563,552	2,806,696
Elementary and secondary regular instruction	49,033,250	46,776,156
Vocational education instruction	366,826	321,154
Special education instruction	16,327,119	15,681,508
Instructional support services	5,196,759	6,965,909
Pupil support services	7,754,839	7,416,662
Sites and buildings	13,302,401	9,826,177
Fiscal and other fixed cost programs	139,340	227,350
Food service	3,264,058	3,156,064
Community service	7,491,563	7,192,308
Interest and fiscal charges on debt	2,880,899	4,338,403
Total expenses	111,306,198	107,502,655
Change in net position	$ 5,749,555	$ 4,027,355

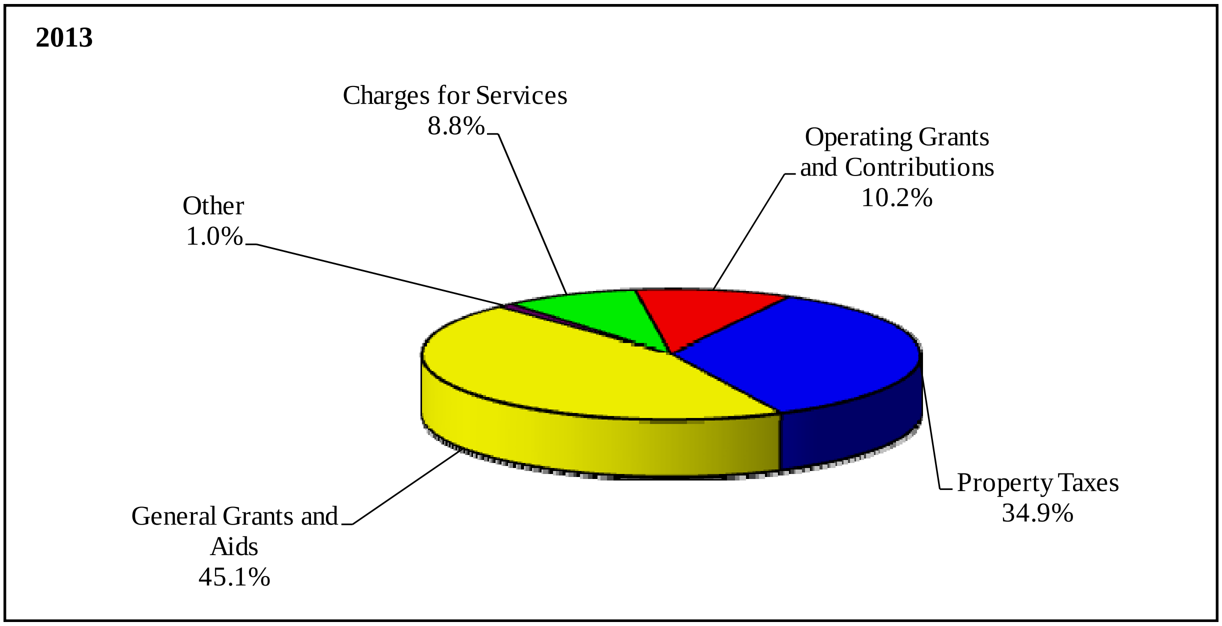
This format is similar to fund financial statements except it is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of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

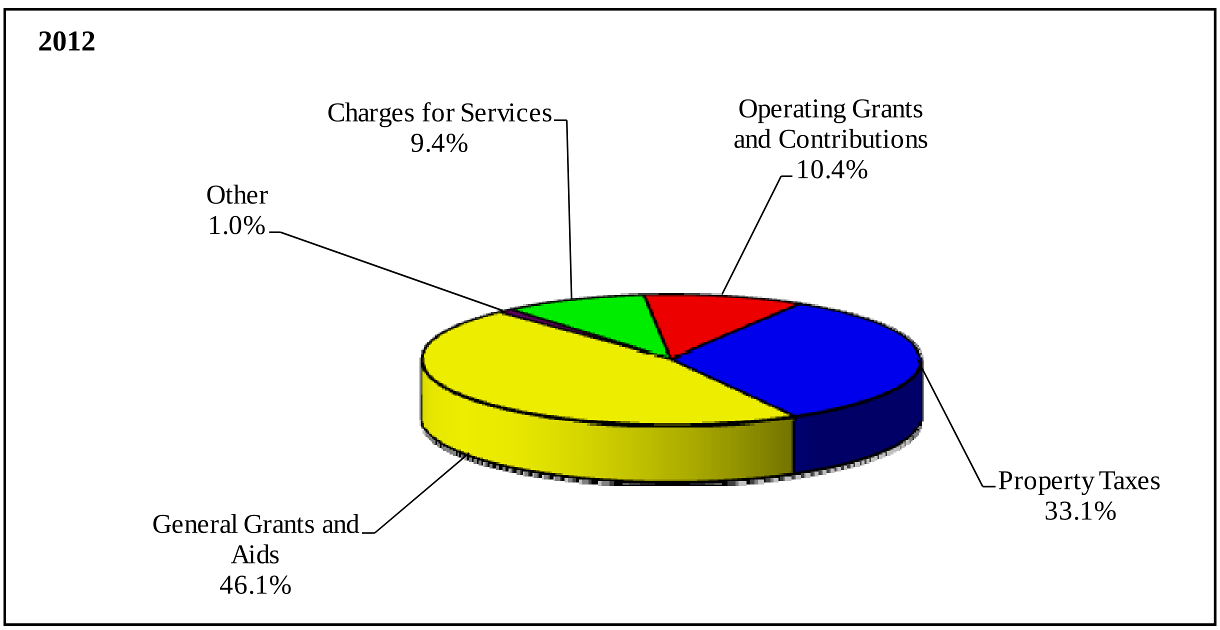
Total revenues for fiscal year 2013 were $5,525,743 higher than the prior year. The majority of the increase is due to the passage of the capital technology levy. Other increases include enrollment, formula allowance increase, new literacy aid, and medical assistance funding.

Expenses increased $3,803,543 compared to fiscal year 2012 levels. The increase in expenditures is due to workers' compensation, employee benefit rates, special education transportation, interest for cash flow borrowing, lane changes, site carryover and enhancements added as a result of literacy aid funding, and implementation of the district technology plan following the passage of the capital technology levy. The growth in remaining expenditures is consistent with regional inflationary trends.

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

Figure A – Sources of Revenues for Fiscal Years 2013 and 2012

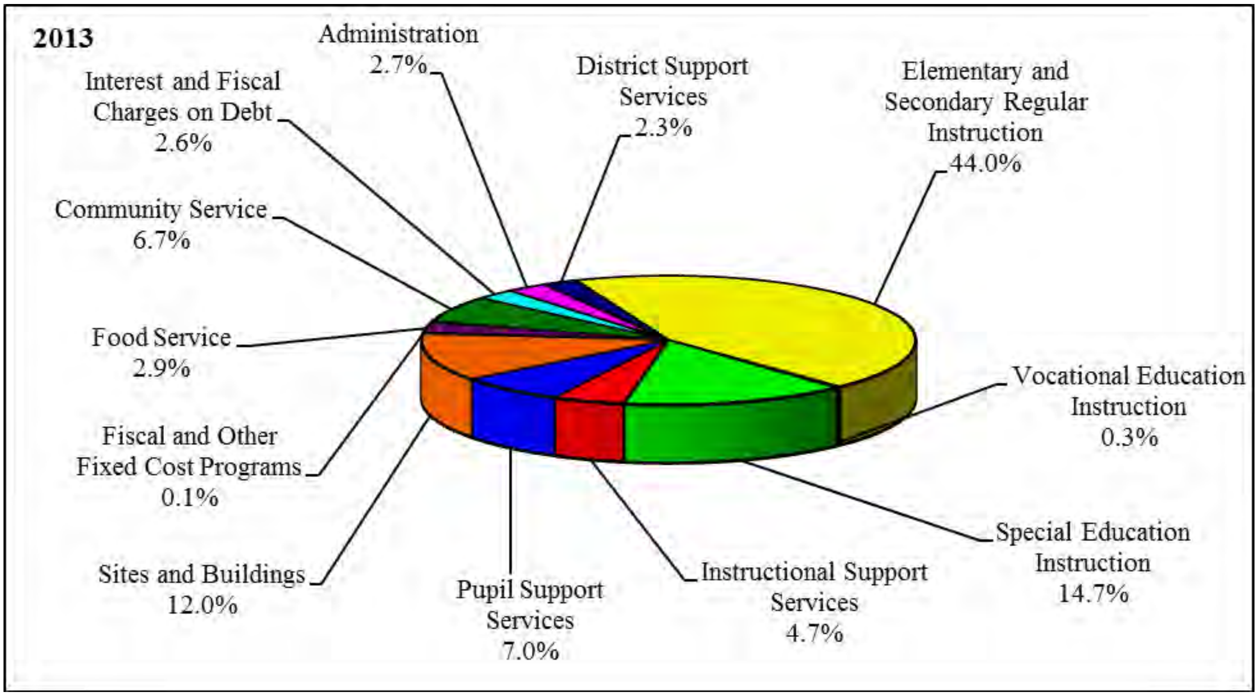


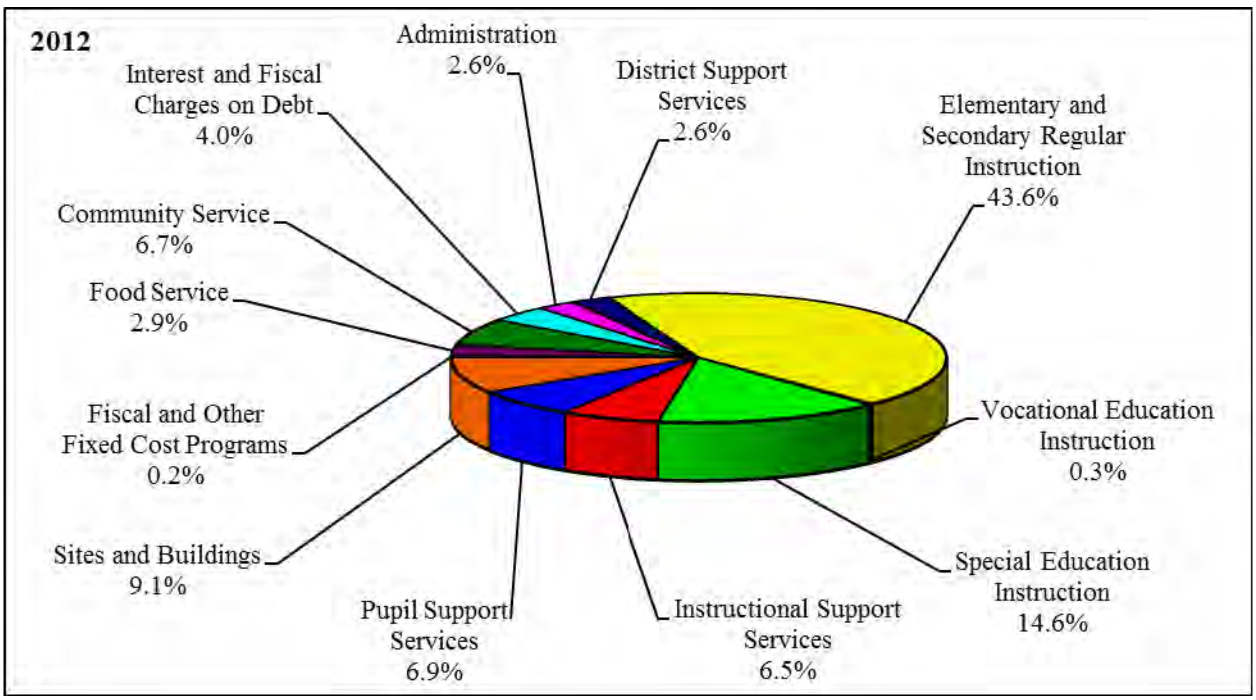


The largest share of the District's revenue is received from the state, including the aid formula and most of the operating grants. This significant reliance on the state for funding has placed tremendous pressure on local school districts as a result of limited funding due to the state's financial position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

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

Figure B – Expenses for Fiscal Years 2013 and 2012





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 in each of the District's governmental funds:

Table 3
Governmental Fund Balances
as of June 30, 2013 and 2012

	2013	2012	Increase (Decrease)
Major funds			
General	$ 14,109,918	$ 12,541,786	$ 1,568,132
Capital Projects – Building Construction	9,041,055	(899,023)	9,940,078
Debt Service	775,734	59,057,681	(58,281,947)
Nonmajor funds			
Food Service Special Revenue	528,640	481,376	47,264
Community Service Special Revenue	1,162,082	1,253,241	(91,159)
Total governmental funds	$ 25,617,429	$ 72,435,061	$ (46,817,632)

In the General Fund, nonspendable fund balances for prepaid items increased $173,201. A policy adopted by the District's School Board commits fund balance equal to 2 percent of unassigned General Fund expenditures for future cash flows, which was $1,571,068 at year-end. An additional $894,821 was committed for federal education jobs purposes at year-end. Fund balances assigned for various purposes increased $61,409, and unassigned fund balance increased $1,049,159 during the year.

The increase in the Capital Projects – Building Construction Fund balance reflects issuance of $11,775,000 of General Obligation Alternative Facilities Bonds, Series 2013A, of which $9,010,825 remains restricted for alternative facilities programs at year-end.

The Debt Service Fund decreased due to $55,600,000 used to refund the outstanding principal of the District's General Obligation School Building Bonds, Series 2004B issued.

General Fund

The General Fund is used to account for all revenues and expenditures of the District not accounted for elsewhere. The General Fund is used to account for: K–12 educational activities, district instructional and student support programs, expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and other legal school district expenditures not specifically designated to be accounted for in any other fund.

Table 4 summarizes the amendments to the General Fund budget:

Table 4
General Fund
Budget

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue	$ 92,867,063	$ 93,730,151	$ 863,088	0.9%
Expenditures	$ 92,406,306	$ 93,988,075	$ 1,581,769	1.7%

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. In the fall and spring, the District amends the budget for known changes in circumstances such as enrollment levels, legislative funding, and employee contract settlements.

Table 5 summarizes the operating results of the General Fund:

Table 5
General Fund
Operating Results

		Over (Under) Final Budget		Over (Under) Prior Year	
	2013 Actual	Amount	Percent	Amount	Percent
Revenue	$ 93,704,773	$ (25,378)	–	$ 4,934,795	5.6%
Expenditures	92,726,501	$ (1,261,574)	(1.3%)	$ 5,776,196	6.6%
Other financing sources	589,860	$ 589,860	100.0%	$ 589,860	100.0%
Net change in fund balances	$ 1,568,132				

Actual revenues for fiscal year 2013 were slightly (0.03 percent) under budget. The revenue variance was primarily in state aids and other local revenues. Expenditures were 1.3 percent under budget. The expenditure variance in 2013 was spread across several programs, with the largest under spending occurring in district support services, regular instruction, and sites and buildings due to capital projects savings and planned site allocation savings that will carryover for the next year.

Revenue increases from the prior year were mainly due to the passage of the capital technology levy. Other increases were from additional general education aid due to increased student enrollment, a formula allowance increase of $50 per pupil unit, an increase in special education aid, and new literacy aid.

The increase in expenditures is due to increased costs in the areas of workers compensation, employee benefit rates, special education transportation, interest for cash flow borrowing, the planned spend down of site allocations, and lane changes. New expenditures during the year were added for the new literacy aid funding and implementation of the district technology plan as a result of the passage of the capital technology levy. The growth in remaining expenditures is consistent with regional inflationary trends.

Food Service Special Revenue Fund

Food Service Special Revenue Fund revenue for fiscal 2013 totaled $3,308,573 and expenditures were $3,261,309. The June 30, 2013 fund balance is $528,640, an increase of $47,264 from fiscal year 2012.

Community Service Special Revenue Fund

Community Service Special Revenue Fund revenue for fiscal 2013 totaled $7,395,567 and expenditures were $7,486,726. The June 30, 2013 fund balance is $1,162,082, a decrease of $91,159 from fiscal year 2012.

Capital Projects – Building Construction Fund

Capital Projects – Building Construction Fund revenue and other financing sources for fiscal 2013 totaled $14,061,630 and expenditures were $4,121,552. The June 30, 2013 fund balance is $9,041,055, an improvement of $9,940,078 from fiscal year 2012.

Debt Service Fund

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital, or for initial or refunding bonds. Debt Service Fund revenue and other financing sources for fiscal 2013 totaled $10,505,375, and expenditures and other financing uses were $68,787,322. The June 30, 2013 fund balance is $775,734, a decrease of $58,281,947 from fiscal year 2012, mainly due to the District refunding $55,600,000 General Obligation School Rebuilding Bonds, Series 2004B.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2013, the District had invested $96,757,659 in a broad range of capital assets, including school buildings, athletic facilities, and technology and equipment (see Table 6). Total depreciation expense for this year was $4,824,347.

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, 2013 and 2012.

Table 6
Capital Assets

	2013	2012	Increase (Decrease)
Land	$ 1,627,557	$ 1,627,557	$ –
Land improvements	4,596,889	4,407,472	189,417
Buildings	171,200,071	168,663,635	2,536,436
Furniture and equipment	13,947,183	12,979,397	967,786
Construction in progress	2,704,961	1,282,255	1,422,706
Less accumulated depreciation	(97,413,380)	(92,793,033)	(4,620,347)
Total	$ 96,663,281	$ 96,167,283	$ 495,998
Depreciation expense	$ 4,824,347	$ 4,593,206	$ 231,141

The changes presented in the table above reflect the ongoing activity and completion of projects at district sites during fiscal year 2013. The most significant change from last year is accumulated depreciation. The increase in construction in process is due to the first year implementation of the 10-year alternative facilities plan beginning with HVAC replacement at Concord Elementary. The increase in buildings is due to the addition to South View Middle School that was funded through a lease levy, alternative facilities, and capital funding sources.

The District only capitalizes furniture and equipment valued at $5,000 or more.

Long-Term Liabilities

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

Table 7
Outstanding Long-Term Liabilities

	2013	2012	Increase (Decrease)
General obligation bonds payable	$ 65,020,000	$ 116,100,000	$ (51,080,000)
Certification of participation payable	1,540,000	1,615,000	(75,000)
Premiums on bonds payable	7,515,558	8,686,722	(1,171,164)
Capital leases payable	443,105	–	443,105
Severance benefits payable	477,731	460,530	17,201
Net OPEB obligation	4,188,112	3,015,993	1,172,119
Net pension obligation	2,306,547	1,792,298	514,249
Total	$ 81,491,053	$ 131,670,543	$ (50,179,490)

The decrease in general obligation bonds payable is due to the refunding of 2004B School Building Bonds offset by the issuance of Alternative Facilities Bonds, Series 2013A, and scheduled principal payments during fiscal year 2013.

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

Table 8
Limitations on Debt

District's market value	$ 7,435,007,626
Limit rate	15.0%
Legal debt limit	$ 1,115,251,144

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 excess operating referendum, the District is dependent on the state of Minnesota for 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. The basic general education formula allowance for Minnesota school districts increased $50 per pupil in fiscal year 2013 to $5,224. The Legislature has added $78, or 1.5 percent, per pupil to the basic formula allowance for fiscal year 2014. Several funding and pupil weighting changes take effect in fiscal year 2015, which result in the equivalent of an $80, or 1.5 percent, per pupil increase.

In summer 2012, the District received a top credit rating from two of the leading global rating agencies. Moody's Investors Service and Fitch Ratings reaffirmed their AAA ratings on the District, the highest assigned by both companies. The AAA ratings allow the District to obtain the lowest interest rates available when borrowing money by issuing bonds and certificates.

In May 2012, the School Board approved a 10-year alternative facilities plan. Goals of the plan are to support learning environment and initiatives for students, staff, and community; increase alternative facilities funding of annual deferred maintenance to meet ongoing needs; address backlog of deferred maintenance in buildings; improve energy efficiency; support strategic plan initiatives; and minimize impact to taxpayers. The plan initially invests $10 million in a combination of levy and bond funding annually for the next six years to improve mechanical systems throughout the District.

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 financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Services Department, Independent School District No. 273, 5701 Normandale Road, Edina, Minnesota 55424, or visit the District website at www.edinaschools.org.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Net Position
as of June 30, 2013
(With Partial Comparative Information as of June 30, 2012)

	Governmental Activities	
	2013	2012
Assets		
Cash and temporary investments	$ 30,694,411	$ 17,842,798
Receivables		
Current taxes	19,536,675	19,903,261
Delinquent taxes	285,208	229,941
Accounts and interest receivable	259,468	185,409
Due from other governmental units	10,871,562	25,399,457
Prepaid items	740,233	590,465
Restricted assets – temporarily restricted		
Cash and investments for debt service	–	58,608,909
Cash and investments for capital asset acquisition	328,800	1,569,927
Interest receivable for debt service	–	55,463
Total restricted assets – temporarily restricted	328,800	60,234,299
Capital assets		
Not depreciated	4,332,518	2,909,812
Depreciated, net of accumulated depreciation	92,330,763	93,257,471
Total capital assets, net of accumulated depreciation	96,663,281	96,167,283
Total assets	$ 159,379,638	$ 220,552,913
Liabilities		
Tax anticipation certificates	$ –	$ 15,175,917
Salaries payable	3,580,020	3,548,803
Accounts and contracts payable	7,512,236	5,779,808
Accrued interest payable	1,120,171	3,020,564
Due to other governmental units	686,002	498,201
Unearned revenue	1,125,109	1,061,639
Long-term liabilities		
Due within one year	4,331,083	63,029,506
Due in more than one year	77,159,970	68,641,037
Total long-term liabilities	81,491,053	131,670,543
Total liabilities	95,514,591	160,755,475
Deferred inflows of resources		
Property taxes levied for subsequent year	23,618,541	25,300,487
Net position		
Net investment in capital assets	31,185,673	28,640,024
Restricted for		
Capital asset acquisition	285,148	–
Food service	528,640	481,376
Community service	1,121,139	1,212,161
Unrestricted	7,125,906	4,163,390
Total net position	40,246,506	34,496,951
Total liabilities, deferred inflows of resources, and net position	$ 159,379,638	$ 220,552,913

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Activities
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

	2013				2012
		Program Revenues		Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	$ 2,985,592	$ –	$ –	$ (2,985,592)	$ (2,794,268)
District support services	2,563,552	–	–	(2,563,552)	(2,806,696)
Elementary and secondary regular instruction	49,033,250	539,302	385,084	(48,108,864)	(45,741,555)
Vocational education instruction	366,826	–	–	(366,826)	(321,154)
Special education instruction	16,327,119	217,561	9,284,967	(6,824,591)	(7,514,795)
Instructional support services	5,196,759	20,093	–	(5,176,666)	(6,942,567)
Pupil support services	7,754,839	17,842	1,538,946	(6,198,051)	(4,702,706)
Sites and buildings	13,302,401	602,995	–	(12,699,406)	(9,167,054)
Fiscal and other fixed cost programs	139,340	–	–	(139,340)	(227,350)
Food service	3,264,058	2,800,476	507,487	43,905	120,567
Community service	7,491,563	6,061,113	271,963	(1,158,487)	(966,310)
Interest and fiscal charges	2,880,899	–	–	(2,880,899)	(4,338,403)
Total governmental activities	$ 111,306,198	$ 10,259,382	$11,988,447	(89,058,369)	(85,402,291)
General revenue					
Taxes					
Property taxes, levied for general purposes				27,281,767	23,799,356
Property taxes, levied for community service				1,061,973	990,666
Property taxes, levied for capital projects				2,392,234	1,885,412
Property taxes, levied for debt service				10,163,252	10,275,812
General grants and aids				52,770,405	51,397,390
Other general revenues				1,076,751	1,010,977
Investment earnings				61,542	70,033
Total general revenues				94,807,924	89,429,646
Change in net position				5,749,555	4,027,355
Net position – beginning				34,496,951	30,469,596
Net position – ending				$ 40,246,506	$ 34,496,951

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Balance Sheet
Governmental Funds
as of June 30, 2013
(With Partial Comparative Information as of June 30, 2012)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Assets			
Cash and temporary investments	$ 10,093,181	$ 13,093,605	$ 4,402,934
Cash and investments held by trustee	–	328,800	–
Receivables			
Current taxes	13,382,335	2,035,824	3,575,248
Delinquent taxes	197,243	–	80,041
Accounts and interest	247,258	–	–
Due from other governmental units	10,747,081	–	–
Due from other funds	–	–	–
Prepaid items	734,483	–	–
Total assets	$ 35,401,581	$ 15,458,229	$ 8,058,223
Liabilities			
Tax anticipation certificates	$ –	$ –	$ –
Salaries payable	3,401,740	–	–
Accounts and contracts payable	5,054,492	2,198,645	8,141
Accrued interest payable	–	–	–
Due to other governmental units	680,800	–	–
Due to other funds	–	–	–
Unearned revenue	313,737	–	–
Total liabilities	9,450,769	2,198,645	8,141
Deferred inflows of resources			
Property taxes levied for subsequent year	11,643,651	4,218,529	7,194,307
Unavailable revenue – delinquent taxes	197,243	–	80,041
Total deferred inflows of resources	11,840,894	4,218,529	7,274,348
Fund balances			
Nonspendable	734,483	–	–
Restricted	540,918	9,041,055	775,734
Committed	2,465,889	–	–
Assigned	3,395,384	–	–
Unassigned	6,973,244	–	–
Total fund balances	14,109,918	9,041,055	775,734
Total liabilities, deferred inflows of resources, and fund balances	$ 35,401,581	$ 15,458,229	$ 8,058,223

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds 2013	Total Governmental Funds 2012
$ 2,755,266	$ 30,344,986	$ 17,545,265
–	328,800	60,178,836
543,268	19,536,675	19,903,261
7,924	285,208	229,941
1,125	248,383	230,618
124,481	10,871,562	25,399,457
–	–	1,269,496
5,750	740,233	590,465
$ 3,437,814	$ 62,355,847	$ 125,347,339
$ –	$ –	$ 15,175,917
178,280	3,580,020	3,548,803
182,260	7,443,538	5,715,611
–	–	112,183
5,202	686,002	498,201
–	–	1,269,496
811,372	1,125,109	1,061,639
1,177,114	12,834,669	27,381,850
562,054	23,618,541	25,300,487
7,924	285,208	229,941
569,978	23,903,749	25,530,428
5,750	740,233	590,465
1,684,972	12,042,679	61,595,594
–	2,465,889	2,424,609
–	3,395,384	3,333,975
–	6,973,244	4,490,418
1,690,722	25,617,429	72,435,061
$ 3,437,814	$ 62,355,847	$ 125,347,339

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INDEPENDENT SCHOOL DISTRICT NO. 273

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2013
(With Partial Comparative Information as of June 30, 2012)

	2013	2012
Total fund balances – governmental funds	$ 25,617,429	$ 72,435,061
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	194,076,661	188,960,316
Accumulated depreciation	(97,413,380)	(92,793,033)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.		
General obligation bonds payable	(65,020,000)	(116,100,000)
Certificates of participation payable	(1,540,000)	(1,615,000)
Premium on bonds	(7,515,558)	(8,686,722)
Capital leases payable	(443,105)	–
Severance benefits payable	(477,731)	(460,530)
Net OPEB obligation	(4,188,112)	(3,015,993)
Net pension obligation	(2,306,547)	(1,792,298)
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 Fund are included in the governmental activities in the Statement of Net Position.	291,812	243,590
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(1,120,171)	(2,908,381)
Certain revenues (including delinquent property taxes) are included in net position, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	285,208	229,941
Total net position – governmental activities	$ 40,246,506	$ 34,496,951

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Revenue			
Local sources			
Property taxes	$ 27,237,931	$ 2,392,234	$ 10,153,102
Investment earnings	13,030	384	45,719
Other	2,474,544	–	–
State sources	62,296,085	–	134
Federal sources	1,683,183	–	–
Total revenue	93,704,773	2,392,618	10,198,955
Expenditures			
Current			
Administration	3,057,055	–	–
District support services	2,517,407	–	–
Elementary and secondary regular instruction	44,171,797	–	–
Vocational education instruction	366,826	–	–
Special education instruction	16,036,151	–	–
Instructional support services	5,105,226	–	–
Pupil support services	7,608,727	–	–
Sites and buildings	13,393,834	–	–
Fiscal and other fixed cost programs	139,340	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	4,121,552	–
Debt service			
Principal	221,755	–	7,255,000
Interest and fiscal charges	108,383	–	5,932,322
Total expenditures	92,726,501	4,121,552	13,187,322
Excess (deficiency) of revenue over expenditures	978,272	(1,728,934)	(2,988,367)
Other financing sources (uses)			
Capital lease	589,860	–	–
Certificates of participation issued	–	–	–
Bonds issued	–	11,669,012	105,988
Refunding bonds issued	–	–	–
Premium on bonds issued	–	–	200,432
Payments to refunded bond escrow agent	–	–	(55,600,000)
Total other financing sources (uses)	589,860	11,669,012	(55,293,580)
Net change in fund balances	1,568,132	9,940,078	(58,281,947)
Fund balances (deficit)			
Beginning of year	12,541,786	(899,023)	59,057,681
End of year	$ 14,109,918	$ 9,041,055	$ 775,734

See notes to basic financial statements

	Total Governmental Funds	
Nonmajor Funds	2013	2012
$ 1,060,692	$ 40,843,959	$ 36,988,581
2,409	61,542	70,033
8,861,589	11,336,133	11,488,041
330,890	62,627,109	59,237,774
448,560	2,131,743	3,782,916
10,704,140	117,000,486	111,567,345
–	3,057,055	2,921,447
–	2,517,407	2,701,860
–	44,171,797	42,233,743
–	366,826	321,154
–	16,036,151	15,585,966
–	5,105,226	6,760,932
–	7,608,727	7,329,686
–	13,393,834	8,714,030
–	139,340	227,350
3,250,760	3,250,760	3,152,315
7,305,068	7,305,068	7,050,293
192,207	4,313,759	2,798,136
–	7,476,755	7,052,679
–	6,040,705	3,379,486
10,748,035	120,783,410	110,229,077
(43,895)	(3,782,924)	1,338,268
–	589,860	–
–	–	1,615,000
–	11,775,000	–
–	–	50,370,000
	200,432	8,509,577
–	(55,600,000)	–
–	(43,034,708)	60,494,577
(43,895)	(46,817,632)	61,832,845
1,734,617	72,435,061	10,602,216
$ 1,690,722	$ 25,617,429	$ 72,435,061

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Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

	2013	2012
Total net change in fund balances – governmental funds	$ (46,817,632)	$ 61,832,845
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital assets 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	5,320,345	2,321,382
Depreciation expense	(4,824,347)	(4,593,206)
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.	48,222	50,297
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.		
General obligation bonds payable	(11,775,000)	–
General obligation refunding bonds payable	–	(50,370,000)
Certificates of participation payable	–	(1,615,000)
Capital leases payable	(589,860)	–
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds and certificates of participation	62,930,000	6,975,000
Capital leases payable	146,755	77,679
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.	1,788,210	(1,641,799)
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.	1,171,164	(7,826,695)
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Severance benefits payable	(17,201)	(88,472)
Net OPEB obligation	(1,172,119)	(694,683)
Net pension obligation	(514,249)	(362,658)
Certain revenues (including delinquent property taxes) are included in the change in net position, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.	55,267	(37,335)
Change in net position – governmental activities	$ 5,749,555	$ 4,027,355

See notes to basic financial statements

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INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2013

	Budgeted Amounts			
	Original	Final	Actual	Over (Under) Final Budget
Revenue				
Local sources				
Property taxes	$ 26,651,011	$ 28,015,273	$ 27,237,931	$ (777,342)
Investment earnings	5,000	5,000	13,030	8,030
Other	1,714,328	2,043,233	2,474,544	431,311
State sources	62,385,242	61,877,063	62,296,085	419,022
Federal sources	2,110,482	1,789,582	1,683,183	(106,399)
Total revenue	92,866,063	93,730,151	93,704,773	(25,378)
Expenditures				
Current				
Administration	2,855,780	2,936,024	3,057,055	121,031
District support services	2,613,894	2,799,587	2,517,407	(282,180)
Elementary and secondary regular instruction	43,062,042	44,856,680	44,171,797	(684,883)
Vocational education instruction	209,401	314,421	366,826	52,405
Special education instruction	16,539,783	15,795,711	16,036,151	240,440
Instructional support services	6,037,361	5,103,022	5,105,226	2,204
Pupil support services	7,468,881	7,598,240	7,608,727	10,487
Sites and buildings	13,008,372	14,160,048	13,393,834	(766,214)
Fiscal and other fixed cost programs	232,850	244,500	139,340	(105,160)
Debt service				
Principal	75,000	75,002	221,755	146,753
Interest and fiscal charges	302,942	104,840	108,383	3,543
Total expenditures	92,406,306	93,988,075	92,726,501	(1,261,574)
Excess (deficiency) of revenue over expenditures	459,757	(257,924)	978,272	1,236,196
Other financing sources				
Sale of capital assets	1,000	–	–	–
Capital Lease	–	589,860	589,860	–
Total other financing sources	1,000	589,860	589,860	–
Net change in fund balances	$ 460,757	$ 331,936	1,568,132	$ 1,236,196
Fund balances				
Beginning of year			12,541,786	
End of year			$ 14,109,918	

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Net Position
Proprietary Fund
Internal Service Fund
as of June 30, 2013
(With Partial Comparative Information as of June 30, 2012)

	2013	2012
Assets		
Current assets		
Cash and temporary investments	$ 349,425	$ 297,533
Accounts receivable	11,085	10,254
Total assets	360,510	307,787
Liabilities		
Current liabilities		
Accounts and contracts payable	68,698	64,197
Net position		
Unrestricted	$ 291,812	$ 243,590

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Fund
Internal Service Fund
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

	2013	2012
Operating revenue		
Charges for services	$ 808,024	$ 781,809
Operating expenses		
Dental claims and expenses	759,802	731,512
Operating income	48,222	50,297
Net position		
Beginning of year	243,590	193,293
End of year	$ 291,812	$ 243,590

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Cash Flows
Proprietary Fund
Internal Service Fund
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

	2013	2012
Cash flows from operating activities		
Contributions from employees	$ 807,193	$ 781,132
Dental claims and other expense payments	(755,301)	(731,046)
Net cash flows from operating activities	51,892	50,086
Cash and temporary investments		
Beginning of year	297,533	247,447
End of year	$ 349,425	$ 297,533
Reconciliation of operating income to net cash flows from operating activities		
Operating income	$ 48,222	$ 50,297
Adjustments to reconcile operating income to net cash flows from operating activities		
Changes in assets and liabilities		
Accounts receivable	(831)	(677)
Accounts and contracts payable	4,501	466
Net cash flows from operating activities	$ 51,892	$ 50,086

See notes to basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Organization

Independent School District No. 273, Edina, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District serves pre-kindergarten through 12th grade students attending the District either as a resident of the District or through an open enrollment option election. It is governed by a School Board elected by voters of the District to 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 District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit 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, 2013, the District paid TIES $1,545,176 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. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported instead as general revenues.

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

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on 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 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 revenues 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 Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Internal service funds are presented in proprietary fund financial statements by type. Because the principal users of the internal services are the District's governmental activities, the internal service funds are consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are charges to customers (other district funds) for service. 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.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes.

Description of Funds

The existence of the various district funds has been established by the Minnesota Department of Education (MDE). 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 the government's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

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

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

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is 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, non-public pupils, adult or early childhood programs, or other similar services.

Proprietary Funds

Internal Service Fund – The Internal Service Fund accounts for the financing of goods or services provided by one department to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund is used to account for dental insurance offered by the District to its employees as a self-insured plan.

E. Budgetary Information

The School Board adopts an annual budget for all governmental funds prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. Actual expenditures for fiscal 2013 in Debt Service Fund exceeded budgeted appropriations $86,071.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Bond proceeds recorded in the Capital Projects – Building Construction Fund are not pooled, and earnings on these proceeds are allocated directly to those funds.

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the Capital Projects – Building Construction Fund, escrow accounts are established for cash and investments held for building construction related to the issuance of certificates of participation. Interest earned on these investments is allocated directly to the escrow account. The cash, investments, and related interest receivable are reported as restricted assets in the government-wide financial statements.

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 (internal service) fund's equity in the government-wide cash and investment management pool is considered to be cash equivalent.

Investments are generally stated at fair value, except for investments in 2a7-like external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

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.

H. Prepaid Items

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

I. 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 $15,694,070 of the property tax levy collectible in 2013 as revenue to the District in fiscal year 2012–2013. The remaining portion of the taxes collectible in 2013 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District in the current year.

J. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of $5,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since 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 land improvements and buildings and 5 to 15 years for furniture and equipment. Land and construction in progress are not depreciated.

The District does not possess material amounts of infrastructure capital assets. Such items are considered to be part of the cost of buildings or other improvable property.

K. 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. If material, 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 on debt issuances are reported as other financing sources or uses, respectively.

L. Compensated Absences

Under the terms of union contracts, certain employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued when earned in the government-wide financial statements. Compensated absences are accrued in governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Severance Benefits

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. The severance benefit is calculated by converting a portion of unused accumulated sick leave. No individual can receive severance benefits in excess of one year's salary.

Severance benefits payable are recorded as a liability in the government-wide financial statements as they are earned and it becomes probable they will vest at some point in the future. Severance benefits payable are accrued in the governmental fund financial statements as the liability matures due to employee termination.

N. Risk Management and Self-Insurance

1. **General Insurance** – 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 for which the District carries commercial insurance. 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 2013.

2. **Self-Insurance** – The District established an Internal Service Fund to account for and finance its uninsured risk of loss for its employee dental plan. Under this plan, the District provides coverage to participating employees and their dependants for various dental costs as described in the plan.

   The District makes premium payments to the Internal Service Fund on behalf of program participants based on provisional rates determined by insurance company estimates of monthly claims paid for each coverage class, plus the stop-loss health insurance premium costs and administrative service charges.

   District claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. Because actual claim liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing a claim liability does not necessarily result in an exact amount. Claim liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the balance of dental claim liabilities were as follows:

Fiscal Year Ended June 30,	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2012	$ 63,731	$ 731,512	$ 731,046	$ 64,197
2013	$ 64,197	$ 759,802	$ 755,301	$ 68,698

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Net Position

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position are 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 Net Position** – Consists of net position restricted related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Unrestricted Net Position** – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

P. 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 Superintendent and Director of Business Services are 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 use 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Deferred Inflows of Resources

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 two types of items which qualify for reporting in this category.

The first 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 second 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.

R. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

S. 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, 2012, 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.

T. Changes in Accounting Principles

During the year ended June 30, 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 63 created two new financial statement elements, *deferred outflows of resources* (a consumption of net position that is applicable to a future reporting period) and *deferred inflows of resources* (an acquisition of net position that is applicable to a future reporting period), which are distinct from assets and liabilities. It also defined n*et position* as the residual of all other elements presented in a statement of net position (assets + deferred outflows of resources – liabilities – deferred inflows of resources = net position). GASB Statement No. 65 identified specific items previously reported as assets that will now be classified as either deferred outflows of resources or outflows (expenditures/expenses), and items previously reported as liabilities that will now be reported as either deferred inflows or resources or inflows (revenues).

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	$	7,187,557
Investments		23,835,654
Total	$	31,023,211

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

Statement of Net Position		
Cash and temporary investments	$	30,694,411
Restricted assets – temporarily restricted		
Cash and investments for capital asset acquisition		328,800
Total	$	31,023,211

B. Deposits

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

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

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

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

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

At year-end, the carrying amount of the District's deposits was $7,187,557 while the balance on the bank records was $7,179,072. At June 30, 2013, all deposits were fully covered by federal depository insurance or collateral held by the District's agent in the District's name.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

C. Investments

The District has the following investments at year-end:

Investment Type	Credit Rating	Rating Agency	Maturity Duration	Carrying Value
Commercial paper	A-1+	S&P	Less than 1 year	$ 328,800
Negotiable certificates of deposit	N/A	N/A	Less than 1 year	2,997,445
Investment pools/mutual funds				
Minnesota School District Liquid Asset Fund	AAAm	S&P	N/A	12,259,649
Minnesota Trust Investment Shares Portfolio	AAA	S&P	N/A	8,249,760
Total investment pools/mutual funds				$ 23,835,654

N/A – Not Applicable

The Minnesota School District Liquid Asset Fund and the Minnesota Trust Investment Shares Portfolio are regulated by Minnesota Statutes and are external investment pools not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The District's investment in these trusts is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

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

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

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

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

In addition to statutory restrictions, the District's investment policy requires that commercial paper be of corporations organized in the United States; having at least $1 billion of outstanding corporate paper obligations; rated at the highest classification by Standard and Poor's (A-1) and Moody's Investment Services (P-1); and not be on credit watch for potential downgrades. No more than 50 percent of the District's investments can be in commercial paper on any given day. The District does not allow investments in derivatives. Negotiable certificates of deposit are required to be fully insured.

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 policies limit the investment on any given day, in any given corporation, to $1 million.

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, the District considers such things as interest rates and cash flow needs when purchasing investments.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 is as follows:

		Balance – Beginning of Year		Additions		Deletions		Balance – End of Year
Capital assets, not depreciated								
Land	$	1,627,557	$	–	$	–	$	1,627,557
Construction in progress		1,282,255		3,164,561		(1,741,855)		2,704,961
Total capital assets, not depreciated		2,909,812		3,164,561		(1,741,855)		4,332,518
Capital assets, depreciated								
Land improvements		4,407,472		189,417		–		4,596,889
Buildings		168,663,635		2,536,436		–		171,200,071
Furniture and equipment		12,979,397		1,171,786		(204,000)		13,947,183
Total capital assets, depreciated		186,050,504		3,897,639		(204,000)		189,744,143
Less accumulated depreciation for								
Land improvements		(2,989,568)		(143,461)		–		(3,133,029)
Buildings		(80,485,763)		(3,786,277)		–		(84,272,040)
Furniture and equipment		(9,317,702)		(894,609)		204,000		(10,008,311)
Total accumulated depreciation		(92,793,033)		(4,824,347)		204,000		(97,413,380)
Net capital assets, depreciated		93,257,471		(926,708)		–		92,330,763
Total capital assets, net	$	96,167,283	$	2,237,853	$	(1,741,855)	$	96,663,281

Depreciation for the year ended June 30, 2013 was charged to the following governmental functions:

Administration	$	4,142
Elementary and secondary regular instruction		3,877,447
Special education instruction		56,529
Instructional support services		66,120
Pupil support services		23,133
Sites and buildings		770,221
Food service		2,749
Community service		24,006
Total depreciation expense	$	4,824,347

NOTE 4 – TAX ANTICIPATION CERTIFICATES

Short-term tax anticipation borrowing activity for cash flow purposes is summarized as follows:

Issue Date	Maturity Date	Interest Rate	June 30, 2012	Additions	Retirements	June 30, 2013
02/15/2012	03/15/2013	2.00%	$ 15,175,918	$ –	$ 15,175,918	$ –

Interest and fiscal charges, net of premium amortization, totaling $36,899 were charged to the General Fund in fiscal year 2013 related to these certificates.

NOTE 5 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

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

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
Alternative facilities bonds	05/08/2008	3.00–3.60%	$ 4,500,000	02/01/2019	$ 2,875,000
Refunding bonds	10/05/2011	4.00–5.00%	$ 50,370,000	02/01/2024	50,370,000
Alternative facilities bonds	02/21/2013	2.00–3.00%	$ 11,775,000	02/01/2026	11,775,000
Total general obligation bonds payable					$ 65,020,000

These bonds were issued to finance acquisition and/or construction of capital facilities or to finance (refund) prior bond issues. 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.

In October 2011, the District issued $50,370,000 of General Obligation School Building Refunding Bonds, Series 2011B. The proceeds of this issue and interest earned thereon were used to refund, in advance of their stated maturities, the 2014 through 2024 maturities of the District's 2004 General Obligation School Building Bonds, on the February 1, 2013 call date of the refunded issue. This advance "crossover refunding" reduced the District's total future debt service payments by $4,913,202 and will result in present value savings of $4,908,514.

B. Certificates of Participation Payable

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
2011C Certificates of Participat	11/17/2011	2.00–3.75%	$ 1,615,000	04/01/2027	$ 1,540,000

In November 2011, the District sold $1,615,000 of certificates of participation under Minnesota Statute § 123B.51 to finance the construction of an addition to South View Middle School. Scheduled future ad valorem lease obligation tax levies will be made to finance the retirement of principal and interest payments on the certificates. These certificates of participation are being paid by the General Fund.

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

C. Capital Leases Payable

The District entered into a capital lease agreement for computer equipment. The lease has an effective interest rate of 2.5 percent, and calls for annual principal and interest payments through October 1, 2016. The lease is being paid through the General Fund. The leased assets were recorded at $589,860 (the present value of future minimum lease payments as of the inception dates of the leases). Total accumulated depreciation on these assets is $117,972.

D. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including: severance benefits, other post-employment benefits (OPEB), and pension benefits. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are paid primarily from the General Fund.

E. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds and certificates of participation are as follows:

Year Ending	General Obligation Bonds Payable		Certificates of Participation		Capital Lease	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 4,085,000	$ 2,715,516	$ 95,000	$ 48,013	$ 106,603	$ 11,369
2015	4,115,000	2,539,928	95,000	46,113	109,338	8,634
2016	4,245,000	2,342,823	95,000	43,738	112,143	5,829
2017	4,475,000	2,138,798	100,000	41,125	115,021	2,951
2018	4,815,000	1,922,808	100,000	38,125	–	–
2019–2023	28,065,000	5,938,333	545,000	143,538	–	–
2024–2026	15,220,000	788,331	510,000	47,338	–	–
	$ 65,020,000	$ 18,386,537	$ 1,540,000	$ 407,990	$ 443,105	$ 28,783

F. Changes in Long-Term Liabilities

	Balance – Beginning of Year	Additions	Retirements	Balance – End of Year	Due Within One Year
General obligation bonds payable	$ 116,100,000	$ 11,775,000	$ 62,855,000	$ 65,020,000	$ 4,085,000
Certificates of participation payable	1,615,000	–	75,000	1,540,000	95,000
Plus premium	8,686,722	200,432	1,371,596	7,515,558	–
Total bonds payable	126,401,722	11,975,432	64,301,596	74,075,558	4,180,000
Capital leases payable	–	589,860	146,755	443,105	106,603
Severance benefits payable	460,530	17,201	–	477,731	44,480
Net OPEB obligation (see Note 8)	3,015,993	2,004,788	832,669	4,188,112	–
Net pension obligation (see Note 9)	1,792,298	951,711	437,462	2,306,547	–
	$ 131,670,543	$ 15,538,992	$ 65,718,482	$ 81,491,053	$ 4,331,083

NOTE 6 – 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.

A. Classifications

At June 30, 2013, a summary of the District's governmental fund balance classifications are as follows:

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Prepaid items	$ 734,483	$ –	$ –	$ 5,750	$ 740,233
Restricted					
Operating capital	540,918	–	–	–	540,918
Building projects funded by COP	–	30,230	–	–	30,230
Alternative facilities program	–	9,010,825	–	–	9,010,825
Debt service	–	–	775,734	–	775,734
Food service	–	–	–	523,795	523,795
Community education programs	–	–	–	862,903	862,903
Early childhood family education programs	–	–	–	296,592	296,592
School readiness	–	–	–	1,014	1,014
Community service	–	–	–	668	668
Total restricted	540,918	9,041,055	775,734	1,684,972	12,042,679
Committed					
Cash flow	1,571,068	–	–	–	1,571,068
Federal education jobs	894,821	–	–	–	894,821
Total committed	2,465,889	–	–	–	2,465,889
Assigned					
Separation/retirement benefits	2,305,843	–	–	–	2,305,843
Alternative compensation	282,127	–	–	–	282,127
Carryover	601,498	–	–	–	601,498
High school ALC	11,095	–	–	–	11,095
Subsequent year budget	136,081	–	–	–	136,081
Unemployment	58,740	–	–	–	58,740
Total assigned	3,395,384	–	–	–	3,395,384
Unassigned					
Health and safety restricted deficit	(231,908)	–	–	–	(231,908)
Capital projects levy restricted deficit	(23,862)	–	–	–	(23,862)
Unassigned	7,229,014	–	–	–	7,229,014
Total unassigned	6,973,244	–	–	–	6,973,244
Total	$ 14,109,918	$ 9,041,055	$ 775,734	$ 1,690,722	$ 25,617,429

B. Minimum Unassigned Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding maintaining a minimum unassigned fund balance for the General Fund. The policy establishes a minimum unassigned General Fund balance goal of 6 percent of the unassigned General Fund expenditures. At June 30, 2013, the unassigned fund balance of the General Fund was 8.4 percent of the annual budget.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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

Teachers' Retirement Association (TRA)

A. Plan Description

All teachers employed by the District are covered by defined benefit plans administered by the TRA. TRA members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

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 as described below:

Tier I

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

With these provisions:

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

Tier II

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4–5.4 percent per year.

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree—no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans 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.

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

The TRA publicly issues a comprehensive annual financial report presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website at www.minnesotatra.org. Alternatively, a copy of the report may be obtained by writing the TRA at Teachers' Retirement Association, 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-4000 or by calling (651) 296–2409 or (800) 657–3669.

B. Funding Policy

Minnesota Statutes, Chapter 354 sets the rates for employee and employer contributions. These statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 6.5 percent and 10.0 percent, respectively, of their annual covered salary during fiscal year 2013 as employee contributions. The TRA employer contribution rates are 6.5 percent for Coordinated Plan members and 10.5 percent for Basic Plan members during fiscal year 2013. Total covered payroll salaries for all TRA members state-wide during the fiscal years June 30, 2012, 2011, and 2010 were approximately $3.87 billion, $3.84 billion, and $3.79 billion, respectively.

The District's contributions for the years ended June 30, 2013, 2012, and 2011 were $2,867,634, $2,551,254, and $2,290,344, respectively, equal to the contractually required contributions for each year as set by state statutes.

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (PERA)

A. Plan Description

All non-teacher full-time and certain part-time employees of the District are covered by defined benefit plans administered by the PERA. The PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

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

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

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree—no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the GERF. 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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

B. Funding Policy

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. The GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in fiscal 2013. In fiscal 2013, the District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.25 percent for Coordinated Plan members.

The District's contributions to the GERF for the years ended June 30, 2013, 2012, and 2011 were $1,153,033, $1,132,253, and $1,113,259, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statutes.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Descriptions

The District provides post-employment 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. These benefits are summarized as follows:

Post-Employment Insurance Benefits – All retirees of the District have the option under state law to continue their medical insurance coverage through the District from the time of retirement until the employee reaches the age of eligibility for Medicare. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

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 periodically by the District.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

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	$ 2,054,781
Interest on net OPEB obligation	135,720
Adjustment to ARC	(185,713)
Annual OPEB cost (expense)	2,004,788
Contributions made	832,669
Increase in net OPEB obligation	1,172,119
Net OPEB obligation – beginning of year	3,015,993
Net OPEB obligation – end of year	$ 4,188,112

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

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	$ 1,715,136	$ 810,369	47.2%	$ 2,321,310
June 30, 2011	$ 1,741,686	$ 1,047,003	60.1%	$ 3,015,993
June 30, 2012	$ 2,004,788	$ 832,669	41.5%	$ 4,188,112

D. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits and unfunded actuarial accrued liability (UAAL) were both $15,827,290, as the plan was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $54,243,749, and the ratio of the UAAL to the covered payroll was 29.2 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress immediately following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

E. Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.5 percent investment rate of return (net of administrative expenses) based on the District's own investments; a 3.0 percent rate of projected salary increases; an annual healthcare cost trend rate of 8.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after seven years for medical insurance; and an annual healthcare trend rate of 4.0 percent for dental insurance. All rates include a 2.5 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization periods at July 1, 2012 for the various amortization layers ranged from 28 to 30 years.

NOTE 9 – PENSION BENEFITS PLAN

A. Plan Description

The District provides pension (severance) 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. The benefits are calculated using a predetermined number of days depending on the employee group, multiplied by the employee's daily base pay, or in certain cases, a fixed amount per year of service. Payments are made in either a lump sum or installments to a 403(b) plan or in a lump sum directly to the employee. These contractual agreements do not include any specific contribution or funding requirements.

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 periodically by the District.

C. Annual Pension Cost and Net Pension Obligation

The District's annual pension cost (expense) is calculated based on ARC of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement Nos. 25, 27, and 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

NOTE 9 – PENSION BENEFITS PLAN (CONTINUED)

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	$ 981,821
Interest on net pension obligation	80,653
Adjustment to ARC	(110,763)
Annual pension cost (expense)	951,711
Contributions made	437,462
Increase in net pension obligation	514,249
Net pension obligation – beginning of year	1,792,298
Net pension obligation – end of year	$ 2,306,547

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

Fiscal Year Ended	Annual Pension Cost	Employer Contribution	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
June 30, 2011	$ 832,719	$ 448,071	53.8%	$ 1,429,640
June 30, 2012	$ 857,656	$ 494,998	57.7%	$ 1,792,298
June 30, 2013	$ 951,711	$ 437,462	46.0%	$ 2,306,547

D. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits and UAAL were both $7,465,933, as the plan was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $42,893,260 and the ratio of the UAAL to the covered payroll was 17.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress immediately following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

NOTE 9 – PENSION BENEFITS PLAN (CONTINUED)

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.5 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. This rate includes a 2.5 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization periods at July 1, 2012 for the various amortization layers ranged from 28 to 30 years.

NOTE 10 – FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan which is classified as a "cafeteria plan" (the Plan) under § 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the Plan for healthcare and dependant care benefits. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant.

Before the beginning of the Plan year, which is from January 1 to December 31, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. The Plan is administered by the District and is accounted for in the District's General Fund. 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 Plan, whether or not such contributions have been made.

All property of the Plan and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the Plan are equal to those 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 11 – COMMITMENTS AND CONTINGENCIES

A. 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.

B. Construction Commitments

At June 30, 2013, the District had commitments totaling $5,029,818 under various construction contracts for which the work was not yet completed.

C. Legal Claims

The District is a defendant in various lawsuits. Although the outcomes of these lawsuits are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress
June 30, 2013

Other Post-Employment Benefits Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2010	$ 12,943,585	$ –	$ 12,943,585	– %	$ 50,747,706	25.5 %
July 1, 2012	$ 15,827,290	$ –	$ 15,827,290	– %	$ 54,243,749	29.2 %

Pension Benefits Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2010	$ 6,276,813	$ –	$ 6,276,813	– %	$ 40,584,492	15.5 %
July 1, 2012	$ 7,465,933	$ –	$ 7,465,933	– %	$ 42,893,260	17.4 %

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 273

Nonmajor Governmental Funds
Combining Balance Sheet
as of June 30, 2013

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	$ 677,302	$ 2,077,964	$ 2,755,266
Receivables			
Current taxes	–	543,268	543,268
Delinquent taxes	–	7,924	7,924
Accounts and interest	–	1,125	1,125
Due from other governmental units	74,806	49,675	124,481
Prepaid items	4,845	905	5,750
Total assets	$ 756,953	$ 2,680,861	$ 3,437,814
Liabilities			
Salaries payable	$ 2,834	$ 175,446	$ 178,280
Accounts and contracts payable	56,859	125,401	182,260
Due to other governmental units	–	5,202	5,202
Unearned revenue	168,620	642,752	811,372
Total liabilities	228,313	948,801	1,177,114
Deferred inflows of resources			
Property taxes levied for subsequent year	–	562,054	562,054
Deferred revenue – delinquent taxes	–	7,924	7,924
Total deferred inflows of resources	–	569,978	569,978
Fund balances			
Nonspendable	4,845	905	5,750
Restricted	523,795	1,161,177	1,684,972
Total fund balances	528,640	1,162,082	1,690,722
Total liabilities, deferred inflows of resources, and fund balances	$ 756,953	$ 2,680,861	$ 3,437,814

Nonmajor Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2013

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	$ –	$ 1,060,692	$ 1,060,692
Investment earnings	610	1,799	2,409
Other	2,800,476	6,061,113	8,861,589
State sources	58,927	271,963	330,890
Federal sources	448,560	–	448,560
Total revenue	3,308,573	7,395,567	10,704,140
Expenditures			
Current			
Food service	3,250,760	–	3,250,760
Community service	–	7,305,068	7,305,068
Capital outlay	10,549	181,658	192,207
Total expenditures	3,261,309	7,486,726	10,748,035
Net change in fund balances	47,264	(91,159)	(43,895)
Fund balances			
Beginning of year	481,376	1,253,241	1,734,617
End of year	$ 528,640	$ 1,162,082	$ 1,690,722

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund
Comparative Balance Sheet
as of June 30, 2013 and 2012

	2013	2012
Assets		
Cash and temporary investments	$ 10,093,181	$ 9,174,342
Receivables		
Current taxes	13,382,335	13,394,132
Delinquent taxes	197,243	153,407
Accounts and interest	247,258	173,280
Due from other governmental units	10,747,081	25,258,349
Due from other funds	–	1,269,496
Prepaid items	734,483	561,282
Total assets	$ 35,401,581	$ 49,984,288
Liabilities		
Tax anticipation certificates	$ –	$ 15,175,917
Salaries payable	3,401,740	3,336,226
Accounts and contracts payable	5,054,492	5,215,428
Accrued interest payable	–	112,183
Due to other governmental units	680,800	498,201
Unearned revenue	313,737	204,229
Total liabilities	9,450,769	24,542,184
Deferred inflows of resources		
Property taxes levied for subsequent year	11,643,651	12,746,911
Unavailable revenue – delinquent taxes	197,243	153,407
Total deferred inflows of resources	11,840,894	12,900,318
Fund balances (deficits)		
Nonspendable for prepaid items	734,483	561,282
Restricted for operating capital	540,918	297,835
Committed for cash flow	1,571,068	1,529,788
Committed for federal education jobs	894,821	894,821
Assigned for separation/retirement benefits	2,305,843	2,287,692
Assigned for alternative compensation	282,127	254,036
Assigned for carryover	601,498	756,439
Assigned for high school ALC	11,095	35,808
Assigned for unemployment	58,740	–
Assigned for subsequent year budget	136,081	–
Unassigned – health and safety restricted account deficit	(231,908)	(527,600)
Unassigned – capital projects levy restricted account deficit	(23,862)	–
Unassigned	7,229,014	6,451,685
Total fund balances	14,109,918	12,541,786
Total liabilities, deferred inflows of resources, and fund balances	$ 35,401,581	$ 49,984,288

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2013
(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 28,015,273	$ 27,237,931	$ (777,342)	$ 23,813,219
Investment earnings	5,000	13,030	8,030	8,660
Other	2,043,233	2,474,544	431,311	2,746,066
State sources	61,877,063	62,296,085	419,022	58,857,487
Federal sources	1,789,582	1,683,183	(106,399)	3,344,546
Total revenue	93,730,151	93,704,773	(25,378)	88,769,978
Expenditures				
Current				
Administration	2,936,024	3,057,055	121,031	2,921,447
District support services	2,799,587	2,517,407	(282,180)	2,701,860
Elementary and secondary regular instruction	44,856,680	44,171,797	(684,883)	42,233,743
Vocational education instruction	314,421	366,826	52,405	321,154
Special education instruction	15,795,711	16,036,151	240,440	15,585,966
Instructional support services	5,103,022	5,105,226	2,204	6,760,932
Pupil support services	7,598,240	7,608,727	10,487	7,329,686
Sites and buildings	14,160,048	13,393,834	(766,214)	8,714,030
Fiscal and other fixed cost programs	244,500	139,340	(105,160)	227,350
Debt service				
Principal	75,002	221,755	146,753	77,679
Interest and fiscal charges	104,840	108,383	3,543	76,458
Total expenditures	93,988,075	92,726,501	(1,261,574)	86,950,305
Excess (deficiency) of revenue over expenditures	(257,924)	978,272	1,236,196	1,819,673
Other financing sources				
Capital lease	589,860	589,860	–	–
Net change in fund balances	$ 331,936	1,568,132	$ 1,236,196	1,819,673
Fund balances				
Beginning of year		12,541,786		10,722,113
End of year		$ 14,109,918		$ 12,541,786

INDEPENDENT SCHOOL DISTRICT NO. 273

Food Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2013 and 2012

	2013	2012
Assets		
Cash and temporary investments	$ 677,302	$ 693,674
Receivables		
Due from other governmental units	74,806	9,981
Prepaid items	4,845	–
Total assets	$ 756,953	$ 703,655
Liabilities		
Salaries payable	$ 2,834	$ 3,787
Accounts and contracts payable	56,859	71,136
Unearned revenue	168,620	147,356
Total liabilities	228,313	222,279
Fund balances		
Nonspendable for prepaid items	4,845	–
Restricted for food service	523,795	481,376
Total fund balances	528,640	481,376
Total liabilities and fund balances	$ 756,953	$ 703,655

INDEPENDENT SCHOOL DISTRICT NO. 273

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2013
(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	$ 1,000	$ 610	$ (390)	$ 682
Other – primarily meal sales	2,809,750	2,800,476	(9,274)	2,782,190
State sources	62,000	58,927	(3,073)	56,071
Federal sources	469,420	448,560	(20,860)	438,370
Total revenue	3,342,170	3,308,573	(33,597)	3,277,313
Expenditures				
Current				
Salaries	80,000	78,922	(1,078)	76,967
Employee benefits	8,620	10,902	2,282	10,297
Purchased services	3,090,420	3,102,860	12,440	2,996,091
Supplies and materials	99,190	58,076	(41,114)	68,960
Capital outlay	–	10,549	10,549	–
Total expenditures	3,278,230	3,261,309	(16,921)	3,152,315
Net change in fund balances	$ 63,940	47,264	$ (16,676)	124,998
Fund balances				
Beginning of year		481,376		356,378
End of year		$ 528,640		$ 481,376

INDEPENDENT SCHOOL DISTRICT NO. 273

Community Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2013 and 2012

	2013	2012
Assets		
Cash and temporary investments	$ 2,077,964	$ 2,174,165
Receivables		
Current taxes	543,268	527,001
Delinquent taxes	7,924	6,643
Accounts and interest	1,125	1,875
Due from other governmental units	49,675	100,325
Prepaid items	905	–
Total assets	$ 2,680,861	$ 2,810,009
Liabilities		
Salaries payable	$ 175,446	$ 189,309
Accounts and contracts payable	125,401	108,620
Due to other governmental units	5,202	–
Unearned revenue	642,752	710,054
Total liabilities	948,801	1,007,983
Deferred inflows of resources		
Property taxes levied for subsequent year	562,054	542,142
Unavailable revenue – delinquent taxes	7,924	6,643
Total deferred inflows of resources	569,978	548,785
Fund balances		
Nonspendable for prepaid items	905	–
Restricted for community education programs	862,903	1,033,026
Restricted for early childhood family education programs	296,592	216,161
Restricted for school readiness	1,014	3,386
Restricted for community service	668	668
Total fund balances	1,162,082	1,253,241
Total liabilities, deferred inflows of resources, and fund balances	$ 2,680,861	$ 2,810,009

INDEPENDENT SCHOOL DISTRICT NO. 273

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2013
(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 1,075,656	$ 1,060,692	$ (14,964)	$ 991,970
Investment earnings	2,500	1,799	(701)	2,224
Other – primarily tuition and fees	6,050,830	6,061,113	10,283	5,959,785
State sources	261,656	271,963	10,307	231,724
Total revenue	7,390,642	7,395,567	4,925	7,185,703
Expenditures				
Current				
Salaries	4,595,367	4,612,514	17,147	4,463,297
Employee benefits	1,261,122	1,245,969	(15,153)	1,191,466
Purchased services	1,085,255	1,079,443	(5,812)	1,045,451
Supplies and materials	400,349	358,417	(41,932)	342,601
Other expenditures	8,804	8,725	(79)	7,478
Capital outlay	181,348	181,658	310	103,454
Total expenditures	7,532,245	7,486,726	(45,519)	7,153,747
Net change in fund balances	$ (141,603)	(91,159)	$ 50,444	31,956
Fund balances				
Beginning of year		1,253,241		1,221,285
End of year		$ 1,162,082		$ 1,253,241

INDEPENDENT SCHOOL DISTRICT NO. 273

Capital Projects – Building Construction Fund
Comparative Balance Sheet
as of June 30, 2013 and 2012

	2013	2012
Assets		
Cash and temporary investments	$ 13,093,605	$ –
Cash and investments held by trustee	328,800	1,569,927
Receivables		
Current taxes	2,035,824	841,281
Due from other governmental units	–	54
Prepaid items	–	29,183
Total assets	$ 15,458,229	$ 2,440,445
Liabilities		
Salaries payable	$ –	$ 19,481
Accounts and contracts payable	2,198,645	320,427
Due to other funds	–	1,269,496
Total liabilities	2,198,645	1,609,404
Deferred inflows of resources		
Property taxes levied for subsequent year	4,218,529	1,730,064
Fund balances (deficit)		
Nonspendable for prepaid items	–	29,183
Restricted for building projects funded by certificates of participation	30,230	505,461
Restricted for alternative facilities program	9,010,825	–
Unassigned – capital projects levy restricted account deficit	–	(662,170)
Unassigned – alternative facilities program restricted account deficit	–	(771,497)
Total fund balances (deficit)	9,041,055	(899,023)
Total liabilities, deferred inflows of resources, and fund balances	$ 15,458,229	$ 2,440,445

INDEPENDENT SCHOOL DISTRICT NO. 273

Capital Projects – Building Construction Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2013
(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 2,030,064	$ 2,392,234	$ 362,170	$ 1,895,634
Investment earnings	–	384	384	429
Total revenue	2,030,064	2,392,618	362,554	1,896,063
Expenditures				
Capital outlay				
Salaries	–	505	505	376,258
Employee benefits	–	351	351	106,553
Purchased services	162,945	28,015	(134,930)	112,591
Capital expenditures	4,323,496	4,092,681	(230,815)	2,099,280
Total expenditures	4,486,441	4,121,552	(364,889)	2,694,682
Excess (deficiency) of revenues over expenditures	(2,456,377)	(1,728,934)	727,443	(798,619)
Other financing sources				
Bonds issued	11,775,000	11,669,012	(105,988)	–
Certificated of participation issued	–	–	–	1,615,000
Total other financing sources	11,775,000	11,669,012	(105,988)	1,615,000
Net change in fund balances	$ 9,318,623	9,940,078	$ 621,455	816,381
Fund balances (deficit)				
Beginning of year		(899,023)		(1,715,404)
End of year		$ 9,041,055		$ (899,023)

INDEPENDENT SCHOOL DISTRICT NO. 273

Debt Service Fund
Comparative Balance Sheet
as of June 30, 2013 and 2012

	2013	2012
Assets		
Cash and temporary investments	$ 4,402,934	$ 5,503,084
Cash and investments held by trustee	–	58,608,909
Receivables		
Current taxes	3,575,248	5,140,847
Delinquent taxes	80,041	69,891
Accounts and interest	–	55,463
Due from other governmental units	–	30,748
Total assets	$ 8,058,223	$ 69,408,942
Liabilities		
Accounts and contracts payable	$ 8,141	$ –
Deferred inflows of resources		
Property taxes levied for subsequent year	7,194,307	10,281,370
Unavailable revenue – delinquent taxes	80,041	69,891
Total deferred inflows of resources	7,282,489	10,351,261
Fund balances		
Restricted for bond refunding	–	58,664,372
Restricted for debt service	775,734	393,309
Total fund balances	775,734	59,057,681
Total liabilities, deferred inflows of resources, and fund balances	$ 8,058,223	$ 69,408,942

INDEPENDENT SCHOOL DISTRICT NO. 273

Debt Service Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2013
(With Comparative Actual Amounts for the Year Ended June 30, 2012)

	2013			2012
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 10,280,426	$ 10,153,102	$ (127,324)	$ 10,287,758
Investment earnings	45,879	45,719	(160)	58,038
State sources	135	134	(1)	92,492
Total revenue	10,326,440	10,198,955	(127,485)	10,438,288
Expenditures				
Debt service				
Principal	7,255,000	7,255,000	–	6,975,000
Interest	5,842,751	5,839,966	(2,785)	3,035,765
Fiscal charges and other	3,500	92,356	88,856	267,263
Total expenditures	13,101,251	13,187,322	86,071	10,278,028
Excess (deficiency) of revenue over expenditures	(2,774,811)	(2,988,367)	(213,556)	160,260
Other financing sources (uses)				
Bonds issued	–	105,988	105,988	–
Refunding bonds issued	–	–	–	50,370,000
Premium on bonds issued	–	200,432	200,432	8,509,577
Payments to refunded bond escrow agent	(55,600,000)	(55,600,000)	–	–
Total other financing sources (uses)	(55,600,000)	(55,293,580)	306,420	58,879,577
Net change in fund balances	$ (58,374,811)	(58,281,947)	$ 92,864	59,039,837
Fund balances				
Beginning of year		59,057,681		17,844
End of year		$ 775,734		$ 59,057,681

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OTHER DISTRICT INFORMATION

(UNAUDITED)

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INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund Revenue by Source
Last Ten Fiscal Years

Year Ended June 30,	Local Property Tax Levies	Other Local and County Revenues	State Revenue	Federal Revenue	Total
2004	$ 17,567,343	$ 3,518,665	$ 42,985,111	$ 934,023	$ 65,005,142
	27%	5%	67%	1%	100%
2005	12,925,332	3,552,892	44,914,300	1,940,520	63,333,044
	20%	6%	71%	3%	100%
2006	9,674,621	3,872,936	51,589,559	1,698,955	66,836,071
	14%	6%	77%	3%	100%
2007	15,915,068	2,970,232	51,257,316	1,579,151	71,721,767
	22%	4%	72%	2%	100%
2008	16,415,623	2,574,904	54,904,780	1,478,313	75,373,620
	22%	3%	73%	2%	100%
2009	18,737,025	2,248,905	58,378,178	1,713,683	81,077,791
	23%	3%	72%	2%	100%
2010	20,228,122	2,280,570	53,924,966	6,958,246	83,391,904
	24%	3%	65%	8%	100%
2011	28,851,473	2,520,934	51,887,383	3,061,247	86,321,037
	33%	3%	60%	4%	100%
2012	23,813,219	2,754,726	58,857,487	3,344,546	88,769,978
	27%	3%	66%	4%	100%
2013	27,237,931	2,487,574	62,296,085	1,683,183	93,704,773
	29%	3%	66%	2%	100%

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund Expenditures by Program
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Instruction	Instructional Support Services	Pupil Support Services
2004	$ 3,084,579	$ 2,390,698	$ 39,794,290	$ 4,260,555	$ 4,396,017
	5%	4%	64%	7%	7%
2005	3,012,443	2,243,806	40,039,620	4,639,034	5,002,755
	5%	4%	64%	7%	8%
2006	3,268,807	2,441,300	43,231,893	4,666,311	5,359,110
	5%	3%	62%	7%	8%
2007	3,260,260	2,333,732	46,323,253	5,309,613	5,605,837
	5%	4%	61%	8%	8%
2008	3,164,236	2,405,000	48,877,070	5,041,640	5,953,006
	4%	3%	66%	7%	8%
2009	3,092,640	2,593,246	51,619,145	7,885,063	6,217,918
	4%	3%	65%	10%	8%
2010	2,891,265	2,613,421	55,612,094	6,593,566	6,345,288
	4%	3%	68%	8%	8%
2011	2,922,416	2,731,865	58,238,240	6,592,322	6,669,731
	3%	3%	68%	8%	8%
2012	2,921,447	2,701,860	58,140,863	6,760,932	7,329,686
	3%	3%	68%	8%	8%
2013	3,057,055	2,517,407	60,574,774	5,105,226	7,608,727
	3%	3%	66%	6%	8%

Note: Instruction includes regular, vocational, and special education instruction.

Sites and Buildings	Other Programs	Total
$ 7,119,515	$ 966,483	$ 62,012,137
11%	2%	100%
6,417,735	997,262	62,352,655
10%	2%	100%
9,417,647	892,984	69,278,052
14%	1%	100%
9,061,053	611,396	72,505,144
13%	1%	100%
7,917,073	521,527	73,879,552
11%	1%	100%
8,116,755	269,231	79,793,998
10%	–%	100%
7,681,111	291,515	82,028,260
9%	–%	100%
8,203,146	300,830	85,658,550
10%	–%	100%
8,714,030	381,487	86,950,305
10%	–%	100%
13,393,834	469,478	92,726,501
14%	–%	100%

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INDEPENDENT SCHOOL DISTRICT NO. 273

School Tax Levies and Tax Rates by Fund
Last Ten Fiscal Years

	Year Collectible	General Fund	Community Service Special Revenue Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Total All Funds
Levies						
	2004	$ 12,254,905	$ 818,816	$ 1,000,000	$ 9,893,343	$ 23,967,064
	2005	12,885,440	905,136	1,000,109	9,128,281	23,918,966
	2006	15,614,487	946,912	1,000,111	8,074,618	25,636,128
	2007	16,736,821	1,050,158	1,000,243	8,368,398	27,155,620
	2008	18,851,653	893,439	1,000,553	9,181,816	29,927,461
	2009	19,822,034	938,749	1,000,300	9,947,842	31,708,925
	2010	21,451,658	957,557	1,000,406	10,133,671	33,543,292
	2011	21,276,283	982,373	1,885,932	10,554,475	34,699,063
	2012	26,739,844	1,053,989	1,730,064	10,281,370	39,805,267
	2013	26,641,579	1,093,196	4,383,529	7,194,307	39,312,611
Tax rates						
Tax capacity rates						
	2004	3.245	1.358	1.659	16.408	22.670
	2005	3.311	1.344	1.485	13.554	19.694
	2006	6.039	1.246	1.316	10.625	19.226
	2007	5.932	1.241	1.182	9.889	18.244
	2008	4.542	1.001	1.121	10.287	16.951
	2009	4.635	1.037	1.105	10.989	17.766
	2010	5.487	1.050	1.097	11.112	18.746
	2011	7.288	1.136	1.157	12.205	21.786
	2012	13.939	1.267	–	12.359	27.565
	2013	17.649	1.334	–	8.779	27.762
Market value rates						
	2004	0.178	–	–	–	0.178
	2005	0.166	–	–	–	0.166
	2006	0.154	–	–	–	0.154
	2007	0.147	–	–	–	0.147
	2008	0.177	–	–	–	0.177
	2009	0.183	–	–	–	0.183
	2010	0.194	–	–	–	0.194
	2011	0.196	–	–	–	0.196
	2012	0.215	–	–	–	0.215
	2013	0.217	–	–	–	0.217

Note 1: A tax rate based on market value is used for the District’s referendum, equity, and transition levies.

Note 2: The levy for the Capital Projects – Building Construction Fund is a capital projects levy which is included as a component of the general referendum levy based on net tax capacity. Starting in 2012, the tax capacity for this levy is included in the General Fund.

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 273

Property Tax Levies and Receivables
Last Ten Years

For Taxes Collectible	Original Levy			
	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread
2004	$ 22,896,961	$ 768,204	$ 301,899	$ 23,967,064
2005	22,903,838	794,755	220,373	23,918,966
2006	24,734,667	722,215	179,246	25,636,128
2007	26,277,313	740,269	138,038	27,155,620
2008	29,016,879	789,966	120,616	29,927,461
2009	30,639,825	945,589	123,511	31,708,925
2010	32,343,270	1,061,264	138,758	33,543,292
2011	33,450,877	1,083,275	164,911	34,699,063
2012	38,740,332	1,064,935	–	39,805,267
2013	38,221,083	1,091,528	–	39,312,611

Note 1: Delinquent taxes receivable are written off after seven years.

Note 2: A portion of the total spread levy was paid with state aid through various property tax credits for residential homestead properties through 2011. This tax credit program ended in 2012.

Source: State of Minnesota School Tax Report

Uncollected Taxes Receivable as of June 30, 2013			
Delinquent		Current	
Amount	Percent	Amount	Percent
$ –	– %	$ –	– %
–	–	–	–
–	–	–	–
3,068	0.01	–	–
63,056	0.21	–	–
(18,198)	(0.06)	–	–
64,197	0.19	–	–
33,546	0.10	–	–
139,539	0.35	–	–
–	–	19,536,675	49.70
$ 285,208		$ 19,536,675	

INDEPENDENT SCHOOL DISTRICT NO. 273

Student Enrollment
Last Ten Fiscal Years

Year Ended June 30,	Average Daily Membership (ADM) (for Students Served or Tuition Paid)					Total Pupil Units
	Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	
2004	64.75	465.70	3,392.34	3,334.59	7,257.38	8,359.25
2005	66.63	470.52	3,404.12	3,384.07	7,325.34	8,441.91
2006	69.29	496.28	3,480.79	3,482.66	7,529.02	8,671.00
2007	73.21	488.22	3,510.44	3,494.94	7,566.81	8,718.02
2008	69.49	512.62	3,600.26	3,562.08	7,744.45	8,941.35
2009	72.10	514.21	3,672.12	3,649.88	7,908.31	9,137.36
2010	69.27	510.50	3,699.26	3,774.26	8,053.29	9,321.73
2011	72.25	506.30	3,808.45	3,875.72	8,262.72	9,571.81
2012	70.30	507.92	3,821.35	3,918.16	8,317.73	9,640.67
2013	78.00	502.77	3,807.75	3,976.23	8,364.75	9,705.14

Note 1: Student enrollment numbers are estimated for the most recent fiscal year.

Note 2: ADM is weighted as follows in computing pupil units:

	Pre-Kindergarten	Handicapped Kindergarten	Kindergarten	Elementary 1–3	Elementary 4–6	Secondary
Fiscal 2004 through 2007	1.250	1.000	0.557	1.115	1.060	1.300
Fiscal 2008 through 2013	1.250	1.000	0.612	1.115	1.060	1.300

SINGLE AUDIT AND OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures	
U.S. Department of Agriculture			
Passed through Minnesota Department of Education			
Child nutrition cluster			
School Breakfast Program	10.553	$ 31,277	
National School Lunch Program	10.555	417,283	
Total child nutrition cluster			448,560
U.S. Department of Education			
Passed through Minnesota Department of Education			
Special education cluster			
Special Education – Grants to States	84.027	1,242,419	
Special Education – Preschool Grants	84.173	29,550	
Total special education cluster			1,271,969
Special Education – Grants for Infants and Families	84.181		31,032
Title I Grants to Local Educational Agencies	84.010		251,205
Improving Teacher Quality State Grants	84.367		91,660
English Language Acquisition Grants	84.365		25,398
Passed through Carver-Scott Educational Cooperative			
Career and Technical Education – Basic Grants to States	84.048		12,454
Total federal awards			$ 2,132,278

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

Note 2: Non-monetary assistance of $10,616 is reported in this schedule, representing the value of commodities received and disbursed for the U.S. Department of Agriculture National School Lunch Program (CFDA No. 10.555).

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

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

To the School Board and Management of
Independent School District No. 273
Edina, Minnesota

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 11, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(continued)

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COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Minneapolis, Minnesota
October 11, 2013

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the School Board and Management of
Independent School District No. 273
Edina, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Independent School District No. 273, Edina, Minnesota's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

(continued)

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OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on the previous page. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Minneapolis, Minnesota
October 11, 2013

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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

ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Independent School District No. 273
Edina, Minnesota

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 273 (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 11, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Office of the State Auditor pursuant to Minnesota Statute § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit included all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2013–001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

The District's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The District's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

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

Minneapolis, Minnesota
October 11, 2013

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INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

A. SUMMARY OF AUDIT RESULTS

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

Financial Statements

What type of auditor's report is issued?		X Unqualified ___ Qualified ___ Adverse ___ Disclaimer
Internal control over financial reporting:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiencies identified?	___ Yes	X No
Noncompliance material to the financial statements noted?	___ Yes	X None reported

Federal Awards

Internal controls over major federal award programs:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiencies identified?	___ Yes	X No
Type of auditor's report issued on compliance for major programs?		X Unmodified ___ Qualified ___ Adverse ___ Disclaimer
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	___ Yes	X No

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Education – special education cluster consisting of:	
– Special Education – Grants to States	84.027
– Special Education – Preschool Grants	84.173

Threshold for distinguishing between type A and B programs.	$ 300,000	
Does the auditee qualify as a low-risk auditee?	X Yes	___ No

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

2013-001 CLAIMS AND DISBURSEMENTS

Criteria – Minnesota Statute § 471.425, Subd. 2.

Condition – Minnesota Statutes require districts to pay each vendor obligation according to the terms of each contract or within 35 days after the receipt of the goods or services or the invoice for the goods or services. If such obligations are not paid within the appropriate time period, Independent School District No. 273, Edina, Minnesota (the District) must pay interest on the unpaid obligations at the rate of 1.5 percent per month or part of a month. For one disbursement tested, the District did not pay the obligation within the required time period, and did not pay interest on the unpaid obligation.

Questioned Costs – Not applicable.

Context – One of forty disbursements tested were not in compliance. This is a current year and prior year finding.

Effect – Certain payments made to vendors were not paid within the timeframe as required by state statute, and the vendors were not paid interest to which they were entitled.

Cause – All general disbursement invoices are paid through the district office. Invoices must be approved by the appropriate personnel at the school and/or department that received the goods or services prior to payment. On occasion, there is a timing delay in obtaining the necessary approval for payment and returning the invoice to the district office for payment.

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

Corrective Action Plan

Actions Planned – The District will review the payment procedures and will properly pay all invoices within the 35-day time limit.

Official Responsible – District Controller.

D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT (CONTINUED)

2013-001 CLAIMS AND DISBURSEMENTS (CONTINUED)

Corrective Action Plan (continued)

Planned Completion Date – June 30, 2014.

Disagreement With or Explanation of Finding – The District agrees with the finding.

Plan to Monitor – The District Controller will review the District's procedures for paying invoices with district employees responsible for processing disbursements.

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

No audit findings at June 30, 2012.

INDEPENDENT SCHOOL DISTRICT NO. 273

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2013

		Audit		UFARS		Audit – UFARS	
General Fund							
Total revenue		$	93,704,773	$	93,704,771	$	2
Total expenditures		$	92,726,501	$	92,726,499	$	2
Nonspendable							
460	Nonspendable fund balance	$	734,483	$	734,483	$	–
Restricted/reserve							
403	Staff development	$	–	$	–	$	–
405	Deferred maintenance	$	–	$	–	$	–
406	Health and safety	$	(231,908)	$	(231,908)	$	–
407	Capital projects levy	$	(23,862)	$	(23,862)	$	–
408	Cooperative revenue	$	–	$	–	$	–
411	Severance pay	$	–	$	–	$	–
414	Operating debt	$	–	$	–	$	–
416	Levy reduction	$	–	$	–	$	–
417	Taconite building maintenance	$	–	$	–	$	–
423	Certain teacher programs	$	–	$	–	$	–
424	Operating capital	$	540,918	$	540,918	$	–
426	$25 taconite	$	–	$	–	$	–
427	Disabled accessibility	$	–	$	–	$	–
428	Learning and development	$	–	$	–	$	–
434	Area learning center	$	–	$	–	$	–
435	Contracted alternative programs	$	–	$	–	$	–
436	State approved alternative program	$	–	$	–	$	–
438	Gifted and talented	$	–	$	–	$	–
441	Basic skills programs	$	–	$	–	$	–
445	Career and technical programs	$	–	$	–	$	–
446	First grade preparedness	$	–	$	–	$	–
449	Safe schools levy	$	–	$	–	$	–
450	Pre-kindergarten	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
453	Unfunded severance and retirement levy	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	–	$	–	$	–
Committed							
418	Committed for separation	$	–	$	–	$	–
461	Committed fund balance	$	2,465,889	$	2,465,889	$	–
Assigned							
462	Assigned fund balance	$	3,395,384	$	3,395,384	$	–
Unassigned							
422	Unassigned fund balance	$	7,229,014	$	7,229,015	$	(1)
Food Service							
Total revenue		$	3,308,573	$	3,308,575	$	(2)
Total expenditures		$	3,261,309	$	3,261,311	$	(2)
Nonspendable							
460	Nonspendable fund balance	$	4,845	$	4,845	$	–
Restricted							
452	OPEB liability not in trust	$	–	$	–	$	–
464	Restricted fund balance	$	523,795	$	523,795	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Community Service							
Total revenue		$	7,395,567	$	7,395,570	$	(3)
Total expenditures		$	7,486,726	$	7,486,731	$	(5)
Nonspendable							
460	Nonspendable fund balance	$	905	$	905	$	–
Restricted/reserve							
426	$25 taconite	$	–	$	–	$	–
431	Community education	$	862,903	$	862,903	$	–
432	ECFE	$	296,592	$	296,592	$	–
444	School readiness	$	1,014	$	1,014	$	–
447	Adult basic education	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	668	$	668	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

INDEPENDENT SCHOOL DISTRICT NO. 273

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2013

			Audit		UFARS		Audit – UFARS
Building Construction							
Total revenue		$	2,392,618	$	2,392,618	$	–
Total expenditures		$	4,121,552	$	4,121,552	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted/reserve							
407	Capital projects levy	$	–	$	–	$	–
409	Alternative facility program	$	9,010,825	$	9,010,825	$	–
413	Project funded by COP	$	30,230	$	30,230	$	–
Restricted							
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Debt Service							
Total revenue		$	10,198,955	$	10,198,955	$	–
Total expenditures		$	13,187,322	$	13,187,321	$	1
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted/reserve							
425	Bond refundings	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	775,734	$	775,734	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Trust							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
422	Net assets	$	–	$	–	$	–
Internal Service							
Total revenue		$	808,024	$	808,024	$	–
Total expenditures		$	759,802	$	759,801	$	1
422	Net assets	$	291,812	$	291,812	$	–
OPEB Revocable Trust Fund							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
422	Net assets	$	–	$	–	$	–
OPEB Irrevocable Trust Fund							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
422	Net assets	$	–	$	–	$	–
OPEB Debt Service Fund							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted							
425	Bond refundings	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

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

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