INDEPENDENT SCHOOL DISTRICT NO. 273
EDINA, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
June 30, 2016

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INDEPENDENT SCHOOL DISTRICT NO. 273

Table of Contents

Table of Contents (continued)

INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 273

School Board and Administration
Year Ended June 30, 2016

SCHOOL BOARD

	Position
Leny Wallen-Friedman	Chair
Sarah Patzloff	Vice Chair
David Goldstein	Treasurer
Regina Neville	Clerk
Amir Gharbi	Assistant Treasurer
Randy Meyer	Assistant Clerk
Lisa O’Brien	Assistant Clerk

ADMINISTRATION

Dr. Ric Dressen	Superintendent
Margo Bauck	Director of Business Services
Pauline Fofana	Controller
Ra Chhoth	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 accompanying 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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(continued)

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

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplemental information, and 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

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 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.

(continued)

Prior Year Comparative Information

We have previously audited the District's 2015 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated October 8, 2015. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota
October 18, 2016

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This section of Independent School District No. 273, Edina, Minnesota's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the other components of the District's annual financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual financial statements 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 FINANCIAL STATEMENTS

The government-wide financial statements (Statement of Net Position and Statement of Activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes *all* of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide financial statements report the District's *net position* and how it has changed. Net position—the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure the District's financial health or *position*.

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

In the government-wide financial statements, the District's activities are all shown in one category titled "governmental activities." These activities, including regular and special education 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 is presented as supplemental information.

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, 2016 and 2015

	2016	2015
Assets		
Current and other assets	$ 202,508,826	$ 79,079,944
Capital assets, net of depreciation	125,984,284	112,314,259
Total assets	**$ 328,493,110**	**$ 191,394,203**
Deferred outflows of resources		
Pension plan deferments – PERA and TRA	**$ 13,797,274**	**$ 10,631,296**
Liabilities		
Current and other liabilities	$ 20,939,316	$ 14,781,937
Long-term liabilities, including due within one year	276,402,507	143,304,864
Total liabilities	**$ 297,341,823**	**$ 158,086,801**
Deferred inflows of resources		
Property taxes levied for subsequent year	$ 47,512,788	$ 39,265,342
Pension plan deferments – PERA and TRA	9,518,226	18,219,488
Total deferred inflows of resources	**$ 57,031,014**	**$ 57,484,830**
Net position		
Net investment in capital assets	$ 43,418,286	$ 42,533,620
Restricted	7,970,131	4,028,984
Unrestricted	(63,470,870)	(60,108,736)
Total net position	**$ (12,082,453)**	**$ (13,546,132)**

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. The other major factor in determining net position as compared to fund balances is the liability for long-term severance, pension, and other post-employment benefits (OPEB), which impacts the unrestricted portion of net position.

The increases in current assets and long-term liabilities were due to the District issuing $113,385,000 of General Obligation School Building Bonds during the year. Total net position increased by $1,463,679 in 2016. The District's net investment in capital assets increased $884,666 from the prior year, primarily due to the relationship between the depreciation of capital assets and the rate at which the debt issued to build or acquire those assets is repaid. Restricted net position increased $3,941,147, mainly in amounts restricted for capital asset acquisition. The unrestricted portion of net position declined by $3,362,134, mainly due to increases in the Districts long-term liabilities for pensions and other-employment benefits.

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, 2016 and 2015

	2016	2015
Revenues		
Program revenues		
Charges for services	$ 9,510,916	$ 9,630,639
Operating grants and contributions	15,847,284	13,335,745
General revenues		
Property taxes	43,028,625	39,768,073
General grants and aids	59,099,180	57,816,937
All other	3,043,592	1,050,543
Total revenues	130,529,597	121,601,937
Expenses		
Administration	3,242,345	2,822,761
District support services	3,110,167	3,016,067
Elementary and secondary regular instruction	56,906,604	51,936,220
Vocational education instruction	402,701	431,746
Special education instruction	18,732,703	16,333,926
Instructional support services	5,460,656	5,153,658
Pupil support services	8,040,874	7,857,389
Sites and buildings	16,255,995	13,075,629
Fiscal and other fixed cost programs	248,613	231,429
Food service	2,727,737	2,781,028
Community service	7,280,463	7,017,085
Interest and fiscal charges on debt	6,657,060	2,065,524
Total expenses	129,065,918	112,722,462
Change in net position	1,463,679	8,879,475
Net position – beginning	(13,546,132)	(22,425,607)
Net position – ending	**$ (12,082,453)**	**$ (13,546,132)**

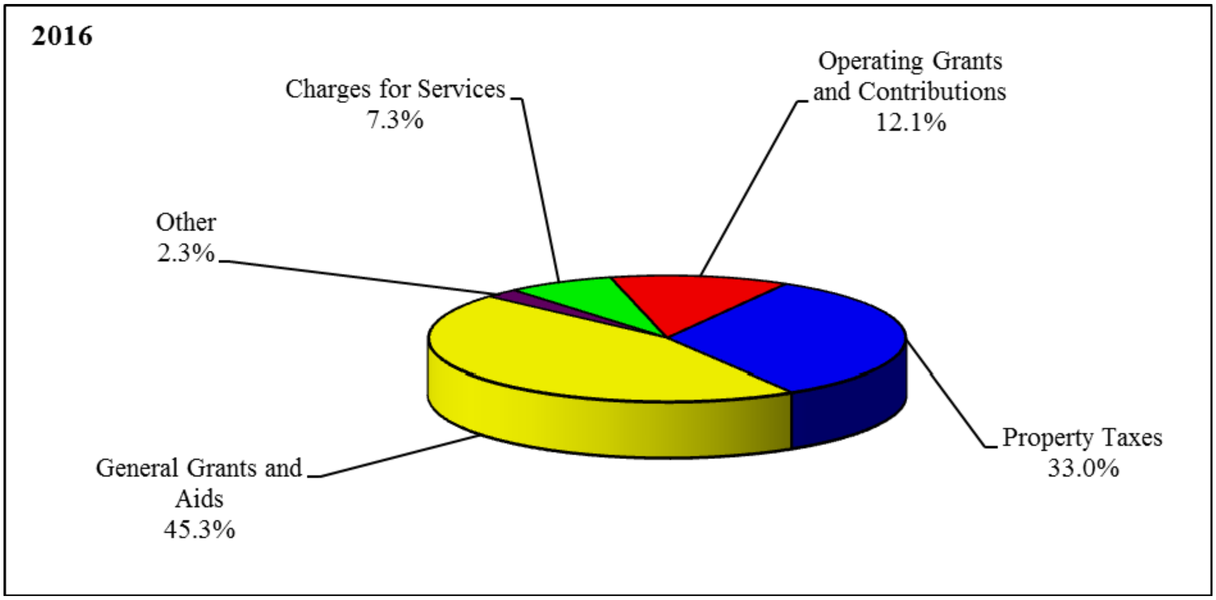
This format is similar to the fund financial statements, except it is presented on an accrual basis of accounting, and includes all governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt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

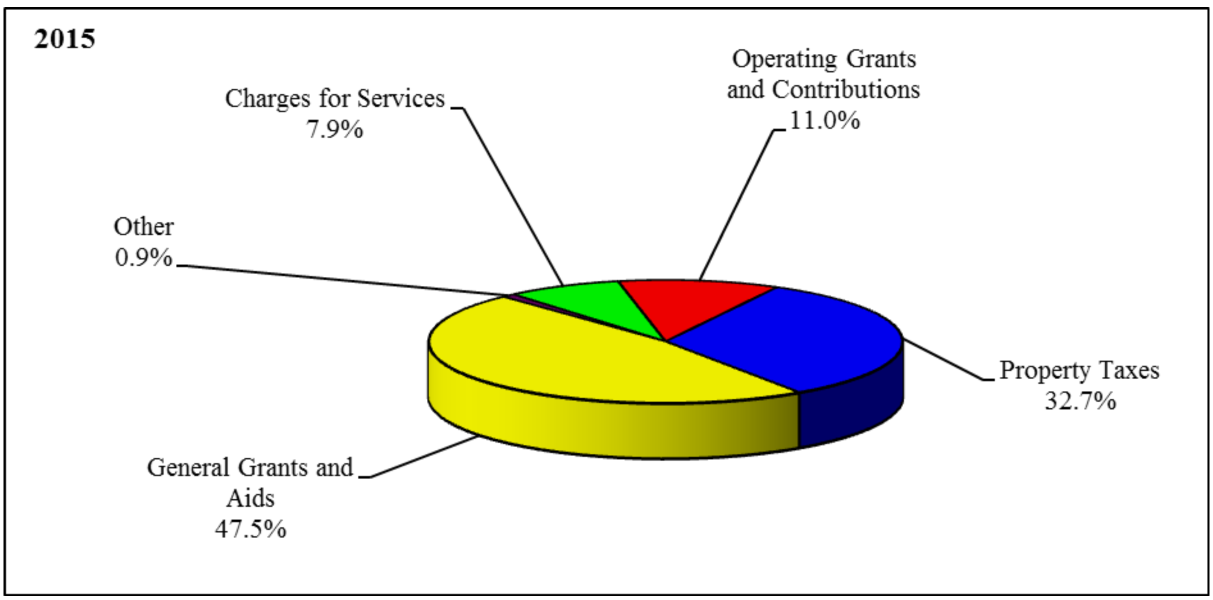
Total revenues for fiscal year 2016 were $8,927,660 higher than the prior year. Increases include the general education formula allowance, special education aid, federal grants, investment earnings, and other local sources (i.e. fees, rentals, and donations).

Expenses increased $16,343,456 compared to fiscal year 2015 levels. The increase in expense is due to an increase in capital maintenance activity as part of the 10-year alternative facilities plan, as well as higher interest and fiscal agent costs on related debt. Other areas of expense increases include student instruction as a result of the increases in revenue noted above. The growth in remaining expenses 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 2016 and 2015

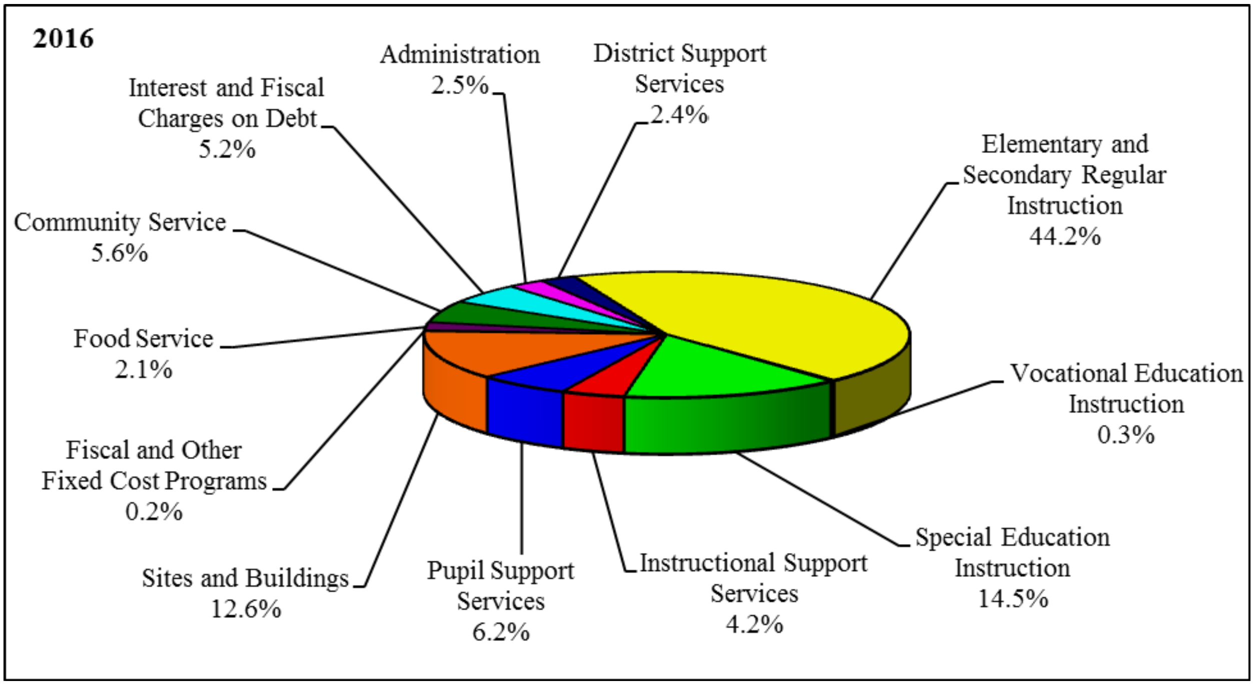


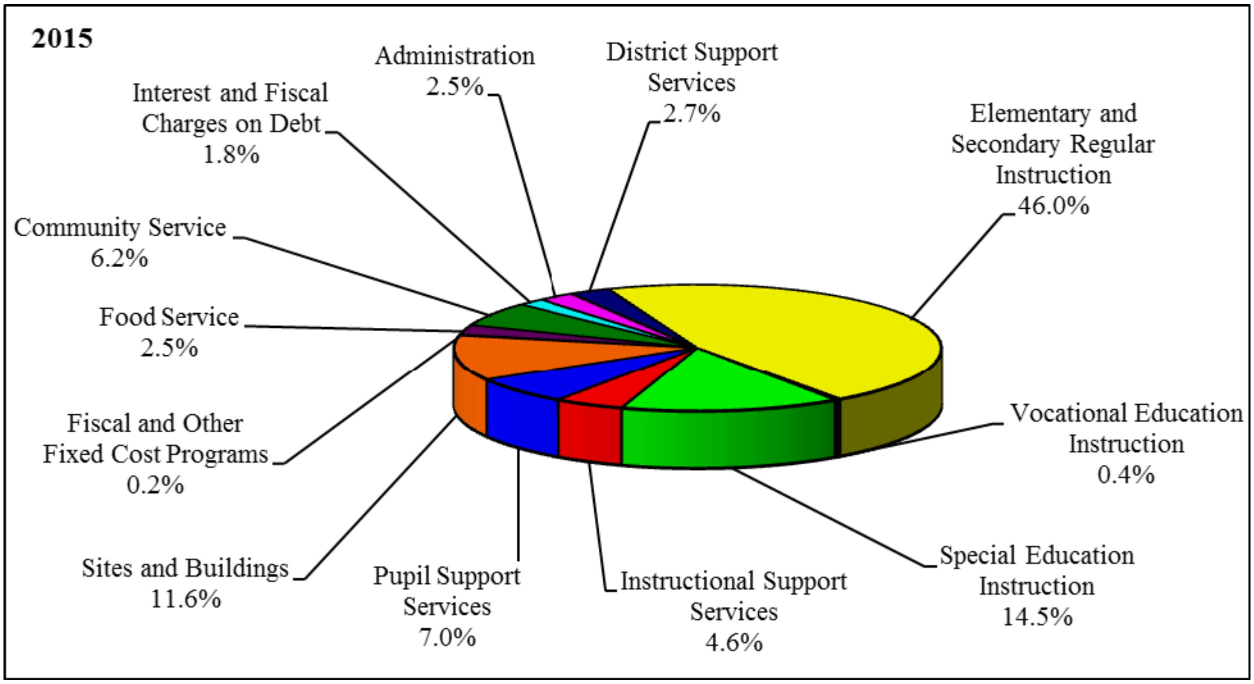


The largest share of the District's revenue is received from the state, including the aid formula and most of the operating grants. This significant reliance on the state for funding has placed tremendous pressure on local school districts as a result of limited funding due to the state's financial position 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 2016 and 2015





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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Table 3
Governmental Fund Balances
as of June 30, 2016 and 2015

	2016	2015	Increase (Decrease)
Major funds			
General	$ 19,398,842	$ 18,821,866	$ 576,976
Capital Projects – Building Construction	114,832,404	3,272,278	111,560,126
Debt Service	200,151	1,428,414	(1,228,263)
Nonmajor funds			
Food Service Special Revenue	994,105	717,936	276,169
Community Service Special Revenue	1,024,854	1,223,998	(199,144)
Total governmental funds	$ 136,450,356	$ 25,464,492	$ 110,985,864

In the General Fund, nonspendable fund balances for prepaid items decreased $59,189. Fund balances restricted for various purposes (including restricted fund balance account deficits) increased $397,235. 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 increased $123,878. Fund balances assigned for various purposes increased $2,033,034, and unassigned fund balance (excluding restricted fund balance account deficits) decreased $1,917,982 during the year.

The increase in the Capital Projects – Building Construction Fund balance primarily reflects the proceeds of the General Obligation School Building Bonds, Series 2015A issued in the current year, the majority of which remains restricted for capital projects at year-end.

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	$ 97,070,927	$ 97,082,738	$ 11,811	– %
Expenditures	$ 96,781,161	$ 99,215,571	$ 2,434,410	2.5 %

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. Between the original and final budget, the District revised the expenditure budget for actual staffing and prior year carryover balances.

Table 5 summarizes the operating results of the General Fund:

Table 5
General Fund
Operating Results

		Over (Under) Final Budget		Over (Under) Prior Year	
	2016 Actual	Amount	Percent	Amount	Percent
Revenue	$ 101,441,255	$ 4,358,517	4.5%	$ 5,599,422	5.8%
Expenditures	100,864,279	$ 1,648,708	1.7%	$ 8,232,809	8.9%
Net change in fund balances	$ 576,976				

Actual revenues for fiscal year 2016 were 4.5 percent over budget. The revenue variance was primarily in property taxes, state aids, and other local revenues. Expenditures were 1.7 percent over budget. The expenditure variance in 2016 was spread across several programs, with the largest over spending occurring in regular instruction and special education. The variances are primarily due to an increase in funds available through the sources mentioned previously.

The Governmental Accounting Standards Board Statement No. 68 requirement for reporting of pension liabilities impacted both budget-to-actual and current-to-prior year comparisons for revenue and expenditures, while not having any impact on over all fund balance. The merger of the Duluth Teachers Retirement Association pension plan into the state-wide Teachers Retirement Association (TRA) pension plan significantly increased the amount the state of Minnesota is contributing on behalf of the districts that participate in the TRA plan. The District is required to recognize this on-behalf contribution, which increased 2015–2016 actual revenue and expenditures by $1.2 million.

Revenue increases from the prior year were mainly due to additional general education aid from an increase to the per pupil general education formula allowance; and increases in special education state aid, federal grants, investment income, and other local revenues (i.e., fees, rentals, and donations).

The increase in expenditures is due to higher than average staff retirements, and one-time enhancements associated with the implementation of the strategic plan. The growth in remaining expenditures is consistent with regional inflationary trends.

Food Service Special Revenue Fund

Food Service Special Revenue Fund revenue for fiscal year 2016 totaled $3,003,885, and expenditures were $2,727,716. The June 30, 2016 fund balance is $994,105, an increase of $276,169 from fiscal year 2015.

Community Service Special Revenue Fund

Community Service Special Revenue Fund revenue for fiscal year 2016 totaled $7,049,417, and expenditures were $7,248,561. The June 30, 2016 fund balance is $1,024,854, a decrease of $199,144 from fiscal year 2015.

Capital Projects – Building Construction Fund

Capital Projects – Building Construction Fund revenue and other financing sources for fiscal year 2016 totaled $137,039,270, and expenditures were $25,479,144. The June 30, 2016 fund balance is $114,832,404, an increase of $111,560,126 from fiscal year 2015.

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 year 2016 totaled $8,230,323, and expenditures were $9,458,586. The June 30, 2016 fund balance is $200,151, a decrease of $1,228,263 from fiscal year 2015.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016, the District had invested $125,984,284 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 $6,069,236.

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2016 and 2015.

Table 6
Capital Assets

	2016	2015	Change
Land	$ 5,245,858	$ 1,627,557	$ 3,618,301
Land improvements	5,556,063	5,181,542	374,521
Buildings	202,842,991	194,776,276	8,066,715
Furniture and equipment	15,603,308	14,776,365	826,943
Construction in progress	10,421,600	3,568,819	6,852,781
Less accumulated depreciation	(113,685,536)	(107,616,300)	(6,069,236)
Total	$ 125,984,284	$ 112,314,259	$ 13,670,025
Depreciation expense	$ 6,069,236	$ 5,715,814	$ 353,422

The changes presented in the table above reflect the ongoing activity and completion of projects at district sites during fiscal year 2016. The most significant change from last year is in buildings and the purchase of 9.29 acres of property for a new transportation facility. The increase in construction in progress is due to the 10-year alternative facilities plan implementation.

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

	2016	2015	Change
General obligation bonds payable	$ 172,010,000	$ 62,870,000	$ 109,140,000
Certification of participation payable	1,255,000	1,350,000	(95,000)
Premiums on bonds payable	17,785,150	6,188,027	11,597,123
Capital leases payable	2,001,786	2,503,781	(501,995)
Net pension liability – PERA	14,210,468	14,087,800	122,668
Net pension liability – TRA	57,146,166	45,844,276	11,301,890
Severance benefits payable	362,320	417,532	(55,212)
Net OPEB obligation	7,687,091	6,554,485	1,132,606
Net pension obligation	3,944,526	3,488,963	455,563
Total	$ 276,402,507	$ 143,304,864	$ 133,097,643

The issuance of school building bonds at a premium, offset by scheduled principal payments account for the changes above. The decrease in certificates of participation payable is due to the planned repayment schedules during fiscal year 2016. The differences in the PERA and the TRA net pension liabilities reflect the change in the District's proportionate share of these state-wide pension obligations.

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

Table 8
Limitations on Debt

District's market value	$ 8,655,567,325
Limit rate	15.0%
Legal debt limit	$ 1,298,335,099

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. For the 2016 fiscal year, the Legislature added $117, or 2.0 percent, per pupil to the basic general education funding formula and an additional $119, or 2.0 percent, per pupil to the formula for fiscal year 2017. The ongoing demands on limited resources continue to present challenges in funding education for Minnesota schools.

In June 2016, 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 invests $15 million in the remaining years of the plan to improve mechanical systems, exterior envelope, and paving throughout the District.

In the summer of 2015, the District received a top credit rating from two of the leading global rating agencies. Moody's Investors Service and Standard & Poor's 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 2015, the District was successful in its request to issue $124.9 million in bonds to support a number of capital projects. Funds will be used to implement the Next Generation of Edina Public Schools Strategic Plan focusing both on short-term and long-term facility needs.

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

These financial statements are 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 these statements 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's website at www.edinaschools.org.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	Governmental Activities	
	2016	2015
Assets		
Cash and temporary investments	$ 164,285,432	$ 47,999,611
Receivables		
Current taxes	25,661,095	21,302,415
Delinquent taxes	286,688	292,417
Accounts and interest	513,763	580,387
Due from other governmental units	11,656,796	8,484,654
Prepaid items	105,052	420,460
Capital assets		
Not depreciated	15,667,458	5,196,376
Depreciated, net of accumulated depreciation	110,316,826	107,117,883
Total capital assets, net of accumulated depreciation	125,984,284	112,314,259
Total assets	328,493,110	191,394,203
Deferred outflows of resources		
Pension plan deferments – PERA and TRA	13,797,274	10,631,296
Total assets and deferred outflows of resources	$ 342,290,384	$ 202,025,499
Liabilities		
Salaries and benefits payable	$ 9,028,489	$ 8,381,392
Accounts and contracts payable	7,056,412	4,224,921
Accrued interest payable	3,118,870	1,131,198
Due to other governmental units	1,174,789	407,202
Unearned revenue	560,756	637,224
Long-term liabilities		
Due within one year	6,414,415	4,695,374
Due in more than one year	269,988,092	138,609,490
Total long-term liabilities	276,402,507	143,304,864
Total liabilities	297,341,823	158,086,801
Deferred inflows of resources		
Property taxes levied for subsequent year	47,512,788	39,265,342
Pension plan deferments – PERA and TRA	9,518,226	18,219,488
Total deferred inflows of resources	57,031,014	57,484,830
Net position		
Net investment in capital assets	43,418,286	42,533,620
Restricted for		
Capital asset acquisition	5,930,241	1,702,901
Debt service	–	362,859
Food service	994,105	717,936
Community service	1,006,949	1,206,452
Other state restrictions	38,836	38,836
Unrestricted	(63,470,870)	(60,108,736)
Total net position	(12,082,453)	(13,546,132)
Total liabilities, deferred inflows of resources, and net position	$ 342,290,384	$ 202,025,499

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	2016				2015
		Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	$ 3,242,345	$ 48,426	$ –	$ (3,193,919)	$ (2,818,351)
District support services	3,110,167	–	–	(3,110,167)	(3,014,917)
Elementary and secondary regular instruction	56,906,604	904,973	1,557,307	(54,444,324)	(50,660,518)
Vocational education instruction	402,701	–	–	(402,701)	(431,618)
Special education instruction	18,732,703	208,917	11,778,034	(6,745,752)	(5,597,746)
Instructional support services	5,460,656	–	–	(5,460,656)	(5,105,002)
Pupil support services	8,040,874	17,600	1,309,787	(6,713,487)	(6,430,865)
Sites and buildings	16,255,995	638,198	–	(15,617,797)	(12,404,476)
Fiscal and other fixed cost programs	248,613	–	–	(248,613)	(231,429)
Food service	2,727,737	2,260,094	742,518	274,875	103,465
Community service	7,280,463	5,432,708	459,638	(1,388,117)	(1,099,097)
Interest and fiscal charges	6,657,060	–	–	(6,657,060)	(2,065,524)
Total governmental activities	$ 129,065,918	$ 9,510,916	$ 15,847,284	(103,707,718)	(89,756,078)
	General revenues				
	Taxes				
	Property taxes, levied for general purposes			23,599,692	22,510,922
	Property taxes, levied for community service			1,153,321	1,123,300
	Property taxes, levied for capital projects			11,509,597	9,199,284
	Property taxes, levied for debt service			6,766,015	6,934,567
	General grants and aids			59,099,180	57,816,937
	Other general revenues			2,308,284	1,036,099
	Investment earnings			735,308	14,444
	Total general revenues			105,171,397	98,635,553
	Change in net position			1,463,679	8,879,475
	Net position – beginning			(13,546,132)	(22,425,607)
	Net position – ending			$ (12,082,453)	$ (13,546,132)

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Assets			
Cash and temporary investments	$ 32,477,890	$ 120,507,256	$ 7,264,464
Receivables			
Current taxes	17,964,503	–	7,100,085
Delinquent taxes	221,661	–	57,102
Accounts and interest	275,789	195,620	–
Due from other governmental units	11,599,896	–	–
Prepaid items	89,550	15,502	–
Total assets	$ 62,629,289	$ 120,718,378	$ 14,421,651
Liabilities			
Salaries and benefits payable	$ 8,857,339	$ 26,814	$ –
Accounts and contracts payable	801,292	5,844,760	–
Due to other governmental units	1,174,789	–	–
Unearned revenue	16,994	14,400	–
Total liabilities	10,850,414	5,885,974	–
Deferred inflows of resources			
Property taxes levied for subsequent year	32,158,372	–	14,164,398
Unavailable revenue – delinquent taxes	221,661	–	57,102
Total deferred inflows of resources	32,380,033	–	14,221,500
Fund balances			
Nonspendable	89,550	15,502	–
Restricted	1,791,869	114,816,902	200,151
Committed	2,871,328	–	–
Assigned	6,490,753	–	–
Unassigned	8,155,342	–	–
Total fund balances	19,398,842	114,832,404	200,151
Total liabilities, deferred inflows of resources, and fund balances	$ 62,629,289	$ 120,718,378	$ 14,421,651

See notes to basic financial statements

	Total Governmental Funds	
Nonmajor Funds	2016	2015
$ 3,578,597	$ 163,828,207	$ 47,528,378
596,507	25,661,095	21,302,415
7,925	286,688	292,417
29,375	500,784	568,125
56,900	11,656,796	8,484,654
–	105,052	420,460
$ 4,269,304	$ 202,038,622	$ 78,596,449
$ 144,336	$ 9,028,489	$ 8,381,392
378,704	7,024,756	4,148,380
–	1,174,789	407,202
529,362	560,756	637,224
1,052,402	17,788,790	13,574,198
1,190,018	47,512,788	39,265,342
7,925	286,688	292,417
1,197,943	47,799,476	39,557,759
–	105,052	420,460
2,018,959	118,827,881	7,971,533
–	2,871,328	2,747,450
–	6,490,753	4,457,719
–	8,155,342	9,867,330
2,018,959	136,450,356	25,464,492
$ 4,269,304	$ 202,038,622	$ 78,596,449

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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, 2016
(With Partial Comparative Information as of June 30, 2015)

	2016	2015
Total fund balances – governmental funds	$ 136,450,356	$ 25,464,492
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	239,669,820	219,930,559
Accumulated depreciation	(113,685,536)	(107,616,300)
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	(172,010,000)	(62,870,000)
Certificates of participation payable	(1,255,000)	(1,350,000)
Premium on bonds	(17,785,150)	(6,188,027)
Capital leases payable	(2,001,786)	(2,503,781)
Net pension liability – PERA	(14,210,468)	(14,087,800)
Net pension liability – TRA	(57,146,166)	(45,844,276)
Severance benefits payable	(362,320)	(417,532)
Net OPEB obligation	(7,687,091)	(6,554,485)
Net pension obligation	(3,944,526)	(3,488,963)
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.	438,548	406,954
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(3,118,870)	(1,131,198)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – PERA and TRA pension plans	13,797,274	10,631,296
Deferred inflows – PERA and TRA pension plans	(9,518,226)	(18,219,488)
Deferred inflows – delinquent property taxes	286,688	292,417
Total net position – governmental activities	$ (12,082,453)	$ (13,546,132)

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Revenue			
Local sources			
Property taxes	$ 23,596,521	$ 11,509,597	$ 6,774,556
Investment earnings	34,774	692,456	3,414
Other	4,065,652	60,746	–
State sources	71,873,064	–	–
Federal sources	1,871,244	–	–
Total revenue	101,441,255	12,262,799	6,777,970
Expenditures			
Current			
Administration	3,281,563	–	–
District support services	3,093,531	–	–
Elementary and secondary regular instruction	52,518,801	–	–
Vocational education instruction	402,746	–	–
Special education instruction	18,601,905	–	–
Instructional support services	5,508,758	–	–
Pupil support services	7,922,598	–	–
Sites and buildings	8,954,875	–	–
Fiscal and other fixed cost programs	248,613	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	24,510,535	–
Debt service			
Principal	215,385	381,610	4,245,000
Interest and fiscal charges	115,504	586,999	5,213,586
Total expenditures	100,864,279	25,479,144	9,458,586
Excess (deficiency) of revenue over expenditures	576,976	(13,216,345)	(2,680,616)
Other financing sources			
Bonds issued	–	111,932,647	1,452,353
Premium on bonds issued	–	12,843,824	–
Capital lease	–	–	–
Total other financing sources	–	124,776,471	1,452,353
Net change in fund balances	576,976	111,560,126	(1,228,263)
Fund balances			
Beginning of year	18,821,866	3,272,278	1,428,414
End of year	$ 19,398,842	$ 114,832,404	$ 200,151

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds 2016	Total Governmental Funds 2015
$ 1,153,680	$ 43,034,354	$ 40,362,621
4,664	735,308	14,444
7,692,802	11,819,200	10,666,738
579,245	72,452,309	69,032,439
622,911	2,494,155	1,979,554
10,053,302	130,535,326	122,055,796
–	3,281,563	3,124,572
–	3,093,531	3,063,669
–	52,518,801	47,412,069
–	402,746	432,541
–	18,601,905	16,239,313
–	5,508,758	5,063,892
–	7,922,598	7,745,956
–	8,954,875	9,006,454
–	248,613	231,429
2,693,974	2,693,974	2,776,284
7,201,847	7,201,847	6,847,345
80,456	24,590,991	16,035,489
–	4,841,995	4,855,321
–	5,916,089	2,718,823
9,976,277	145,778,286	125,553,157
77,025	(15,242,960)	(3,497,361)
–	113,385,000	6,050,000
–	12,843,824	67,246
–	–	493,000
–	126,228,824	6,610,246
77,025	110,985,864	3,112,885
1,941,934	25,464,492	22,351,607
$ 2,018,959	$ 136,450,356	$ 25,464,492

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INDEPENDENT SCHOOL DISTRICT NO. 273

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2016
(With Partial Comparative Information for the Year Ended June 30, 2015)

	2016	2015
Total net change in fund balances – governmental funds	$ 110,985,864	$ 3,112,885
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	19,739,261	13,761,174
Depreciation expense	(6,069,236)	(5,715,814)
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.	31,594	48,499
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.	–	(6,869)
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	(113,385,000)	(6,050,000)
Capital leases payable	–	(493,000)
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	4,340,000	4,210,000
Capital leases payable	501,995	645,321
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.	(1,987,672)	(44,930)
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.	(11,597,123)	630,983
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.		
Net pension liability – PERA	(122,668)	2,238,978
Net pension liability – TRA	(11,301,890)	10,822,096
Severance benefits payable	55,212	76,489
Net OPEB obligation	(1,132,606)	(1,260,354)
Net pension obligation	(455,563)	(592,807)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – PERA and TRA pension plans	3,165,978	6,310,860
Deferred inflows – PERA and TRA pension plans	8,701,262	(18,219,488)
Deferred inflows – delinquent property taxes	(5,729)	(594,548)
Change in net position – governmental activities	$ 1,463,679	$ 8,879,475

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, 2016

	Budgeted Amounts			
	Original	Final	Actual	Over (Under) Final Budget
Revenue				
Local sources				
Property taxes	$ 23,172,135	$ 23,172,135	$ 23,596,521	$ 424,386
Investment earnings	20,000	15,000	34,774	19,774
Other	2,346,646	2,434,032	4,065,652	1,631,620
State sources	70,157,606	69,965,882	71,873,064	1,907,182
Federal sources	1,374,540	1,495,689	1,871,244	375,555
Total revenue	97,070,927	97,082,738	101,441,255	4,358,517
Expenditures				
Current				
Administration	3,152,041	3,115,851	3,281,563	165,712
District support services	3,083,994	3,220,301	3,093,531	(126,770)
Elementary and secondary regular instruction	49,582,587	51,042,468	52,518,801	1,476,333
Vocational education instruction	351,525	335,506	402,746	67,240
Special education instruction	17,106,470	17,318,362	18,601,905	1,283,543
Instructional support services	5,078,273	5,159,657	5,508,758	349,101
Pupil support services	8,225,480	8,237,933	7,922,598	(315,335)
Sites and buildings	9,665,512	10,204,214	8,954,875	(1,249,339)
Fiscal and other fixed cost programs	204,390	250,390	248,613	(1,777)
Debt service				
Principal	215,385	215,385	215,385	–
Interest and fiscal charges	115,504	115,504	115,504	–
Total expenditures	96,781,161	99,215,571	100,864,279	1,648,708
Net change in fund balances	$ 289,766	$ (2,132,833)	576,976	$ 2,709,809
Fund balances				
Beginning of year			18,821,866	
End of year			$ 19,398,842	

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	2016	2015
Assets		
Current assets		
Cash and temporary investments	$ 457,225	$ 471,233
Accounts receivable	12,979	12,262
Total assets	470,204	483,495
Liabilities		
Current liabilities		
Accounts and contracts payable	31,656	76,541
Net position		
Unrestricted	$ 438,548	$ 406,954

See notes to basic financial statements

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

	2016	2015
Operating revenue		
Charges for services	$ 855,693	$ 826,470
Operating expenses		
Dental claims and expenses	824,099	777,971
Operating income	31,594	48,499
Net position		
Beginning of year	406,954	358,455
End of year	$ 438,548	$ 406,954

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	2016	2015
Cash flows from operating activities		
Contributions from governmental funds	$ 854,976	$ 825,160
Dental claims and other expense payments	(868,984)	(771,970)
Net cash flows from operating activities	(14,008)	53,190
Cash and temporary investments		
Beginning of year	471,233	418,043
End of year	$ 457,225	$ 471,233
Reconciliation of operating income to net cash flows from operating activities		
Operating income	$ 31,594	$ 48,499
Adjustments to reconcile operating income to net cash flows from operating activities		
Changes in assets and liabilities		
Accounts receivable	(717)	(1,310)
Accounts and contracts payable	(44,885)	6,001
Net cash flows from operating activities	$ (14,008)	$ 53,190

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, 2016, the District paid TIES $661,138 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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.

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 and proprietary 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 and other long-term liabilities, 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. Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes. 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. An 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 principal operating revenue of the District's Internal Service Fund is charges to other district funds for service. Operating expenses for the Internal Service Fund includes the costs of providing services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Description of Funds

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

Major Governmental Funds

General Fund – The General Fund is 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 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 the year ended June 30, 2016 exceeded budgeted appropriations by $1,648,708, $504,438, and $97,586 in the General Fund, Community Service Special Revenue, and Debt Service Funds, respectively. Revenues and other financing sources in excess of budget, along with available fund balance, financed these variances.

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.

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.

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

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

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $3,680,097 of the property tax levy collectible in 2016 as revenue to the District in fiscal year 2015–2016. The remaining portion of the taxes collectible in 2016 is reported as a deferred inflow of resources (property taxes levied for subsequent year).

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as they are collected.

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

Capital assets are reported in the government-wide financial statements, but not 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, and are accrued in the governmental fund financial statements as the liability matures due to employee termination.

N. Pensions

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

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

O. 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 2016.

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 dependents 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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
2015	$ 70,540	$ 777,971	$ 771,970	$ 76,541
2016	$ 76,541	$ 824,099	$ 868,984	$ 31,656

P. Deferred Outflows/Inflows of Resources

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

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

The first item is property taxes levied for subsequent years, which represents 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.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Net Position

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

- **Net Investment in Capital Assets –** Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.

- **Restricted 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 does not meet the definition of "restricted" or "net investment in capital assets."

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

R. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.

- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District's 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, and 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)

S. Use of Estimates

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

T. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	$ 16,959,264
Investments	147,326,168
Cash and temporary investments	$ 164,285,432

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.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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 $16,959,264, while the balance on the bank records was $16,960,293. At June 30, 2016, all deposits were fully covered by federal depository insurance or collateral held by the District's agent in the District's name.

C. Investments

The District has the following investments at year-end:

Investment Type	Credit Rating	Rating Agency	Fair Value Measurements Using	Interest Risk – Maturity Duration in Years: Less Than 1	Interest Risk – Maturity Duration in Years: 1 to 5	Total
U.S. treasury securities	AA	S&P	Level 1	$ 18,313,138	$ –	$ 18,313,138
U.S. agency securities	AA	S&P	Level 1	$ 49,968,732	$ 7,732,038	57,700,770
U.S. agency securities	AA	Moody's	Level 1	$ 1,051,317	$ –	1,051,317
Investment pools/mutual funds						
Minnesota School District Liquid Asset Fund	AAAm	S&P	Net Asset Value	Not Applicable	Not Applicable	45,061,297
MnTrust Investment Shares Portfolio	AAA	S&P	Level 1	Not Applicable	Not Applicable	17,449,646
MnTrust Term Series	AAA	S&P	Level 1	$ 7,750,000	$ –	7,750,000
Total investments						$ 147,326,168

The Minnesota School District Liquid Asset Fund, MnTrust Investment Shares Portfolio, and MnTrust Term Series are regulated by Minnesota Statutes and are external investment pools not registered with the Securities Exchange Commission (SEC) that follow the same regulatory rules of the SEC under rule 2a7. The 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.

For MSDLAF investments valued at net asset value (NAV), there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice for the Liquid class, redemption notice period is 14 days for the MAX class.

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

Custodial Credit Risk – 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.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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.

The District's investment policy also 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) or 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. District policy does not allow investments in derivatives.

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5.0 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. At June 30, 2016, securities of the following federal agencies exceeded 5.0 percent of the District's portfolio: Federal National Mortgage Association (9.0 percent); Federal Home Loan Bank (5.0 percent); and Federal Home Loan Mortgage Corporation (12.0 percent).

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 investment maturities; 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, 2016 is as follows:

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	$ 1,627,557	$ 3,618,301	$ –	$ 5,245,858
Construction in progress	3,568,819	14,515,341	(7,662,560)	10,421,600
Total capital assets, not depreciated	5,196,376	18,133,642	(7,662,560)	15,667,458
Capital assets, depreciated				
Land improvements	5,181,542	374,521	–	5,556,063
Buildings	194,776,276	8,066,715	–	202,842,991
Furniture and equipment	14,776,365	826,943	–	15,603,308
Total capital assets, depreciated	214,734,183	9,268,179	–	224,002,362
Less accumulated depreciation for				
Land improvements	(3,476,353)	(183,184)	–	(3,659,537)
Buildings	(92,786,422)	(4,948,339)	–	(97,734,761)
Furniture and equipment	(11,353,525)	(937,713)	–	(12,291,238)
Total accumulated depreciation	(107,616,300)	(6,069,236)	–	(113,685,536)
Net capital assets, depreciated	107,117,883	3,198,943	–	110,316,826
Total capital assets, net	$ 112,314,259	$ 21,332,585	$ (7,662,560)	$ 125,984,284

Depreciation for the year ended June 30, 2016 was charged to the following governmental functions:

Administration	$ 5,387
Elementary and secondary regular instruction	3,721,830
Special education instruction	13,263
Instructional support services	23,624
Pupil support services	22,516
Sites and buildings	2,258,315
Food service	768
Community service	23,533
Total depreciation expense	$ 6,069,236

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

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

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
Alternative facilities bonds	05/08/2008	3.00–3.60%	$ 4,500,000	02/01/2019	$ 1,510,000
Refunding bonds	10/05/2011	4.00–5.00%	$ 50,370,000	02/01/2024	39,490,000
Alternative facilities bonds	02/21/2013	2.00–3.00%	$ 11,775,000	02/01/2026	11,575,000
Alternative facilities bonds	12/30/2014	3.00–3.50%	$ 6,050,000	02/01/2035	6,050,000
Building bonds	07/22/2015	4.00–5.00%	$ 113,385,000	02/01/2037	113,385,000
Total general obligation bonds payable					$ 172,010,000

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.

B. Certificates of Participation Payable

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
2011C Certificates of Participation	11/17/2011	2.00–3.75%	$ 1,615,000	04/01/2027	$ 1,255,000

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.

C. Capital Leases Payable

The District entered into two capital lease agreements to finance the construction of several building additions. The leases have an effective interest rate of 3.43 percent, and call for annual principal and interest payments through January 15, 2029. The leases are being paid through the General Fund and Capital Projects – Building Construction Fund. The leased assets were recorded at $2,233,000 (the present value of future minimum lease payments as of the inception dates of the leases). Total accumulated depreciation on these assets at June 30, 2016 was $92,770.

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.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

E. Minimum Debt Payments

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

Year Ending	General Obligation Bonds Payable		Certificates of Participation		Capital Leases	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 6,130,000	$ 7,385,085	$ 100,000	$ 41,125	$ 124,550	$ 67,602
2018	7,180,000	7,102,895	100,000	38,125	128,860	63,294
2019	7,405,000	6,751,470	105,000	35,125	133,316	58,836
2020	8,140,000	6,388,500	105,000	31,975	137,929	54,224
2021	7,710,000	5,993,600	110,000	28,825	142,700	49,452
2022–2026	38,480,000	24,816,544	600,000	89,888	791,053	169,708
2027–2031	39,645,000	16,948,688	135,000	5,062	543,378	33,078
2032–2036	47,910,000	7,575,513	–	–	–	–
2037	9,410,000	376,400	–	–	–	–
	$172,010,000	$ 83,338,695	$ 1,255,000	$ 270,125	$ 2,001,786	$ 496,194

F. Changes in Long-Term Liabilities

	Balance – Beginning of Year	Additions	Retirements	Balance – End of Year	Due Within One Year
General obligation bonds payable	$ 62,870,000	$ 113,385,000	$ 4,245,000	$ 172,010,000	$ 6,130,000
Certificates of participation payable	1,350,000	–	95,000	1,255,000	100,000
Plus premium	6,188,027	12,843,824	1,246,701	17,785,150	–
Total bonds payable	70,408,027	126,228,824	5,586,701	191,050,150	6,230,000
Capital leases payable	2,503,781	–	501,995	2,001,786	124,550
Net pension liability – PERA	14,087,800	3,480,705	3,358,037	14,210,468	–
Net pension liability – TRA	45,844,276	16,506,883	5,204,993	57,146,166	–
Severance benefits payable	417,532	60,760	115,972	362,320	59,865
Net OPEB obligation	6,554,485	2,220,100	1,087,494	7,687,091	–
Net pension obligation	3,488,963	1,249,681	794,118	3,944,526	–
	$ 143,304,864	$ 149,746,953	$ 16,649,310	$ 276,402,507	$ 6,414,415

NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds which are defined earlier in the report. Any such restrictions which have an accumulated deficit rather than positive balance at June 30 are included in unassigned fund balance in the District's financial statements in accordance with accounting principles generally accepted in the United States of America. However, a description of these deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

NOTE 5 – FUND BALANCES (CONTINUED)

A. Classifications

At June 30, 2016, a summary of the District's governmental fund balance classifications are as follows:

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Prepaid items	$ 89,550	$ 15,502	$ –	$ –	$ 105,052
Restricted					
Staff development	38,836	–	–	–	38,836
Operating capital	1,753,033	–	–	–	1,753,033
Alternative facilities program	–	3,513,135	–	–	3,513,135
Capital projects levy	–	323,083	–	–	323,083
Capital projects	–	110,980,684	–	–	110,980,684
Debt service	–	–	200,151	–	200,151
Food service	–	–	–	994,105	994,105
Community education programs	–	–	–	960,204	960,204
Early childhood family education programs	–	–	–	14,678	14,678
School readiness	–	–	–	2,363	2,363
Community service	–	–	–	47,609	47,609
Total restricted	1,791,869	114,816,902	200,151	2,018,959	118,827,881
Committed					
Cash flow	1,976,507	–	–	–	1,976,507
Federal education jobs	894,821	–	–	–	894,821
Total committed	2,871,328	–	–	–	2,871,328
Assigned					
Separation/retirement benefits	3,121,550	–	–	–	3,121,550
Next generation program implementation	1,000,000	–	–	–	1,000,000
Bond operational costs	500,000	–	–	–	500,000
Carryover	961,407	–	–	–	961,407
Alternative compensation	117,024	–	–	–	117,024
Subsequent year budget deficit	786,587	–	–	–	786,587
Unemployment	4,185	–	–	–	4,185
Total assigned	6,490,753	–	–	–	6,490,753
Unassigned					
Health and safety restricted deficit	(169,258)	–	–	–	(169,258)
Unassigned	8,324,600	–	–	–	8,324,600
Total unassigned	8,155,342	–	–	–	8,155,342
Total	$ 19,398,842	$114,832,404	$ 200,151	$ 2,018,959	$136,450,356

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 6.0 percent of the unassigned General Fund expenditures. At June 30, 2016, the unassigned fund balance of the General Fund (excluding restricted fund balance account deficits) was 9.3 percent of budgeted unassigned expenditures for fiscal 2017.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

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

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Teachers Retirement Association (TRA)

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

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

B. Benefits Provided

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

- **PERA –** Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded status, or have fallen below 80.0 percent, are given 1.0 percent increases.

- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0 percent. After the TRA funded ratio exceeds 90.0 percent for two consecutive years, the annual post-retirement benefit will increase to 2.5 percent.

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

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

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for the PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. TRA Benefits

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

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

Tier I Benefits

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

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) Three percent per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

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

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statutes. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree—no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

C. Contributions

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

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for the Coordinated Plan.

The District’s contributions to the GERF for the year ended June 30, 2016 were $1,291,318. The District’s contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

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

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

The District’s contributions to the TRA for the year ended June 30, 2016 were $3,680,210. The District’s contributions were equal to the required contributions for each year as set by state statutes.

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

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

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

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

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

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

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

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

E. Pension Costs

1. GERF Pension Costs

At June 30, 2016, the District reported a liability of $14,210,468 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of the PERA's participating employers. At June 30, 2015, the District's proportion was 0.2742 percent, which was a decrease of 0.0257 percent from its proportion measured as of June 30, 2014.

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

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

For the year ended June 30, 2016, the District recognized pension expense of $1,196,809 for its proportionate share of the GERF's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 131,784	$ 716,449
Changes in actuarial assumptions	884,979	–
Differences between projected and actual investment earnings	–	1,264,995
Changes in proportion	–	1,042,882
District's contributions to the GERF subsequent to the measurement date	1,291,318	–
Total	$ 2,308,081	$ 3,024,326

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

A total of $1,291,318 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2017	$ (611,830)
2018	$ (611,830)
2019	$ (1,120,212)
2020	$ 336,309

2. TRA Pension Costs

At June 30, 2016, the District reported a liability of $57,146,166 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the TRA in relation to total system contributions including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District's proportionate share was 0.9238 percent at the end of the measurement period and 0.9949 percent for the beginning of the period.

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

District's proportionate share of net pension liability	$ 57,146,166
State's proportionate share of the net pension liability associated with the District	$ 7,009,435

For the year ended June 30, 2016, the District recognized pension expense of $4,578,206. It also recognized $1,239,193 as an increase to pension expense for the support provided by direct aid.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 3,149,353	$ –
Difference between projected and actual investment earnings	–	5,143,172
Changes in actuarial assumptions	4,393,020	–
Changes in proportion and differences between contributions made and the District's proportionate share of contributions	266,610	1,350,728
District's contributions to the TRA subsequent to the measurement date	3,680,210	–
Total	$ 11,489,193	$ 6,493,900

A total of $3,680,210 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to the TRA will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2017	$ (525,473)
2018	$ (525,473)
2019	$ (525,473)
2020	$ 2,891,502

F. Actuarial Assumptions

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

Assumptions	GERF	TRA
Inflation	2.75% per year	3.0%
Active member payroll growth	3.50% per year	3.50–12.00% based on years of service
Investment rate of return	7.90%	8.00%

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

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

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

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

There was a change in actuarial assumptions that affected the measurement of the total liability for the TRA since the prior measurement date. Post-retirement benefit adjustments are now assumed to be 2.00 percent annually with no increase to 2.50 percent projected. The prior year valuation assumed a 2.50 percent increase commencing July 1, 2034.

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

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

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

G. Discount Rate

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

H. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.90%	7.90%	8.90%
District's proportionate share of the GERF net pension liability	$ 22,343,905	$ 14,210,468	$ 7,493,497
TRA discount rate	7.00%	8.00%	9.00%
District's proportionate share of the TRA net pension liability	$ 86,983,862	$ 57,146,166	$ 32,245,747

I. Pension Plan Fiduciary Net Position

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

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

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan 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. The plan does not issue a separate financial report. 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.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

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.

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	$ 2,329,607
Interest on net OPEB obligation	262,179
Adjustment to ARC	(371,686)
Annual OPEB cost (expense)	2,220,100
Contributions made	1,087,494
Increase in net OPEB obligation	1,132,606
Net OPEB obligation – beginning of year	6,554,485
Net OPEB obligation – end of year	$ 7,687,091

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

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$ 2,243,246	$ 1,137,227	50.7%	$ 5,294,131
June 30, 2015	$ 2,228,391	$ 968,037	43.4%	$ 6,554,485
June 30, 2016	$ 2,220,100	$ 1,087,494	49.0%	$ 7,687,091

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits and unfunded actuarial accrued liability (UAAL) were both $18,548,273, as the plan was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $57,774,854, and the ratio of the UAAL to the covered payroll was 32.1 percent.

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.0 percent investment rate of return (net of administrative expenses) based on the District's own investments; no projected salary increases; an annual healthcare cost trend rate of 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after 10 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, 2014 for the various amortization layers ranged from 26 to 30 years.

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

NOTE 8 – PENSION BENEFITS PLAN (CONTINUED)

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined periodically by the District.

C. Annual Pension Cost and Net Pension Obligation

The District's annual pension cost (expense) is calculated based on the ARC of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement Nos. 25, 27, and 50. The ARC represents a level 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.

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	$ 1,144,404
Interest on net pension obligation	139,559
Adjustment to ARC	(34,282)
Annual pension cost (expense)	1,249,681
Contributions made	794,118
Increase in net pension obligation	455,563
Net pension obligation – beginning of year	3,488,963
Net pension obligation – end of year	$ 3,944,526

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

Fiscal Year Ended	Annual Pension Cost	Employer Contribution	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
June 30, 2014	$ 1,085,616	$ 496,007	45.7%	$ 2,896,156
June 30, 2015	$ 1,061,735	$ 468,928	44.2%	$ 3,488,963
June 30, 2016	$ 1,249,681	$ 794,118	63.5%	$ 3,944,526

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits and UAAL both were $8,681,337, as the plan was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $45,725,134 and the ratio of the UAAL to the covered payroll was 19.0 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 8 – PENSION BENEFITS PLAN (CONTINUED)

E. Actuarial Methods and Assumptions

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

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.0 percent investment rate of return (net of administrative expenses) based on the District's own investments and a 3.0 percent salary increase for all members. 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, 2014 for the various amortization layers ranged from 26 to 30 years.

NOTE 9 – FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan which is classified as a "cafeteria plan" (the Plan) under § 125 of the IRC. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the Plan for healthcare and dependent 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 10 – 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.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Construction Commitments

At June 30, 2016, the District had commitments totaling $37,382,027 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.

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REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 273

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

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2015	6/30/2014	0.2999%	$ 14,087,800	$ 15,747,600	89.46%	78.70%
6/30/2016	6/30/2015	0.2742%	$ 14,210,468	$ 16,108,678	88.22%	78.20%

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

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2015	6/30/2015	$ 1,195,515	$ 1,195,515	$ –	$ 16,108,679	7.42%
6/30/2016	6/30/2016	$ 1,291,318	$ 1,291,318	$ –	$ 17,218,336	7.50%

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

Note 2: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This information is not available for previous fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. 273

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

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2015	6/30/2014	0.9949%	$ 45,844,276	$ 3,225,114	$ 49,069,390	$ 45,414,080	100.95%	81.50%
6/30/2016	6/30/2015	0.9238%	$ 57,146,166	$ 7,009,435	$ 64,155,601	$ 46,887,773	121.88%	76.80%

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

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2015	6/30/2015	$ 3,516,583	$ 3,516,583	$ –	$ 46,887,773	7.50%
6/30/2016	6/30/2016	$ 3,680,210	$ 3,680,210	$ –	$ 49,071,547	7.50%

Note 1: **Changes of Benefit Terms**. The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

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

Note 3: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This information is not available for previous fiscal years.

Schedules of Funding Progress
Year Ended June 30, 2016

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 %
July 1, 2014	$ 18,548,273	$ –	$ 18,548,273	– %	$ 57,774,854	32.1 %

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 %
July 1, 2014	$ 8,681,337	$ –	$ 8,681,337	– %	$ 45,725,134	19.0 %

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	$ 1,414,734	$ 2,163,863	$ 3,578,597
Receivables			
Current taxes	–	596,507	596,507
Delinquent taxes	–	7,925	7,925
Accounts and interest	28,250	1,125	29,375
Due from other governmental units	10,189	46,711	56,900
Total assets	$ 1,453,173	$ 2,816,131	$ 4,269,304
Liabilities			
Salaries and benefits payable	$ 1,572	$ 142,764	$ 144,336
Accounts and contracts payable	294,063	84,641	378,704
Unearned revenue	163,433	365,929	529,362
Total liabilities	459,068	593,334	1,052,402
Deferred inflows of resources			
Property taxes levied for subsequent year	–	1,190,018	1,190,018
Deferred revenue – delinquent taxes	–	7,925	7,925
Total deferred inflows of resources	–	1,197,943	1,197,943
Fund balances			
Restricted	994,105	1,024,854	2,018,959
Total liabilities, deferred inflows of resources, and fund balances	$ 1,453,173	$ 2,816,131	$ 4,269,304

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	$ –	$ 1,153,680	$ 1,153,680
Investment earnings	1,273	3,391	4,664
Other	2,260,094	5,432,708	7,692,802
State sources	119,607	459,638	579,245
Federal sources	622,911	–	622,911
Total revenue	3,003,885	7,049,417	10,053,302
Expenditures			
Current			
Food service	2,693,974	–	2,693,974
Community service	–	7,201,847	7,201,847
Capital outlay	33,742	46,714	80,456
Total expenditures	2,727,716	7,248,561	9,976,277
Net change in fund balances	276,169	(199,144)	77,025
Fund balances			
Beginning of year	717,936	1,223,998	1,941,934
End of year	$ 994,105	$ 1,024,854	$ 2,018,959

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	2016	2015
Assets		
Cash and temporary investments	$ 32,477,890	$ 30,175,262
Receivables		
Current taxes	17,964,503	14,184,249
Delinquent taxes	221,661	218,490
Accounts and interest	275,789	566,713
Due from other governmental units	11,599,896	8,452,848
Prepaid items	89,550	148,739
Total assets	$ 62,629,289	$ 53,746,301
Liabilities		
Salaries and benefits payable	$ 8,857,339	$ 8,225,739
Accounts and contracts payable	801,292	1,295,262
Due to other governmental units	1,174,789	407,187
Unearned revenue	16,994	51,551
Total liabilities	10,850,414	9,979,739
Deferred inflows of resources		
Property taxes levied for subsequent year	32,158,372	24,726,206
Unavailable revenue – delinquent taxes	221,661	218,490
Total deferred inflows of resources	32,380,033	24,944,696
Fund balances (deficits)		
Nonspendable for prepaid items	89,550	148,739
Restricted staff development	38,836	38,836
Restricted for operating capital	1,753,033	1,294,558
Committed for cash flow	1,976,507	1,852,629
Committed for federal education jobs	894,821	894,821
Assigned for separation/retirement benefits	3,121,550	2,892,877
Assigned for next generation program implementation	1,000,000	250,000
Assigned for bond operational costs	500,000	500,000
Assigned for carryover	961,407	768,309
Assigned for alternative compensation	117,024	13,206
Assigned for subsequent year budget deficit	786,587	–
Assigned for unemployment	4,185	33,327
Unassigned – health and safety restricted account deficit	(169,258)	(108,018)
Unassigned	8,324,600	10,242,582
Total fund balances	19,398,842	18,821,866
Total liabilities, deferred inflows of resources, and fund balances	$ 62,629,289	$ 53,746,301

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 23,172,135	$ 23,596,521	$ 424,386	$ 22,950,814
Investment earnings	15,000	34,774	19,774	10,773
Other	2,434,032	4,065,652	1,631,620	2,783,742
State sources	69,965,882	71,873,064	1,907,182	68,608,136
Federal sources	1,495,689	1,871,244	375,555	1,488,368
Total revenue	97,082,738	101,441,255	4,358,517	95,841,833
Expenditures				
Current				
Administration	3,115,851	3,281,563	165,712	3,124,572
District support services	3,220,301	3,093,531	(126,770)	3,063,669
Elementary and secondary regular instruction	51,042,468	52,518,801	1,476,333	47,412,069
Vocational education instruction	335,506	402,746	67,240	432,541
Special education instruction	17,318,362	18,601,905	1,283,543	16,239,313
Instructional support services	5,159,657	5,508,758	349,101	5,063,892
Pupil support services	8,237,933	7,922,598	(315,335)	7,745,956
Sites and buildings	10,204,214	8,954,875	(1,249,339)	9,006,454
Fiscal and other fixed cost programs	250,390	248,613	(1,777)	231,429
Debt service				
Principal	215,385	215,385	–	205,829
Interest and fiscal charges	115,504	115,504	–	105,746
Total expenditures	99,215,571	100,864,279	1,648,708	92,631,470
Net change in fund balances	$ (2,132,833)	576,976	$ 2,709,809	3,210,363
Fund balances				
Beginning of year		18,821,866		15,611,503
End of year		$ 19,398,842		$ 18,821,866

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

	2016	2015
Assets		
Cash and temporary investments	$ 1,414,734	$ 889,089
Receivables		
Accounts and interest	28,250	287
Due from other governmental units	10,189	–
Prepaid items	–	4,845
Total assets	$ 1,453,173	$ 894,221
Liabilities		
Salaries and benefits payable	$ 1,572	$ 2,416
Accounts and contracts payable	294,063	3,136
Unearned revenue	163,433	170,733
Total liabilities	459,068	176,285
Fund balances		
Nonspendable for prepaid items	–	4,845
Restricted for food service	994,105	713,091
Total fund balances	994,105	717,936
Total liabilities and fund balances	$ 1,453,173	$ 894,221

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

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	$ 1,000	$ 1,273	$ 273	$ 509
Other – primarily meal sales	2,437,563	2,260,094	(177,469)	2,321,202
State sources	66,600	119,607	53,007	71,912
Federal sources	470,000	622,911	152,911	491,186
Total revenue	2,975,163	3,003,885	28,722	2,884,809
Expenditures				
Current				
Salaries	130,862	101,162	(29,700)	117,503
Employee benefits	17,125	16,740	(385)	16,969
Purchased services	2,824,500	2,437,049	(387,451)	2,613,563
Supplies and materials	53,500	139,023	85,523	28,249
Capital outlay	30,000	33,742	3,742	7,000
Total expenditures	3,055,987	2,727,716	(328,271)	2,783,284
Net change in fund balances	$ (80,824)	276,169	$ 356,993	101,525
Fund balances				
Beginning of year		717,936		616,411
End of year		$ 994,105		$ 717,936

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	2016	2015
Assets		
Cash and temporary investments	$ 2,163,863	$ 2,424,167
Receivables		
Current taxes	596,507	559,788
Delinquent taxes	7,925	8,284
Accounts and interest	1,125	1,125
Due from other governmental units	46,711	31,806
Prepaid items	–	1,901
Total assets	$ 2,816,131	$ 3,027,071
Liabilities		
Salaries and benefits payable	$ 142,764	$ 121,944
Accounts and contracts payable	84,641	128,728
Due to other governmental units	–	15
Unearned revenue	365,929	414,940
Total liabilities	593,334	665,627
Deferred inflows of resources		
Property taxes levied for subsequent year	1,190,018	1,129,162
Unavailable revenue – delinquent taxes	7,925	8,284
Total deferred inflows of resources	1,197,943	1,137,446
Fund balances		
Nonspendable for prepaid items	–	1,901
Restricted for community education programs	960,204	1,121,735
Restricted for early childhood family education programs	14,678	66,103
Restricted for school readiness	2,363	1,468
Restricted for community service	47,609	32,791
Total fund balances	1,024,854	1,223,998
Total liabilities, deferred inflows of resources, and fund balances	$ 2,816,131	$ 3,027,071

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

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 1,128,371	$ 1,153,680	$ 25,309	$ 1,139,242
Investment earnings	2,500	3,391	891	1,418
Other – primarily tuition and fees	5,240,985	5,432,708	191,723	5,561,794
State sources	417,600	459,638	42,038	352,391
Total revenue	6,789,456	7,049,417	259,961	7,054,845
Expenditures				
Current				
Salaries	4,136,156	4,333,946	197,790	4,092,706
Employee benefits	973,216	1,075,245	102,029	983,236
Purchased services	1,209,195	1,300,197	91,002	1,362,035
Supplies and materials	356,590	484,889	128,299	398,907
Other expenditures	9,516	7,570	(1,946)	10,461
Capital outlay	59,450	46,714	(12,736)	172,290
Total expenditures	6,744,123	7,248,561	504,438	7,019,635
Net change in fund balances	$ 45,333	(199,144)	$ (244,477)	35,210
Fund balances				
Beginning of year		1,223,998		1,188,788
End of year		$ 1,024,854		$ 1,223,998

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	2016	2015
Assets		
Cash and temporary investments	$ 120,507,256	$ 9,339,844
Receivables		
Current taxes	–	3,341,758
Accounts and interest	195,620	–
Prepaid items	15,502	264,975
Total assets	$ 120,718,378	$ 12,946,577
Liabilities		
Salaries and benefits payable	$ 26,814	$ 31,293
Accounts and contracts payable	5,844,760	2,721,254
Unearned revenue	14,400	–
Total liabilities	5,885,974	2,752,547
Deferred inflows of resources		
Property taxes levied for subsequent year	–	6,921,752
Fund balances		
Nonspendable for prepaid items	15,502	264,975
Restricted for building projects funded by certificates of participation	–	16,776
Restricted for alternative facilities program	3,513,135	3,114,393
Restricted for capital projects levy	323,083	143,368
Restricted for capital projects	110,980,684	–
Unassigned	–	(267,234)
Total fund balances	114,832,404	3,272,278
Total liabilities, deferred inflows of resources, and fund balances	$ 120,718,378	$ 12,946,577

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

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 11,509,597	$ 11,509,597	$ –	$ 9,199,284
Investment earnings	503,000	692,456	189,456	195
Other	–	60,746	60,746	–
Total revenue	12,012,597	12,262,799	250,202	9,199,479
Expenditures				
Capital outlay				
Salaries	1,425,440	1,512,172	86,732	1,365,682
Employee benefits	509,318	488,279	(21,039)	418,503
Purchased services	2,588,525	5,933,989	3,345,464	153,887
Supplies and materials	205,313	218,495	13,182	254,166
Capital expenditures	38,416,379	16,357,600	(22,058,779)	13,663,961
Debt service				
Principal	188,150	381,610	193,460	534,492
Interest and fiscal charges	382,625	586,999	204,374	62,934
Total expenditures	43,715,750	25,479,144	(18,236,606)	16,453,625
Excess (deficiency) of revenues over expenditures	(31,703,153)	(13,216,345)	18,486,808	(7,254,146)
Other financing sources				
Bonds issued	111,932,647	111,932,647	–	6,045,600
Premium on bonds issued	12,843,824	12,843,824	–	–
Capital lease	–	–	–	493,000
Total other financing sources	124,776,471	124,776,471	–	6,538,600
Net change in fund balances	$ 93,073,318	111,560,126	$ 18,486,808	(715,546)
Fund balances				
Beginning of year		3,272,278		3,987,824
End of year		$ 114,832,404		$ 3,272,278

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	2016	2015
Assets		
Cash and temporary investments	$ 7,264,464	$ 4,700,016
Receivables		
Current taxes	7,100,085	3,216,620
Delinquent taxes	57,102	65,643
Total assets	$ 14,421,651	$ 7,982,279
Deferred inflows of resources		
Property taxes levied for subsequent year	$ 14,164,398	$ 6,488,222
Unavailable revenue – delinquent taxes	57,102	65,643
Total deferred inflows of resources	14,221,500	6,553,865
Fund balances		
Restricted for debt service	200,151	1,428,414
Total deferred inflows of resources and fund balances	$ 14,421,651	$ 7,982,279

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 6,487,340	$ 6,774,556	$ 287,216	$ 7,073,281
Investment earnings	2,500	3,414	914	1,549
Total revenue	6,489,840	6,777,970	288,130	7,074,830
Expenditures				
Debt service				
Principal	4,245,000	4,245,000	–	4,115,000
Interest	5,111,000	5,206,084	95,084	2,539,928
Fiscal charges and other	5,000	7,502	2,502	10,215
Total expenditures	9,361,000	9,458,586	97,586	6,665,143
Excess (deficiency) of revenue over expenditures	(2,871,160)	(2,680,616)	190,544	409,687
Other financing sources				
Bonds issued	1,452,353	1,452,353	–	4,400
Premium on bonds issued	–	–	–	67,246
Total other financing sources	1,452,353	1,452,353	–	71,646
Net change in fund balances	$ (1,418,807)	(1,228,263)	$ 190,544	481,333
Fund balances				
Beginning of year		1,428,414		947,081
End of year		$ 200,151		$ 1,428,414

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OTHER DISTRICT INFORMATION

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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
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%
2014	10,666,213	2,593,867	76,710,991	1,809,161	91,780,232
	12%	3%	83%	2%	100%
2015	22,950,814	2,794,515	68,608,136	1,488,368	95,841,833
	24%	3%	71%	2%	100%
2016	23,596,521	4,100,426	71,873,064	1,871,244	101,441,255
	23%	4%	71%	2%	100%

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

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
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%
2014	3,100,900	2,969,022	62,272,584	4,916,476	7,544,789
	4%	3%	69%	5%	8%
2015	3,124,572	3,063,669	64,083,923	5,063,892	7,745,956
	3%	3%	70%	5%	8%
2016	3,281,563	3,093,531	71,523,452	5,508,758	7,922,598
	3%	3%	71%	5%	8%

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

Sites and Buildings		Other Programs		Total	
$	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%
	9,691,920		362,556		90,858,247
	11%		–%		100%
	9,006,454		543,004		92,631,470
	10%		1%		100%
	8,954,875		579,502		100,864,279
	9%		1%		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						
	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
	2014	27,084,132	1,142,821	4,640,567	7,094,461	39,961,981
	2015	28,429,772	1,129,162	6,921,752	6,488,222	42,968,908
	2016	35,838,469	1,190,018	–	14,164,398	51,192,885
Tax rates						
Tax capacity rates						
	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
	2014	17.566	1.386	–	8.604	27.556
	2015	18.979	1.240	–	7.125	27.344
	2016	18.873	1.242	–	14.783	34.898
Market value rates						
	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
	2014	0.223	–	–	–	0.223
	2015	0.215	–	–	–	0.215
	2016	0.201	–	–	–	0.201

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
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
2014	38,892,673	1,069,308	–	39,961,981
2015	41,891,155	1,077,753	–	42,968,908
2016	50,099,457	1,093,428	–	51,192,885

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, 2016			
Delinquent		Current	
Amount	Percent	Amount	Percent
$ –	– %	$ –	– %
–	–	–	–
–	–	–	–
63,274	0.19	–	–
164	–	–	–
10,373	0.03	–	–
21,789	0.06	–	–
94,046	0.24	–	–
97,042	0.23	–	–
–	–	25,661,095	50.13
$ 286,688		$ 25,661,095	

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	
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	78.84	502.78	3,807.72	3,979.41	8,368.75	9,710.33
2014	61.97	537.17	3,814.26	4,017.20	8,430.60	9,770.48
2015	79.79	518.55	3,827.59	4,030.07	8,456.00	9,261.99
2016	62.41	501.21	3,803.26	4,030.95	8,397.83	9,204.05

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	Half-Day Kindergarten	Full-Day Kindergarten	Elementary 1–3	Elementary 4–6	Secondary
Fiscal 2007	1.250	1.000	0.557	0.557	1.115	1.060	1.300
Fiscal 2008 through 2014	1.250	1.000	0.612	0.612	1.115	1.060	1.300
Fiscal 2015 through 2016	1.000	1.000	0.550	1.000	1.000	1.000	1.200

Source: Minnesota Department of Education student reporting system

SINGLE AUDIT AND OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures		Passed Through to Subrecipients	Noncash Assistance
U.S. Department of Agriculture					
Passed through Minnesota Department of Education					
Child nutrition cluster					
School Breakfast Program	10.553	$ 55,057			
National School Lunch Program	10.555	567,855			$ 122,462
Total child nutrition cluster			622,912		
U.S. Department of Education					
Passed through Minnesota Department of Education					
Special education cluster					
Special Education – Grants to States	84.027	1,489,744			
Special Education – Preschool Grants	84.173	49,479			
Total special education cluster			1,539,223		
Special Education – Grants for Infants and Families	84.181		23,753		
Title I Grants to Local Educational Agencies	84.010		158,453		
Supporting Effective Instruction State Grant	84.367		111,307	$ 7,888	
English Language Acquisition Grants	84.365		59,331		
Passed through SouthWest Metro Intermediate District No. 288					
Career and Technical Education – Basic Grants to States	84.048		12,226		
Total federal awards			$ 2,527,205		

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

Note 2: 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.

Note 3: The District did not elect to use the 10 percent de minimis indirect cost rate.

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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, 2016, 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 18, 2016.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001, that we consider to be a significant deficiency.

(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*.

DISTRICT'S RESPONSE TO FINDING

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 report is not suitable for any other purpose.

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

Minneapolis, Minnesota
October 18, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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) *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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002, that we consider to be a significant deficiency.

DISTRICT'S RESPONSE TO FINDING

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Minneapolis, Minnesota
October 18, 2016

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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, Edina, Minnesota (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 18, 2016.

MINNESOTA LEGAL COMPLIANCE

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by 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 considered 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 School Districts*, except as described in the Schedule of Findings and Questioned Costs as item 2016-003. 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.

DISTRICT'S RESPONSE TO FINDING

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.

PURPOSE OF THIS REPORT

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 18, 2016

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INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

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 Unmodified ___ Qualified ___ Adverse ___ Disclaimer
Internal control over financial reporting:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiencies identified?	X Yes	___ 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?	X Yes	___ 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 2 CFR 200.516(a)?	X Yes	___ No

Programs tested as major programs:

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

Threshold for distinguishing between type A and B programs.	$ 750,000	
Does the auditee qualify as a low-risk auditee?	X Yes	___ No

B. FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER FINANCIAL REPORTING

2016-001 Timeliness and Accuracy of Reconciliations

Criteria – Internal controls over financial reporting are intended to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. To be effective, control procedures such as periodic and year-end account and sub-leger reconciliations must be performed regularly, accurately, and in a timely manner.

Condition – During our audit, we noted several instances where reconciliations prepared by Independent School District No. 273, Edina, Minnesota's (the District) staff were not being performed as timely as in the past, or contained discrepancies when compared to the District's general ledger and underlying records. In previous audits of the District, we have generally found the District's internal controls over financial reporting to be well designed, implemented, and functioning properly. In the current year, although the internal controls were still considered to be well designed, the effectiveness of some control procedures was diminished due to a lack of timeliness and accuracy.

Questioned Costs – None.

Context – This condition was noted in several areas, including cash and investments, liability accrual accounts, and capital assets.

Repeat Finding – This is a current year finding only.

Cause – The District experienced an unusually high rate of staff transition in its Business Services Department in the last year. We believe this condition is attributable to the experience and organizational knowledge lost due to this turnover, and the learning curve caused by the number of new employees in key financial positions.

Effect – This condition subjects the District to a higher risk that misstatements could occur due to errors or fraud, and not be prevented or detected in a timely manner.

Recommendation – We recommend that district management continue to provide training to the new employees in the Business Services Department, emphasizing the need for timely and accurate completion of critical financial reporting control procedures. With additional training and experience, the execution of these control procedures should return to functioning as designed.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. District management will continue to review its internal controls over financial reporting, assure adequate training is provided to the individuals responsible for performing critical financial reporting control procedures, and monitor the effectiveness of these controls. The District has separately issued a Corrective Action Plan related to this finding.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – U.S. DEPARTMENT OF EDUCATION SPECIAL EDUCATION CLUSTER – CFDA NOS. 84.027 AND 84.173

2016-002 Internal Controls Over Compliance With Allowable Costs

Criteria – 2 CFR § 200.302(b)(3) requires the District to maintain records that adequately identify the source and application of funds for federally-funded activities in accordance with 2 CFR 200 Subpart E – Cost Principles.

Condition – During our audit, we noted that the District did not have sufficient controls to assure adequate and timely documentation of time and effort was created and retained to support salary costs charged to federal program and ensure compliance with the U.S. Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) allowable costs standards.

Questioned Costs – None. Our testing did not indicate any instances of noncompliance.

Context – The deficiency in controls pertains to major programs tested in the current year. This was not a statistically valid sample.

Repeat Finding – This is a current year finding only.

Cause – This is the first year of implementation of the new Uniform Guidance requirements for federal awards, which eliminated the requirement of personnel activity reports. This change did not, however, relieve the District from maintaining sufficient documentation to substantiate costs charged to the program related to employee time and effort.

Effect – This could be viewed as a violation of the award agreement.

Recommendation – We recommend that the District review its internal control procedures relating to time and effort documentation of allowable costs for special education federal programs. The District should review the new Uniform Guidance to obtain a better understanding of the new requirements and identify any needed policy and procedure changes, in addition to those already referenced above.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District is will review and update its policies and procedures relating to cash allowable costs for its federal programs to ensure compliance with Uniform Guidance in the future. The District has separately issued a Corrective Action Plan related to this finding.

D. MINNESOTA LEGAL COMPLIANCE FINDINGS

2016-003 Payment of Invoices

Criteria – Minnesota Statute § 471.425 requires prompt payment of local government bills within a standard payment period of 35 days from the receipt of goods and services, or the invoice for goods or services, for districts with governing boards that meet at least once a month.

Condition – Three of twenty-five disbursements selected for testing were not paid within the required thirty-five days from the receipt of goods and services.

Questioned Costs – Not applicable.

Context – Three of twenty-five disbursements tested was not paid within the required thirty-five day period.

Repeat Finding – This is a current year and prior year finding.

Cause – This was an oversight by district personnel.

Effect – The District did not pay these claims within the time frame allowed by state statute.

Recommendation – We recommend that the District review its procedures for paying invoices to ensure that all bills are paid within the statutory time limit.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District is will review its procedures relating to processing disbursements to ensure compliance in the future. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT SCHOOL DISTRICT NO. 273

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2016

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		$ 101,441,255	$ 101,441,255	$ –
Total expenditures		$ 100,864,279	$ 100,864,279	$ –
Nonspendable				
460	Nonspendable fund balance	$ 89,550	$ 89,550	$ –
Restricted				
403	Staff development	$ 38,836	$ 38,836	$ –
405	Deferred maintenance	$ –	$ –	$ –
406	Health and safety	$ (169,258)	$ (169,258)	$ –
407	Capital projects levy	$ –	$ –	$ –
408	Cooperative revenue	$ –	$ –	$ –
409	Alternative facility program	$ –	$ –	$ –
413	Project funded by COP	$ –	$ –	$ –
414	Operating debt	$ –	$ –	$ –
416	Levy reduction	$ –	$ –	$ –
417	Taconite building maintenance	$ –	$ –	$ –
423	Certain teacher programs	$ –	$ –	$ –
424	Operating capital	$ 1,753,033	$ 1,753,033	$ –
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	$ –	$ –	$ –
440	Teacher developmment and evaluation	$ –	$ –	$ –
441	Basic skills programs	$ –	$ –	$ –
445	Career and technical programs	$ –	$ –	$ –
448	Achievement and integration	$ –	$ –	$ –
449	Safe schools levy	$ –	$ –	$ –
450	Pre-Kindergarten	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
452	OPEB liability not in trust	$ –	$ –	$ –
453	Unfunded severance and retirement levy	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
467	Long-term facilities maintenance	$ –	$ –	$ –
Committed				
418	Committed for separation	$ –	$ –	$ –
461	Committed fund balance	$ 2,871,328	$ 2,871,328	$ –
Assigned				
462	Assigned fund balance	$ 6,490,753	$ 6,490,753	$ –
Unassigned				
422	Unassigned fund balance	$ 8,324,600	$ 8,324,600	$ –
Food Service				
Total revenue		$ 3,003,885	$ 3,003,883	$ 2
Total expenditures		$ 2,727,716	$ 2,727,714	$ 2
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
452	OPEB liability not in trust	$ –	$ –	$ –
464	Restricted fund balance	$ 994,105	$ 994,105	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Community Service				
Total revenue		$ 7,049,417	$ 7,049,419	$ (2)
Total expenditures		$ 7,248,561	$ 7,248,562	$ (1)
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
426	$25 taconite	$ –	$ –	$ –
431	Community education	$ 960,204	$ 960,204	$ –
432	ECFE	$ 14,678	$ 14,678	$ –
440	Teacher developmment and evaluation	$ –	$ –	$ –
444	School readiness	$ 2,363	$ 2,363	$ –
447	Adult basic education	$ –	$ –	$ –
452	OPEB liability not in trust	$ –	$ –	$ –
464	Restricted fund balance	$ 47,609	$ 47,609	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

INDEPENDENT SCHOOL DISTRICT NO. 273

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2016

			Audit		UFARS		Audit – UFARS
Building Construction							
Total revenue		$	12,262,799	$	12,262,798	$	1
Total expenditures		$	25,479,144	$	25,479,141	$	3
Nonspendable							
460	Nonspendable fund balance	$	15,502	$	15,502	$	–
Restricted							
407	Capital projects levy	$	323,083	$	323,080	$	3
409	Alternative facility program	$	3,513,135	$	3,513,135	$	–
413	Project funded by COP	$	–	$	–	$	–
467	Long-term facilities maintenance	$	–	$	–	$	–
464	Restricted fund balance	$	110,980,684	$	110,980,681	$	3
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Debt Service							
Total revenue		$	6,777,970	$	6,777,969	$	1
Total expenditures		$	9,458,586	$	9,458,584	$	2
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted							
425	Bond refundings	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
464	Restricted fund balance	$	200,151	$	200,151	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Trust							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
422	Net position	$	–	$	–	$	–
Internal Service							
Total revenue		$	855,693	$	855,693	$	–
Total expenditures		$	824,099	$	824,099	$	–
422	Net position	$	438,548	$	438,548	$	–
OPEB Revocable Trust Fund							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
422	Net position	$	–	$	–	$	–
OPEB Irrevocable Trust Fund							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
422	Net position	$	–	$	–	$	–
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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