

INDEPENDENT SCHOOL DISTRICT NO. 273  
EDINA, MINNESOTA

Financial Statements  
and Supplemental Information

Year Ended  
June 30, 2014

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INTRODUCTORY SECTION

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INDEPENDENT SCHOOL DISTRICT NO. 273

School Board and Administration  
Year Ended June 30, 2014

**SCHOOL BOARD**

|                      | <u>Position</u>     |
|----------------------|---------------------|
| Randy Meyer          | Chairperson         |
| Cathy Cella          | Vice Chairperson    |
| Leny Wallen-Friedman | Treasurer           |
| Sarah Patzloff       | Assistant Treasurer |
| Regina Neville       | Clerk               |
| David Goldstein      | Assistant Clerk     |
| Lisa O'Brien         | Assistant Clerk     |

**ADMINISTRATION**

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

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FINANCIAL SECTION

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PRINCIPALS

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

INDEPENDENT AUDITOR'S REPORT

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

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

**AUDITOR'S RESPONSIBILITY**

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

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

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

(continued)

## **OPINIONS**

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2014, 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplemental information, and other district information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

The supplemental information, the Schedule of Expenditures of Federal Awards, and the UFARS Compliance Table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and other district information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

(continued)

## **Prior Year Comparative Information**

We have previously audited the District's 2013 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 11, 2013. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2013 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 9, 2014 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 9, 2014

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## INDEPENDENT SCHOOL DISTRICT NO. 273

### Management's Discussion and Analysis Fiscal Year Ended June 30, 2014

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, 2014. 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 (if any), liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide 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 (if any), liabilities, and deferred inflows of resources—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District requires consideration of additional 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 can be found in the combining and individual fund statements and schedules section.

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

- Some funds are required by state law and by bond covenants.
- The District can establish other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The District maintains the following kinds of funds:

**Governmental Funds** – The District's basic services are included in governmental funds, which generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

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



## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

|  | <u>2014</u>                  | <u>2013</u>                  |
|--|------------------------------|------------------------------|
| <b>Assets</b>  |                              |                              |
| Current and other assets                             | \$ 75,511,197                | \$ 62,716,357                |
| Capital assets, net of depreciation                  | <u>104,275,768</u>           | <u>96,663,281</u>            |
| <b>Total assets</b>                                  | <b><u>\$ 179,786,965</u></b> | <b><u>\$ 159,379,638</u></b> |
| <b>Liabilities</b>                                   |                              |                              |
| Current and other liabilities                        | \$ 16,728,649                | \$ 14,023,538                |
| Long-term liabilities, including due within one year | <u>80,539,420</u>            | <u>81,491,053</u>            |
| <b>Total liabilities</b>                             | <b><u>\$ 97,268,069</u></b>  | <b><u>\$ 95,514,591</u></b>  |
| <b>Deferred inflows of resources</b>                 |                              |                              |
| Property taxes levied for subsequent year            | <u>\$ 36,271,789</u>         | <u>\$ 23,618,541</u>         |
| <b>Net position</b>                                  |                              |                              |
| Net investment in capital assets                     | \$ 36,988,080                | \$ 31,185,673                |
| Restricted   | 2,885,430                    | 1,934,927                    |
| Unrestricted   | <u>6,373,597</u>             | <u>7,125,906</u>             |
| <b>Total net position</b>                            | <b><u>\$ 46,247,107</u></b>  | <b><u>\$ 40,246,506</u></b>  |

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, may produce a significant difference in the calculated amounts.

Total net position increased by \$6,000,601, which reflects the current year operating results. The District's net investment in capital assets increased \$5,802,407 from the prior year. Restricted net position also increased \$950,503. Unrestricted net position decreased \$752,309. The increase in the net investment in capital assets is mainly due to the District acquiring capital assets funded through the alternative facilities program and voter-approved capital project referendum tax levies.

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

|  | <b>2014</b>   | <b>2013</b>   |
|--|---------------|---------------|
| <b>Revenues</b>                              |               |               |
| Program revenues                             |               |               |
| Charges for services                         | \$ 10,831,332 | \$ 10,259,382 |
| Operating grants and contributions           | 13,160,555    | 11,988,447    |
| General revenues                             |               |               |
| Property taxes                               | 27,631,525    | 40,899,226    |
| General grants and aids                      | 66,679,341    | 52,770,405    |
| All other                                    | 1,038,671     | 1,138,293     |
| <b>Total revenues</b>                        | 119,341,424   | 117,055,753   |
| <b>Expenses</b>                              |               |               |
| Administration                               | 3,288,777     | 2,985,592     |
| District support services                    | 2,982,575     | 2,563,552     |
| Elementary and secondary regular instruction | 49,824,755    | 49,033,250    |
| Vocational education instruction             | 357,150       | 366,826       |
| Special education instruction                | 17,015,210    | 16,327,119    |
| Instructional support services               | 4,972,525     | 5,196,759     |
| Pupil support services                       | 7,686,018     | 7,754,839     |
| Sites and buildings                          | 13,929,573    | 13,302,401    |
| Fiscal and other fixed cost programs         | 219,543       | 139,340       |
| Food service                                 | 3,186,469     | 3,264,058     |
| Community service                            | 7,832,332     | 7,491,563     |
| Interest and fiscal charges on debt          | 2,045,896     | 2,880,899     |
| <b>Total expenses</b>                        | 113,340,823   | 111,306,198   |
| <b>Change in net position</b>                | \$ 6,000,601  | \$ 5,749,555  |

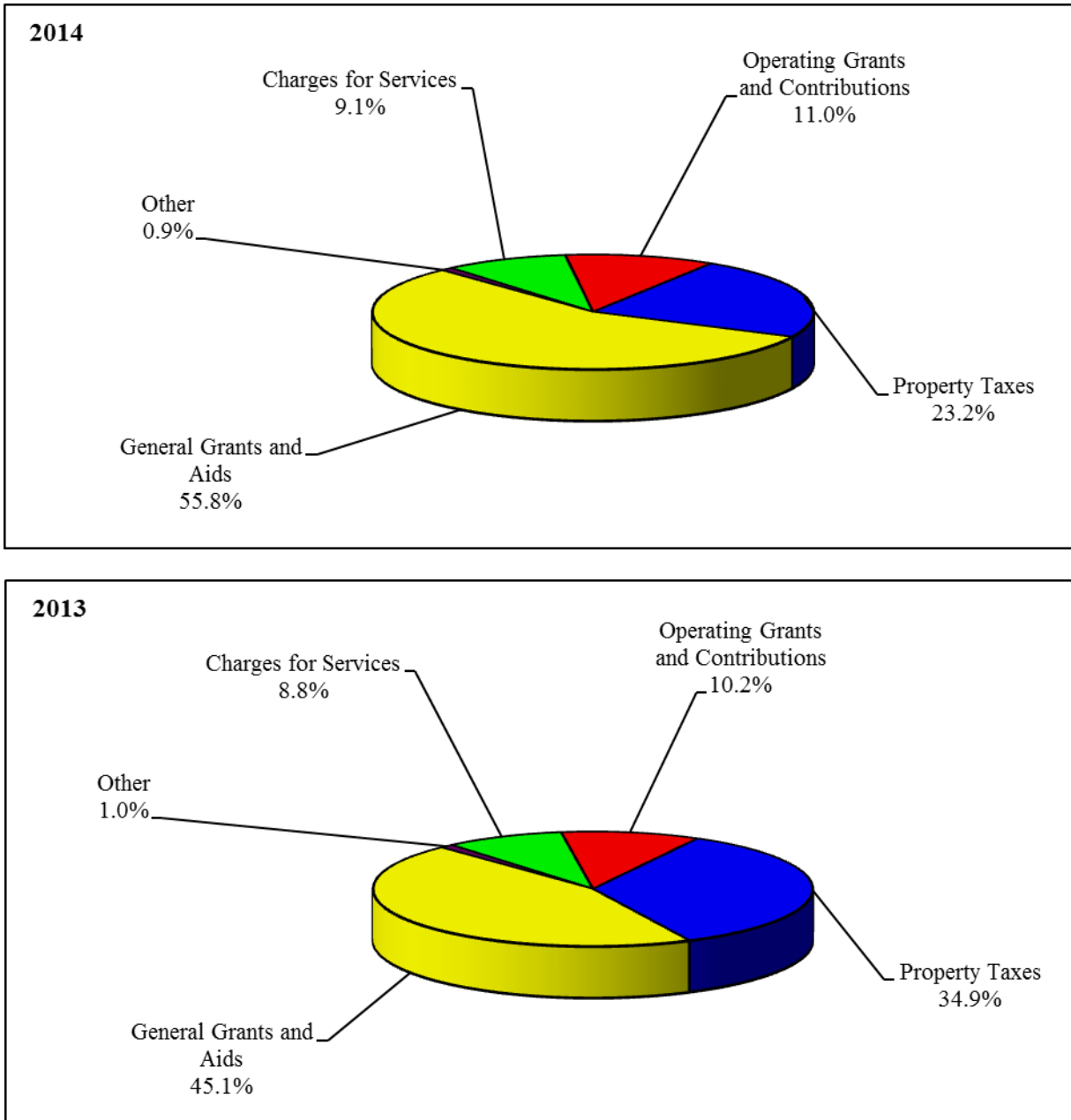
This format is similar to fund financial statements, except it is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment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

Total revenues for fiscal year 2014 were \$2,285,671 higher than the prior year. Increases include enrollment, formula allowance, Alternative Delivery of Specialized Instructional Services (ADSIS) funding, special education, federal, and other local sources (i.e. fees, rentals, and donations).

Expenses increased \$2,034,625 compared to fiscal year 2013 levels. The increase in expenditures is due to higher than average staff retirements, additional math support funded with ADSIS funding, one-time enhancements associated with the implementation of the strategic plan (i.e. secondary study), site carryover, and implementation of the 10-year alternative facilities plan. The growth in remaining expenditures is consistent with regional inflationary trends.

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

**Figure A – Sources of Revenues for Fiscal Years 2014 and 2013**

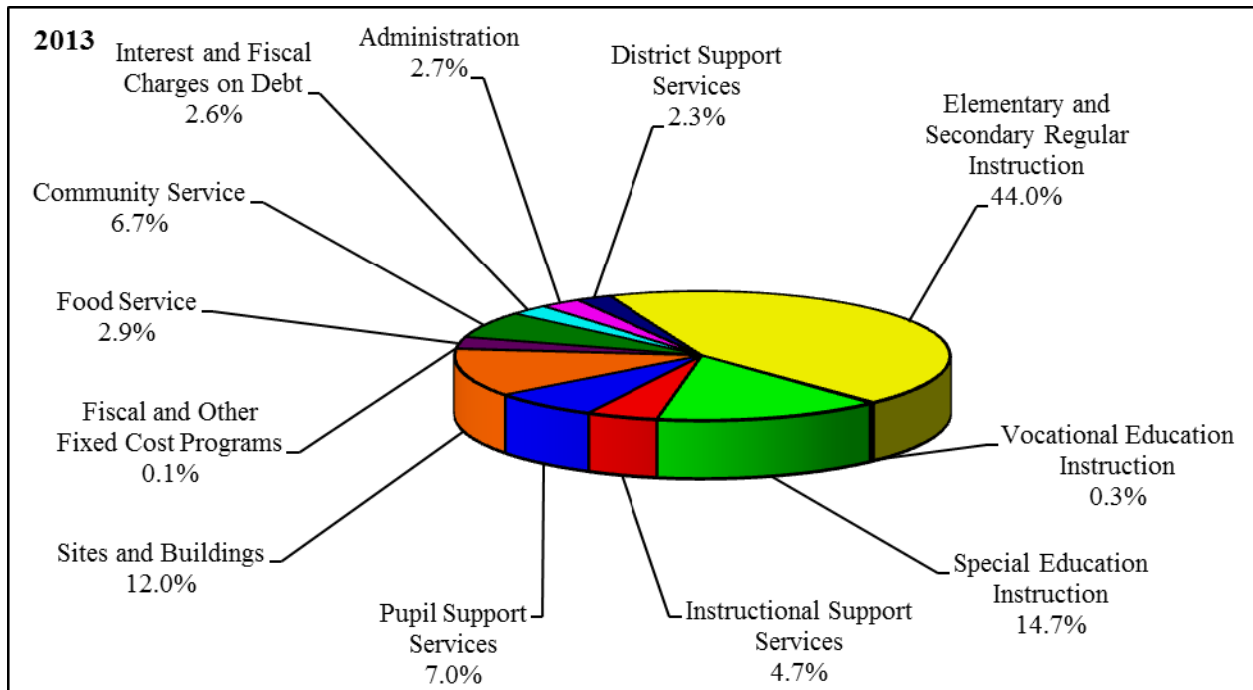
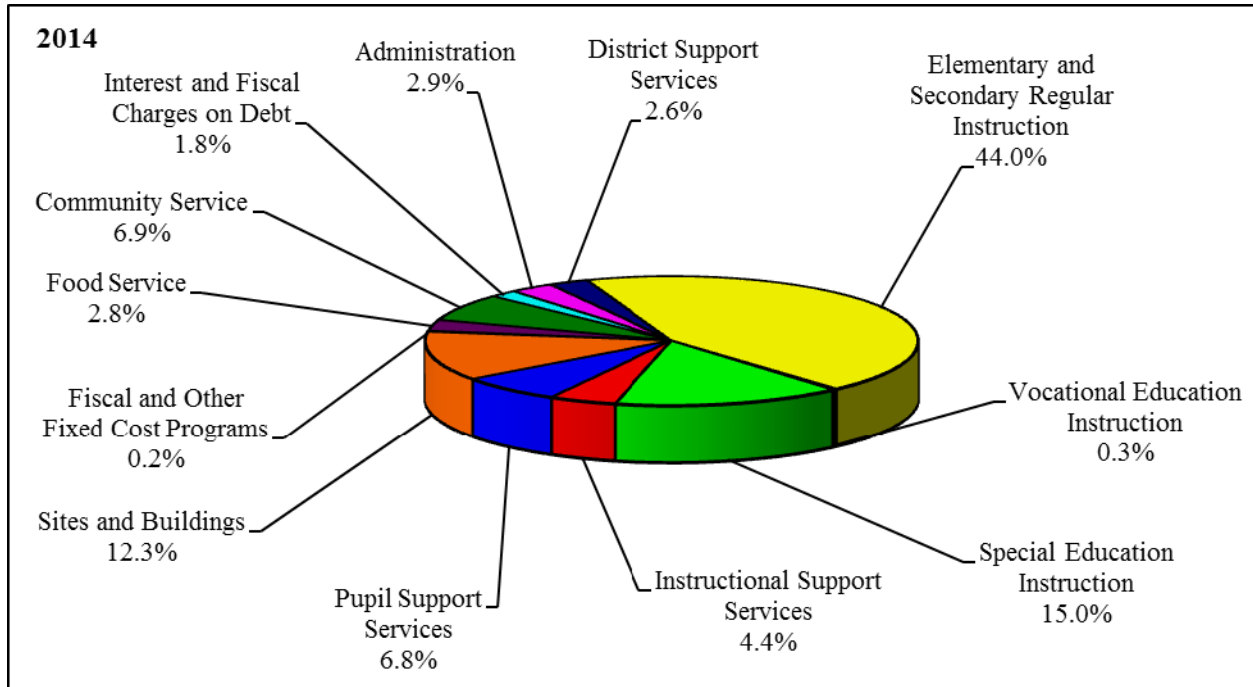


The largest share of the District’s revenue is received from the state, including the aid formula and most of the operating grants. This significant reliance on the state for funding has placed tremendous pressure on local school districts as a result of limited funding due to the state’s financial position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

The proportionate share of district revenue from these two sources may change significantly between fiscal years, due to the “tax shift.” The tax shift is an accounting tool used on occasion to balance the state budget, whereby districts recognize cash collections for the subsequent year’s property tax levy as current year revenue, and the state adjusts aid payments to districts by an equal amount.

**Figure B – Expenses for Fiscal Years 2014 and 2013**



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:

|  | <u>2014</u>          | <u>2013</u>          | <u>Increase<br/>(Decrease)</u> |
|--|----------------------|----------------------|--------------------------------|
| Major funds                              |                      |                      |                                |
| General                                  | \$ 15,611,503        | \$ 14,109,918        | \$ 1,501,585                   |
| Capital Projects – Building Construction | 3,987,824            | 9,041,055            | (5,053,231)                    |
| Debt Service                             | 947,081              | 775,734              | 171,347                        |
| Nonmajor funds                           |                      |                      |                                |
| Food Service Special Revenue             | 616,411              | 528,640              | 87,771                         |
| Community Service Special Revenue        | <u>1,188,788</u>     | <u>1,162,082</u>     | <u>26,706</u>                  |
| Total governmental funds                 | <u>\$ 22,351,607</u> | <u>\$ 25,617,429</u> | <u>\$ (3,265,822)</u>          |

In the General Fund, nonspendable fund balances for prepaid items decreased \$655,425. Fund balances restricted for various purposes (including restricted fund balance account deficits) increased \$699,645. 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 \$96,654. Fund balances assigned for various purposes decreased \$48,283, and unassigned fund balance (excluding restricted fund balance account deficits) increased \$1,408,994 during the year.

The decrease in the Capital Projects – Building Construction Fund balance primarily reflects construction expenditures in fiscal 2014 funded by the proceeds of the General Obligation Alternative Facilities Bonds, Series 2013A issued in the previous year, of which \$3,688,167 remains restricted for alternative facilities programs 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:

|                         | <u>Original Budget</u> | <u>Final Budget</u>  | <u>Increase<br/>(Decrease)</u> | <u>Percent Change</u> |
|-------------------------|------------------------|----------------------|--------------------------------|-----------------------|
| Revenue                 | <u>\$ 94,966,227</u>   | <u>\$ 90,737,968</u> | <u>\$ (4,228,259)</u>          | <u>(4.5%)</u>         |
| Expenditures            | <u>\$ 95,102,308</u>   | <u>\$ 91,551,030</u> | <u>\$ (3,551,278)</u>          | <u>(3.7%)</u>         |
| Other financing sources | <u>\$ –</u>            | <u>\$ 410,028</u>    | <u>\$ 410,028</u>              | <u>100.0%</u>         |

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

Table 5 summarizes the operating results of the General Fund:

|                             | <u>2014 Actual</u>  | <u>Over (Under)<br/>Final Budget</u> |                | <u>Over (Under) Prior Year</u> |                |
|-----------------------------|---------------------|--------------------------------------|----------------|--------------------------------|----------------|
|                             |                     | <u>Amount</u>                        | <u>Percent</u> | <u>Amount</u>                  | <u>Percent</u> |
| Revenue                     | \$ 91,780,232       | \$ 1,042,264                         | 1.1%           | \$ (1,924,541)                 | (2.1%)         |
| Expenditures                | 90,858,247          | \$ (692,783)                         | (0.8%)         | \$ (1,868,254)                 | (2.0%)         |
| Other financing sources     | <u>579,600</u>      | \$ 169,572                           | 41.4%          | \$ (10,260)                    | (1.7%)         |
| Net change in fund balances | <u>\$ 1,501,585</u> |                                      |                |                                |                |

Actual revenues for fiscal year 2014 were 1.1 percent over budget. The revenue variance was primarily in state aids and other local revenues. Expenditures were 0.8 percent under budget. The expenditure variance in 2014 was spread across several programs, with the largest under spending occurring in district support services, regular instruction, pupil support services, and sites and buildings due to capital projects savings and planned site allocation savings that will carryover for the next year.

Revenue increases from the prior year were mainly due to the additional general education aid due to increased student enrollment, a formula allowance increase of \$78 per pupil unit, an increase in special education aid, ADSIS funding, and other local revenues (i.e. fees, rentals, and donations).

The increase in expenditures is due to higher than average staff retirements, additional math support funded with ADSIS funding, and one-time enhancements associated with the implementation of the strategic plan (i.e. secondary study) and site carryover. The growth in remaining expenditures is consistent with regional inflationary trends.

### **Food Service Special Revenue Fund**

Food Service Special Revenue Fund revenue for fiscal 2014 totaled \$3,271,491 and expenditures were \$3,183,720. The June 30, 2014 fund balance is \$616,411, an increase of \$87,771 from fiscal year 2013.

### **Community Service Special Revenue Fund**

Community Service Special Revenue Fund revenue for fiscal 2014 totaled \$7,857,781 and expenditures were \$7,831,075. The June 30, 2014 fund balance is \$1,188,788, an increase of \$26,706 from fiscal year 2013.

### **Capital Projects – Building Construction Fund**

Capital Projects – Building Construction Fund revenue and other financing sources for fiscal 2014 totaled \$10,596,851 and expenditures were \$15,650,082. The June 30, 2014 fund balance is \$3,987,824, a decrease of \$5,053,231 from fiscal year 2013.

### **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 for fiscal 2014 totaled \$6,973,312, and expenditures were \$6,801,965. The June 30, 2014 fund balance is \$947,081, an increase of \$171,347 from fiscal year 2013.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2014, the District had invested \$104,275,768 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 \$5,018,800.

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, 2014 and 2013.

|                               | <u>2014</u>           | <u>2013</u>          | <u>Change</u>       |
|-------------------------------|-----------------------|----------------------|---------------------|
| Land                          | \$ 1,627,557          | \$ 1,627,557         | \$ —                |
| Land improvements             | 5,181,542             | 4,596,889            | 584,653             |
| Buildings                     | 179,398,517           | 171,200,071          | 8,198,446           |
| Furniture and equipment       | 14,350,614            | 13,947,183           | 403,431             |
| Construction in progress      | 5,943,718             | 2,704,961            | 3,238,757           |
| Less accumulated depreciation | <u>(102,226,180)</u>  | <u>(97,413,380)</u>  | <u>(4,812,800)</u>  |
| Total                         | <u>\$ 104,275,768</u> | <u>\$ 96,663,281</u> | <u>\$ 7,612,487</u> |
| Depreciation expense          | <u>\$ 5,018,800</u>   | <u>\$ 4,824,347</u>  | <u>\$ 194,453</u>   |

The changes presented in the table above reflect the ongoing activity and completion of projects at district sites during fiscal year 2014. The most significant change from last year is buildings. The increase in completed construction is due to the 10-year alternative facilities plan beginning. The increase in buildings is due to complete replacement of HVAC mechanical systems at Concord Elementary School, roofing repairs at Creek Valley Elementary School and Edina High School, and paving repairs at Cornelia and Creek Valley Elementary Schools.

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:

|  | <u>2014</u>          | <u>2013</u>          | <u>Change</u>       |
|--|----------------------|----------------------|---------------------|
| General obligation bonds payable       | \$ 60,935,000        | \$ 65,020,000        | \$ (4,085,000)      |
| Certification of participation payable | 1,445,000            | 1,540,000            | (95,000)            |
| Premiums on bonds payable              | 6,819,010            | 7,515,558            | (696,548)           |
| Capital leases payable                 | 2,656,102            | 443,105              | 2,212,997           |
| Severance benefits payable             | 494,021              | 477,731              | 16,290              |
| Net OPEB obligation                    | 5,294,131            | 4,188,112            | 1,106,019           |
| Net pension obligation                 | <u>2,896,156</u>     | <u>2,306,547</u>     | <u>589,609</u>      |
| Total                                  | <u>\$ 80,539,420</u> | <u>\$ 81,491,053</u> | <u>\$ (951,633)</u> |

The decrease in general obligation bonds payable is due to the scheduled principal payments during fiscal year 2014.

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

|                         |                         |
|-------------------------|-------------------------|
| District's market value | \$ 7,527,342,023        |
| Limit rate              | <u>15.0%</u>            |
| Legal debt limit        | <u>\$ 1,129,101,303</u> |

Additional details of the District's capital assets and long-term debt activity can be found in the notes to basic financial statements.

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

With the exception of the voter-approved excess operating referendum, the District is dependent on the state of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The basic general education formula allowance for Minnesota school districts increased \$78 per pupil in fiscal year 2014 to \$5,302. The Legislature has added \$105, or 2 percent, per pupil to the basic formula allowance for fiscal year 2015.

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

In June 2014, 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 \$10 million in a combination of levy and bond funding annually for the next two years and \$15 million in the remaining years of the plan to improve mechanical systems, exterior envelope, and paving throughout the District.

The School Board has convened a Next Generation Facilities Advisory Task Force (FATF) to analyze pertinent information and consider options for district facilities to meet the needs of Edina Public Schools Next Generation learners. The FATF will focus on both short-term and long-term facility needs, with a charge of making recommendations to the District and School Board for consideration of a potential 2015 Bond Referendum. Recommendations will also be used by the School Board and Administration as part of the District's implementation of the Next Generation of Edina Public Schools Strategic Plan.

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](http://www.edinaschools.org).

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Net Position  
as of June 30, 2014  
(With Partial Comparative Information as of June 30, 2013)

|  | Governmental Activities |                       |
|--|-------------------------|-----------------------|
|  | 2014                    | 2013                  |
| <b>Assets</b>  |                         |                       |
| Cash and temporary investments                                     | \$ 43,766,839           | \$ 30,694,411         |
| Receivables  |                         |                       |
| Current taxes  | 19,713,206              | 19,536,675            |
| Delinquent taxes   | 886,965                 | 285,208               |
| Accounts and interest  | 245,081                 | 259,468               |
| Due from other governmental units                                  | 9,333,452               | 10,871,562            |
| Prepaid items  | 92,340                  | 740,233               |
| Restricted assets – temporarily restricted                         |                         |                       |
| Cash and investments for capital asset acquisition                 | 1,473,314               | 328,800               |
| Capital assets   |                         |                       |
| Not depreciated  | 7,571,275               | 4,332,518             |
| Depreciated, net of accumulated depreciation                       | 96,704,493              | 92,330,763            |
| Total capital assets, net of accumulated depreciation              | <u>104,275,768</u>      | <u>96,663,281</u>     |
| Total assets   | <u>\$ 179,786,965</u>   | <u>\$ 159,379,638</u> |
| <b>Liabilities</b>   |                         |                       |
| Salaries payable   | \$ 3,765,723            | \$ 3,580,020          |
| Accounts and contracts payable                                     | 9,111,499               | 7,512,236             |
| Accrued interest payable   | 1,086,268               | 1,120,171             |
| Due to other governmental units                                    | 741,366                 | 686,002               |
| Unearned revenue   | 2,023,793               | 1,125,109             |
| Long-term liabilities  |                         |                       |
| Due within one year  | 4,694,498               | 4,331,083             |
| Due in more than one year  | 75,844,922              | 77,159,970            |
| Total long-term liabilities  | <u>80,539,420</u>       | <u>81,491,053</u>     |
| Total liabilities  | 97,268,069              | 95,514,591            |
| Deferred inflows of resources                                      |                         |                       |
| Property taxes levied for subsequent year                          | 36,271,789              | 23,618,541            |
| Net position   |                         |                       |
| Net investment in capital assets                                   | 36,988,080              | 31,185,673            |
| Restricted for   |                         |                       |
| Capital asset acquisition  | 1,039,702               | 285,148               |
| Debt service   | 65,170                  | –                     |
| Food service   | 616,411                 | 528,640               |
| Community service  | 1,164,147               | 1,121,139             |
| Unrestricted   | 6,373,597               | 7,125,906             |
| Total net position   | <u>46,247,107</u>       | <u>40,246,506</u>     |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 179,786,965</u>   | <u>\$ 159,379,638</u> |

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Activities  
 Year Ended June 30, 2014  
 (With Partial Comparative Information for the Year Ended June 30, 2013)

| Functions/Programs                              | 2014                  |                         |  | 2013   |  |
|---|-----------------------|-------------------------|--|--|--|
|   | Expenses              | Program Revenues        |  | Net (Expense)<br>Revenue and<br>Changes in<br>Net Position | Net (Expense)<br>Revenue and<br>Changes in<br>Net Position |
|   |                       | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Governmental<br>Activities                                 | Governmental<br>Activities                                 |
| Governmental activities                         |                       |                         |  |  |  |
| Administration                                  | \$ 3,288,777          | \$ -                    | \$ -                                     | \$ (3,288,777)   | \$ (2,985,592)   |
| District support services                       | 2,982,575             | -                       | -  | (2,982,575)  | (2,563,552)  |
| Elementary and secondary<br>regular instruction | 49,824,755            | 618,742                 | 547,576                                  | (48,658,437)   | (48,108,864)   |
| Vocational education<br>instruction             | 357,150               | -                       | -  | (357,150)  | (366,826)  |
| Special education instruction                   | 17,015,210            | 184,719                 | 9,787,649                                | (7,042,842)  | (6,824,591)  |
| Instructional support services                  | 4,972,525             | 25,000                  | -  | (4,947,525)  | (5,176,666)  |
| Pupil support services                          | 7,686,018             | 20,256                  | 1,505,586                                | (6,160,176)  | (6,198,051)  |
| Sites and buildings                             | 13,929,573            | 712,632                 | -  | (13,216,941)   | (12,699,406)   |
| Fiscal and other fixed cost<br>programs         | 219,543               | -                       | -  | (219,543)  | (139,340)  |
| Food service                                    | 3,186,469             | 2,770,547               | 500,077                                  | 84,155   | 43,905   |
| Community service                               | 7,832,332             | 6,499,436               | 819,667                                  | (513,229)  | (1,158,487)  |
| Interest and fiscal charges                     | 2,045,896             | -                       | -  | (2,045,896)  | (2,880,899)  |
| Total governmental activities                   | <u>\$ 113,340,823</u> | <u>\$ 10,831,332</u>    | <u>\$ 13,160,555</u>                     | (89,348,936)   | (89,058,369)   |
| General revenues                                |                       |                         |  |  |  |
| Taxes   |                       |                         |  |  |  |
| Property taxes, levied for general purposes     |                       |                         |  | 11,127,352   | 27,281,767   |
| Property taxes, levied for community service    |                       |                         |  | 552,513  | 1,061,973  |
| Property taxes, levied for capital projects     |                       |                         |  | 8,856,632  | 2,392,234  |
| Property taxes, levied for debt service         |                       |                         |  | 7,095,028  | 10,163,252   |
| General grants and aids                         |                       |                         |  | 66,679,341   | 52,770,405   |
| Other general revenues                          |                       |                         |  | 1,011,896  | 1,076,751  |
| Investment earnings                             |                       |                         |  | 26,775   | 61,542   |
| Total general revenues                          |                       |                         |  | <u>95,349,537</u>  | <u>94,807,924</u>  |
| Change in net position                          |                       |                         |  | 6,000,601  | 5,749,555  |
| Net position – beginning                        |                       |                         |  | <u>40,246,506</u>  | <u>34,496,951</u>  |
| Net position – ending                           |                       |                         |  | <u>\$ 46,247,107</u>                                       | <u>\$ 40,246,506</u>                                       |

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Balance Sheet  
Governmental Funds  
as of June 30, 2014

(With Partial Comparative Information as of June 30, 2013)

|   | <u>General Fund</u>  | <u>Capital Projects –<br/>Building<br/>Construction Fund</u> | <u>Debt<br/>Service Fund</u> |
|---|----------------------|--|------------------------------|
| <b>Assets</b>   |                      |  |                              |
| Cash and temporary investments                                      | \$ 26,243,718        | \$ 9,041,638   | \$ 4,636,509                 |
| Cash and investments held by trustee                                | –                    | 1,473,314  | –                            |
| Receivables   |                      |  |                              |
| Current taxes   | 13,425,239           | 2,224,539  | 3,499,682                    |
| Delinquent taxes  | 658,382              | –  | 204,357                      |
| Accounts and interest   | 233,004              | –  | –                            |
| Due from other governmental units                                   | 9,278,723            | –  | –                            |
| Due from other funds  | –                    | 281,570  | –                            |
| Prepaid items   | 79,058               | –  | –                            |
|   | <u>\$ 49,918,124</u> | <u>\$ 13,021,061</u>   | <u>\$ 8,340,548</u>          |
| <b>Liabilities</b>  |                      |  |                              |
| Salaries payable  | \$ 3,533,954         | \$ –   | \$ –                         |
| Accounts and contracts payable                                      | 5,434,565            | 3,248,323  | 94,649                       |
| Due to other governmental units                                     | 741,351              | –  | –                            |
| Due to other funds  | 281,570              | –  | –                            |
| Unearned revenue  | 262,859              | 1,144,347  | –                            |
| Total liabilities   | <u>10,254,299</u>    | <u>4,392,670</u>   | <u>94,649</u>                |
| <b>Deferred inflows of resources</b>                                |                      |  |                              |
| Property taxes levied for subsequent year                           | 23,393,940           | 4,640,567  | 7,094,461                    |
| Unavailable revenue – delinquent taxes                              | 658,382              | –  | 204,357                      |
| Total deferred inflows of resources                                 | <u>24,052,322</u>    | <u>4,640,567</u>   | <u>7,298,818</u>             |
| <b>Fund balances</b>  |                      |  |                              |
| Nonspendable  | 79,058               | –  | –                            |
| Restricted  | 1,087,346            | 3,987,824  | 947,081                      |
| Committed   | 2,562,543            | –  | –                            |
| Assigned  | 3,347,101            | –  | –                            |
| Unassigned  | 8,535,455            | –  | –                            |
| Total fund balances   | <u>15,611,503</u>    | <u>3,987,824</u>   | <u>947,081</u>               |
|   | <u>\$ 49,918,124</u> | <u>\$ 13,021,061</u>   | <u>\$ 8,340,548</u>          |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 49,918,124</u> | <u>\$ 13,021,061</u>   | <u>\$ 8,340,548</u>          |

See notes to basic financial statements

| Nonmajor Funds      | Total Governmental Funds |                      |
|---------------------|--------------------------|----------------------|
|                     | 2014                     | 2013                 |
| \$ 3,426,931        | \$ 43,348,796            | \$ 30,344,986        |
| –                   | 1,473,314                | 328,800              |
| 563,746             | 19,713,206               | 19,536,675           |
| 24,226              | 886,965                  | 285,208              |
| 1,125               | 234,129                  | 248,383              |
| 54,729              | 9,333,452                | 10,871,562           |
| –                   | 281,570                  | –                    |
| 13,282              | 92,340                   | 740,233              |
| <u>\$ 4,084,039</u> | <u>\$ 75,363,772</u>     | <u>\$ 62,355,847</u> |
| \$ 231,769          | \$ 3,765,723             | \$ 3,580,020         |
| 263,422             | 9,040,959                | 7,443,538            |
| 15                  | 741,366                  | 686,002              |
| –                   | 281,570                  | –                    |
| 616,587             | 2,023,793                | 1,125,109            |
| <u>1,111,793</u>    | <u>15,853,411</u>        | <u>12,834,669</u>    |
| 1,142,821           | 36,271,789               | 23,618,541           |
| 24,226              | 886,965                  | 285,208              |
| <u>1,167,047</u>    | <u>37,158,754</u>        | <u>23,903,749</u>    |
| 13,282              | 92,340                   | 740,233              |
| 1,791,917           | 7,814,168                | 12,042,679           |
| –                   | 2,562,543                | 2,465,889            |
| –                   | 3,347,101                | 3,395,384            |
| –                   | 8,535,455                | 6,973,244            |
| <u>1,805,199</u>    | <u>22,351,607</u>        | <u>25,617,429</u>    |
| <u>\$ 4,084,039</u> | <u>\$ 75,363,772</u>     | <u>\$ 62,355,847</u> |

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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, 2014

(With Partial Comparative Information as of June 30, 2013)

|  | <u>2014</u>          | <u>2013</u>          |
|--|----------------------|----------------------|
| Total fund balances – governmental funds   | \$ 22,351,607        | \$ 25,617,429        |
| 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   | 206,501,948          | 194,076,661          |
| Accumulated depreciation   | (102,226,180)        | (97,413,380)         |
| 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   | (60,935,000)         | (65,020,000)         |
| Certificates of participation payable  | (1,445,000)          | (1,540,000)          |
| Premium on bonds   | (6,819,010)          | (7,515,558)          |
| Capital leases payable   | (2,656,102)          | (443,105)            |
| Severance benefits payable   | (494,021)            | (477,731)            |
| Net OPEB obligation  | (5,294,131)          | (4,188,112)          |
| Net pension obligation   | (2,896,156)          | (2,306,547)          |
| 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.                                       |                      |                      |
|  | 358,455              | 291,812              |
| Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.  |                      |                      |
|  | (1,086,268)          | (1,120,171)          |
| Certain revenues (including delinquent property taxes) are included in net position, but are excluded from fund balances until they are available to liquidate liabilities of the current period.  |                      |                      |
|  | <u>886,965</u>       | <u>285,208</u>       |
| Total net position – governmental activities   | <u>\$ 46,247,107</u> | <u>\$ 40,246,506</u> |

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, 2014  
 (With Partial Comparative Information for the Year Ended June 30, 2013)

|  | General Fund         | Capital Projects –<br>Building<br>Construction Fund | Debt<br>Service Fund |
|--|----------------------|---|----------------------|
| <b>Revenue</b>                                   |                      |   |                      |
| Local sources                                    |                      |   |                      |
| Property taxes                                   | \$ 10,666,213        | \$ 8,856,632  | \$ 6,970,712         |
| Investment earnings                              | 20,622               | 219   | 2,600                |
| Other  | 2,573,245            | –   | –                    |
| State sources                                    | 76,710,991           | –   | –                    |
| Federal sources                                  | 1,809,161            | –   | –                    |
| Total revenue                                    | <u>91,780,232</u>    | <u>8,856,851</u>                                    | <u>6,973,312</u>     |
| <b>Expenditures</b>                              |                      |   |                      |
| Current  |                      |   |                      |
| Administration                                   | 3,100,900            | –   | –                    |
| District support services                        | 2,969,022            | –   | –                    |
| Elementary and secondary regular instruction     | 45,074,133           | –   | –                    |
| Vocational education instruction                 | 357,150              | –   | –                    |
| Special education instruction                    | 16,841,301           | –   | –                    |
| Instructional support services                   | 4,916,476            | –   | –                    |
| Pupil support services                           | 7,544,789            | –   | –                    |
| Sites and buildings                              | 9,691,920            | –   | –                    |
| Fiscal and other fixed cost programs             | 219,543              | –   | –                    |
| Food service                                     | –                    | –   | –                    |
| Community service                                | –                    | –   | –                    |
| Capital outlay                                   | –                    | 15,532,110  | –                    |
| Debt service                                     |                      |   |                      |
| Principal  | 95,000               | 106,603   | 4,085,000            |
| Interest and fiscal charges                      | 48,013               | 11,369  | 2,716,965            |
| Total expenditures                               | <u>90,858,247</u>    | <u>15,650,082</u>                                   | <u>6,801,965</u>     |
| Excess (deficiency) of revenue over expenditures | 921,985              | (6,793,231)   | 171,347              |
| <b>Other financing sources (uses)</b>            |                      |   |                      |
| Capital lease                                    | 579,600              | 1,740,000   | –                    |
| Bonds issued                                     | –                    | –   | –                    |
| Premium on bonds issued                          | –                    | –   | –                    |
| Payments to refunded bond escrow agent           | –                    | –   | –                    |
| Total other financing sources (uses)             | <u>579,600</u>       | <u>1,740,000</u>                                    | <u>–</u>             |
| Net change in fund balances                      | 1,501,585            | (5,053,231)   | 171,347              |
| <b>Fund balances</b>                             |                      |   |                      |
| Beginning of year                                | <u>14,109,918</u>    | <u>9,041,055</u>                                    | <u>775,734</u>       |
| End of year                                      | <u>\$ 15,611,503</u> | <u>\$ 3,987,824</u>                                 | <u>\$ 947,081</u>    |

See notes to basic financial statements

| Nonmajor Funds      | Total Governmental Funds |                      |
|---------------------|--------------------------|----------------------|
|                     | 2014                     | 2013                 |
| \$ 536,211          | \$ 27,029,768            | \$ 40,843,959        |
| 3,334               | 26,775                   | 61,542               |
| 9,269,983           | 11,843,228               | 11,336,133           |
| 876,792             | 77,587,783               | 62,627,109           |
| 442,952             | 2,252,113                | 2,131,743            |
| <u>11,129,272</u>   | <u>118,739,667</u>       | <u>117,000,486</u>   |
| –                   | 3,100,900                | 3,057,055            |
| –                   | 2,969,022                | 2,517,407            |
| –                   | 45,074,133               | 44,171,797           |
| –                   | 357,150                  | 366,826              |
| –                   | 16,841,301               | 16,036,151           |
| –                   | 4,916,476                | 5,105,226            |
| –                   | 7,544,789                | 7,608,727            |
| –                   | 9,691,920                | 13,393,834           |
| –                   | 219,543                  | 139,340              |
| 3,183,720           | 3,183,720                | 3,250,760            |
| 7,652,852           | 7,652,852                | 7,305,068            |
| 178,223             | 15,710,333               | 4,313,759            |
| –                   | 4,286,603                | 7,476,755            |
| –                   | 2,776,347                | 6,040,705            |
| <u>11,014,795</u>   | <u>124,325,089</u>       | <u>120,783,410</u>   |
| 114,477             | (5,585,422)              | (3,782,924)          |
| –                   | 2,319,600                | 589,860              |
| –                   | –                        | 11,775,000           |
| –                   | –                        | 200,432              |
| –                   | –                        | (55,600,000)         |
| <u>–</u>            | <u>2,319,600</u>         | <u>(43,034,708)</u>  |
| 114,477             | (3,265,822)              | (46,817,632)         |
| <u>1,690,722</u>    | <u>25,617,429</u>        | <u>72,435,061</u>    |
| <u>\$ 1,805,199</u> | <u>\$ 22,351,607</u>     | <u>\$ 25,617,429</u> |

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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, 2014

(With Partial Comparative Information for the Year Ended June 30, 2013)

|  | <u>2014</u>         | <u>2013</u>         |
|--|---------------------|---------------------|
| Total net change in fund balances – governmental funds   | \$ (3,265,822)      | \$ (46,817,632)     |
| 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  | 12,631,287          | 5,320,345           |
| Depreciation expense   | (5,018,800)         | (4,824,347)         |
| 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. |                     |                     |
|  | 66,643              | 48,222              |
| The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.   |                     |                     |
| General obligation bonds payable   | –                   | (11,775,000)        |
| Capital leases payable   | (2,319,600)         | (589,860)           |
| Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.   |                     |                     |
| General obligation bonds and certificates of participation   | 4,180,000           | 62,930,000          |
| Capital leases payable   | 106,603             | 146,755             |
| 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.  |                     |                     |
|  | 33,903              | 1,788,210           |
| 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.    |                     |                     |
|  | 696,548             | 1,171,164           |
| Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.   |                     |                     |
| Severance benefits payable   | (16,290)            | (17,201)            |
| Net OPEB obligation  | (1,106,019)         | (1,172,119)         |
| Net pension obligation   | (589,609)           | (514,249)           |
| Certain revenues (including delinquent property taxes) are included in the change in net position, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.                    |                     |                     |
|  | <u>601,757</u>      | <u>55,267</u>       |
| Change in net position – governmental activities   | <u>\$ 6,000,601</u> | <u>\$ 5,749,555</u> |

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, 2014

|  | Budgeted Amounts    |                     | Actual               | Over (Under)<br>Final Budget |
|--|---------------------|---------------------|----------------------|------------------------------|
|  | Original            | Final               |                      |                              |
| Revenue  |                     |                     |                      |                              |
| Local sources                                    |                     |                     |                      |                              |
| Property taxes                                   | \$ 26,907,300       | \$ 10,834,726       | \$ 10,666,213        | \$ (168,513)                 |
| Investment earnings                              | 7,000               | 10,000              | 20,622               | 10,622                       |
| Other  | 2,078,706           | 2,228,984           | 2,573,245            | 344,261                      |
| State sources                                    | 64,185,177          | 75,822,960          | 76,710,991           | 888,031                      |
| Federal sources                                  | 1,788,044           | 1,841,298           | 1,809,161            | (32,137)                     |
| Total revenue                                    | <u>94,966,227</u>   | <u>90,737,968</u>   | <u>91,780,232</u>    | <u>1,042,264</u>             |
| Expenditures                                     |                     |                     |                      |                              |
| Current  |                     |                     |                      |                              |
| Administration                                   | 3,011,688           | 2,927,037           | 3,100,900            | 173,863                      |
| District support services                        | 3,016,697           | 3,063,571           | 2,969,022            | (94,549)                     |
| Elementary and secondary regular instruction     | 44,406,461          | 45,832,329          | 45,074,133           | (758,196)                    |
| Vocational education instruction                 | 298,372             | 352,266             | 357,150              | 4,884                        |
| Special education instruction                    | 15,996,277          | 16,425,226          | 16,841,301           | 416,075                      |
| Instructional support services                   | 6,147,913           | 4,879,487           | 4,916,476            | 36,989                       |
| Pupil support services                           | 7,816,753           | 7,646,182           | 7,544,789            | (101,393)                    |
| Sites and buildings                              | 13,767,162          | 10,056,919          | 9,691,920            | (364,999)                    |
| Fiscal and other fixed cost programs             | 275,000             | 225,000             | 219,543              | (5,457)                      |
| Debt service                                     |                     |                     |                      |                              |
| Principal  | 201,603             | 95,000              | 95,000               | -                            |
| Interest and fiscal charges                      | 164,382             | 48,013              | 48,013               | -                            |
| Total expenditures                               | <u>95,102,308</u>   | <u>91,551,030</u>   | <u>90,858,247</u>    | <u>(692,783)</u>             |
| Excess (deficiency) of revenue over expenditures | (136,081)           | (813,062)           | 921,985              | 1,735,047                    |
| Other financing sources                          |                     |                     |                      |                              |
| Capital lease                                    | <u>-</u>            | <u>410,028</u>      | <u>579,600</u>       | <u>169,572</u>               |
| Net change in fund balances                      | <u>\$ (136,081)</u> | <u>\$ (403,034)</u> | <u>1,501,585</u>     | <u>\$ 1,904,619</u>          |
| Fund balances                                    |                     |                     |                      |                              |
| Beginning of year                                |                     |                     | <u>14,109,918</u>    |                              |
| End of year                                      |                     |                     | <u>\$ 15,611,503</u> |                              |

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Net Position  
 Proprietary Fund  
 Internal Service Fund  
 as of June 30, 2014  
 (With Partial Comparative Information as of June 30, 2013)

|                                | <u>2014</u>       | <u>2013</u>       |
|--------------------------------|-------------------|-------------------|
| Assets                         |                   |                   |
| Current assets                 |                   |                   |
| Cash and temporary investments | \$ 418,043        | \$ 349,425        |
| Accounts receivable            | 10,952            | 11,085            |
| Total assets                   | <u>428,995</u>    | <u>360,510</u>    |
| Liabilities                    |                   |                   |
| Current liabilities            |                   |                   |
| Accounts and contracts payable | <u>70,540</u>     | <u>68,698</u>     |
| Net position                   |                   |                   |
| Unrestricted                   | <u>\$ 358,455</u> | <u>\$ 291,812</u> |

See notes to basic financial statements



INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenses, and Changes in Fund Net Position  
 Proprietary Fund  
 Internal Service Fund  
 Year Ended June 30, 2014  
 (With Partial Comparative Information for the Year Ended June 30, 2013)

|                            | <u>2014</u>              | <u>2013</u>              |
|----------------------------|--------------------------|--------------------------|
| Operating revenue          |                          |                          |
| Charges for services       | \$ 820,368               | \$ 808,024               |
| Operating expenses         |                          |                          |
| Dental claims and expenses | <u>753,725</u>           | <u>759,802</u>           |
| Operating income           | 66,643                   | 48,222                   |
| Net position               |                          |                          |
| Beginning of year          | <u>291,812</u>           | <u>243,590</u>           |
| End of year                | <u><u>\$ 358,455</u></u> | <u><u>\$ 291,812</u></u> |

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Cash Flows

Proprietary Fund

Internal Service Fund

Year Ended June 30, 2014

(With Partial Comparative Information for the Year Ended June 30, 2013)

|   | <u>2014</u>       | <u>2013</u>       |
|---|-------------------|-------------------|
| Cash flows from operating activities  |                   |                   |
| Contributions from governmental funds   | \$ 820,501        | \$ 807,193        |
| Dental claims and other expense payments  | <u>(751,883)</u>  | <u>(755,301)</u>  |
| Net cash flows from operating activities  | 68,618            | 51,892            |
| Cash and temporary investments  |                   |                   |
| Beginning of year   | <u>349,425</u>    | <u>297,533</u>    |
| End of year   | <u>\$ 418,043</u> | <u>\$ 349,425</u> |
| Reconciliation of operating income to net cash flows from operating activities        |                   |                   |
| Operating income  | \$ 66,643         | \$ 48,222         |
| Adjustments to reconcile operating income to net cash flows from operating activities |                   |                   |
| Changes in assets and liabilities   |                   |                   |
| Accounts receivable   | 133               | (831)             |
| Accounts and contracts payable  | <u>1,842</u>      | <u>4,501</u>      |
| Net cash flows from operating activities  | <u>\$ 68,618</u>  | <u>\$ 51,892</u>  |

See notes to basic financial statements

## INDEPENDENT SCHOOL DISTRICT NO. 273

Notes to Basic Financial Statements  
June 30, 2014

### **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, 2014, the District paid TIES \$1,672,195 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 funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

- 1. Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.
- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, severance, pension, and other post-employment health benefits, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

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

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. 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.

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

### **Description of Funds**

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

#### **Major Governmental Funds**

**General Fund** – The General Fund is the government's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

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

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

#### **Nonmajor Governmental Funds**

**Food Service Special Revenue Fund** – The Food Service Special Revenue Fund is used to account for the District's child nutrition program.

**Community Service Special Revenue Fund** – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, non-public pupils, adult or early childhood programs, or other similar services.

#### **Proprietary Funds**

**Internal Service Fund** – The District's Internal Service Fund is used to account for dental insurance offered by the District to its employees as a self-insured plan.

### **E. Budgetary Information**

The School Board adopts an annual budget for all governmental funds prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. Actual expenditures for fiscal 2014 in the Community Service Special Revenue Fund exceeded budgeted appropriations by \$188,780.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **F. Cash and Temporary Investments**

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Bond proceeds recorded in the Capital Projects – Building Construction Fund are not pooled, and earnings on these proceeds are allocated directly to those funds.

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

For purposes of the Statement of Cash Flows, the District considers all highly liquid debt instruments with an original maturity from the time of purchase by the District of three months or less to be cash equivalents. The proprietary (internal service) fund's equity in the government-wide cash and investment management pool is considered to be cash equivalent.

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

### **G. Receivables**

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are property taxes receivable.

### **H. Prepaid Items**

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

### **I. Property Taxes**

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

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$3,690,192 of the property tax levy collectible in 2014 as revenue to the District in fiscal year 2013–2014. The remaining portion of the taxes collectible in 2014 is reported as a deferred inflow of resources (property taxes levied for subsequent year).

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end 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 as capital assets at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$5,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. 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. Interfund Balances**

At June 30, 2014, the General Fund had an interfund payable of \$281,570 due to the Capital Projects – Building Construction Fund that was necessary to move certain transactions to the appropriate fund. Such interfund balances are eliminated on the government-wide financial statements.

### **L. 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.

### **M. Compensated Absences**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. 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.

**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 2014.
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.

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<br>Ended June 30, | Beginning<br>of Fiscal<br>Year Liability | Current Year<br>Claims and<br>Changes<br>in Estimates | Claim Payments | Balance at<br>Fiscal Year-End |
|-------------------------------|--|---|----------------|-------------------------------|
| 2013                          | \$ 64,197                                | \$ 759,802  | \$ 755,301     | \$ 68,698                     |
| 2014                          | \$ 68,698                                | \$ 753,725  | \$ 751,883     | \$ 70,540                     |



## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### P. Net Position

In the government-wide and proprietary fund financial statements, net position represents the difference between assets, deferred outflows of resources (if any), 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.

### Q. Fund Balance Classifications

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

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

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

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

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **R. Deferred Inflows of Resources**

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

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

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

### **S. Use of Estimates**

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent amounts of revenues and expenses/expenditures 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, 2013, 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.

### **U. Future Change in Accounting Standards**

GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for fiscal years beginning after June 15, 2014. The District has not yet determined the financial statement impact of adopting this new standard.

## NOTE 2 – CASH AND INVESTMENTS

### A. Components of Cash and Investments

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

|              |    |             |
|--------------|----|-------------|
| Deposits     | \$ | 5,378,993   |
| Investments  |    | 39,849,381  |
| Cash on hand |    | 11,779      |
|              |    | <hr/>       |
| Total        | \$ | 45,240,153  |
|              |    | <hr/> <hr/> |

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

|  |    |             |
|--|----|-------------|
| Statement of Net Position                          |    |             |
| Cash and temporary investments                     | \$ | 43,766,839  |
| Restricted assets – temporarily restricted         |    |             |
| Cash and investments for capital asset acquisition |    | 1,473,314   |
|  |    | <hr/>       |
| Total  | \$ | 45,240,153  |
|  |    | <hr/> <hr/> |

### B. Deposits

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

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

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

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

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

At year-end, the carrying amount of the District’s deposits was \$5,378,993 while the balance on the bank records was \$5,378,913. At June 30, 2014, all deposits were fully covered by federal depository insurance or collateral held by the District’s agent in the District’s name.

## NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

### C. Investments

The District has the following investments at year-end:

| <u>Investment Type</u>                      | <u>Credit Rating</u> | <u>Rating Agency</u> | <u>Maturity Duration</u> | <u>Carrying Value</u> |
|---|----------------------|----------------------|--------------------------|-----------------------|
| Commercial paper                            | A-1+                 | S&P                  | Less than 1 year         | \$ 328,967            |
| Investment pools/mutual funds               |                      |                      |                          |                       |
| Minnesota School District Liquid Asset Fund | AAA                  | S&P                  | Not Applicable           | 28,984,034            |
| Minnesota Trust Investment Shares Portfolio | AAA                  | S&P                  | Not Applicable           | 10,536,380            |
| Total investments                           |                      |                      |                          | <u>\$ 39,849,381</u>  |

The Minnesota School District Liquid Asset Fund and the Minnesota Trust Investment Shares Portfolio are regulated by Minnesota Statutes and are external investment pools not registered with the Securities Exchange Commission (SEC) that 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.

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.

**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.

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**Concentration Risk** – This is the risk associated with investing a significant portion of the District’s investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District’s policies limit the investment on any given day, in any given corporation, to \$1 million.

**Interest Rate Risk** – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District’s investment policies do not limit the maturities of investments; however, the District considers such things as interest rates and cash flow needs when purchasing investments.

**NOTE 3 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2014 is as follows:

|                                       | Balance –<br>Beginning<br>of Year | Additions            | Deletions             | Balance –<br>End of Year |
|---------------------------------------|-----------------------------------|----------------------|-----------------------|--------------------------|
| Capital assets, not depreciated       |                                   |                      |                       |                          |
| Land                                  | \$ 1,627,557                      | \$ –                 | \$ –                  | \$ 1,627,557             |
| Construction in progress              | 2,704,961                         | 11,815,607           | (8,576,850)           | 5,943,718                |
| Total capital assets, not depreciated | <u>4,332,518</u>                  | <u>11,815,607</u>    | <u>(8,576,850)</u>    | <u>7,571,275</u>         |
| Capital assets, depreciated           |                                   |                      |                       |                          |
| Land improvements                     | 4,596,889                         | 584,653              | –                     | 5,181,542                |
| Buildings                             | 171,200,071                       | 8,198,446            | –                     | 179,398,517              |
| Furniture and equipment               | 13,947,183                        | 609,431              | (206,000)             | 14,350,614               |
| Total capital assets, depreciated     | <u>189,744,143</u>                | <u>9,392,530</u>     | <u>(206,000)</u>      | <u>198,930,673</u>       |
| Less accumulated depreciation for     |                                   |                      |                       |                          |
| Land improvements                     | (3,133,029)                       | (171,093)            | –                     | (3,304,122)              |
| Buildings                             | (84,272,040)                      | (3,935,911)          | –                     | (88,207,951)             |
| Furniture and equipment               | (10,008,311)                      | (911,796)            | 206,000               | (10,714,107)             |
| Total accumulated depreciation        | <u>(97,413,380)</u>               | <u>(5,018,800)</u>   | <u>206,000</u>        | <u>(102,226,180)</u>     |
| Net capital assets, depreciated       | <u>92,330,763</u>                 | <u>4,373,730</u>     | <u>–</u>              | <u>96,704,493</u>        |
| Total capital assets, net             | <u>\$ 96,663,281</u>              | <u>\$ 16,189,337</u> | <u>\$ (8,576,850)</u> | <u>\$ 104,275,768</u>    |

Depreciation for the year ended June 30, 2014 was charged to the following governmental functions:

|  |                     |
|--|---------------------|
| Administration                               | \$ 4,142            |
| Elementary and secondary regular instruction | 3,755,621           |
| Special education instruction                | 18,768              |
| Instructional support services               | 66,120              |
| Pupil support services                       | 23,133              |
| Sites and buildings                          | 1,124,261           |
| Food service                                 | 2,749               |
| Community service                            | 24,006              |
| Total depreciation expense                   | <u>\$ 5,018,800</u> |

## NOTE 4 – LONG-TERM LIABILITIES

### A. General Obligation Bonds Payable

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

| <u>Issue</u>                           | <u>Issue Date</u> | <u>Interest Rate</u> | <u>Face/Par Value</u> | <u>Final Maturity</u> | <u>Principal Outstanding</u> |
|--|-------------------|----------------------|-----------------------|-----------------------|------------------------------|
| Alternative facilities bonds           | 05/08/2008        | 3.00–3.60%           | \$ 4,500,000          | 02/01/2019            | \$ 2,435,000                 |
| Refunding bonds                        | 10/05/2011        | 4.00–5.00%           | \$ 50,370,000         | 02/01/2024            | 46,925,000                   |
| Alternative facilities bonds           | 02/21/2013        | 2.00–3.00%           | \$ 11,775,000         | 02/01/2026            | 11,575,000                   |
| Total general obligation bonds payable |                   |                      |                       |                       | <u>\$ 60,935,000</u>         |

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

| <u>Issue</u>                        | <u>Issue Date</u> | <u>Interest Rate</u> | <u>Face/Par Value</u> | <u>Final Maturity</u> | <u>Principal Outstanding</u> |
|-------------------------------------|-------------------|----------------------|-----------------------|-----------------------|------------------------------|
| 2011C Certificates of Participation | 11/17/2011        | 2.00–3.75%           | \$ 1,615,000          | 04/01/2027            | <u>\$ 1,445,000</u>          |

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 a capital lease agreement for computer equipment. The lease has an effective interest rate of 2.5 percent, and calls for annual principal and interest payments through October 1, 2016. The lease is being paid through the Building Construction – Capital Projects Fund. The leased assets were recorded at \$589,860 (the present value of future minimum lease payments as of the inception dates of the leases). Total accumulated depreciation on these assets is \$235,944.

The District entered into a capital lease agreement for computer equipment. The lease has an effective interest rate of 2.8 percent, and calls for annual principal and interest payments through July 1, 2017. The assets acquired through this capital lease were not capitalized as individual asset amounts do not meet the capitalization threshold requirements. The lease is being paid through the General Fund.

The District entered into a capital lease agreement to finance the construction of several building additions. The lease has an effective interest rate of 3.43 percent, and calls for annual principal and interest payments through January 15, 2029. The lease is being paid through the Building Construction – Capital Projects Fund. The leased assets were recorded at \$1,740,000 (the present value of future minimum lease payments as of the inception dates of the leases).

## NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

### D. Other Long-Term Liabilities

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

### E. Minimum Debt Payments

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

| Year Ending<br>June 30, | General Obligation<br>Bonds Payable |                      | Certificates of Participation |                   | Capital Lease       |                   |
|-------------------------|-------------------------------------|----------------------|-------------------------------|-------------------|---------------------|-------------------|
|                         | Principal                           | Interest             | Principal                     | Interest          | Principal           | Interest          |
| 2015                    | \$ 4,115,000                        | \$ 2,539,928         | \$ 95,000                     | \$ 46,113         | \$ 404,264          | \$ 61,399         |
| 2016                    | 4,245,000                           | 2,342,823            | 95,000                        | 43,738            | 393,500             | 72,163            |
| 2017                    | 4,475,000                           | 2,138,798            | 100,000                       | 41,125            | 404,912             | 60,750            |
| 2018                    | 4,815,000                           | 1,922,808            | 100,000                       | 38,125            | 99,767              | 49,004            |
| 2019                    | 5,055,000                           | 1,689,633            | 105,000                       | 35,125            | 103,219             | 45,553            |
| 2020–2024               | 29,375,000                          | 4,710,965            | 560,000                       | 126,763           | 572,190             | 171,668           |
| 2025–2029               | 8,855,000                           | 326,069              | 390,000                       | 28,988            | 678,251             | 65,607            |
|                         | <u>\$ 60,935,000</u>                | <u>\$ 15,671,024</u> | <u>\$ 1,445,000</u>           | <u>\$ 359,977</u> | <u>\$ 2,656,103</u> | <u>\$ 526,144</u> |

### F. Changes in Long-Term Liabilities

|                                       | Balance –<br>Beginning<br>of Year | Additions           | Retirements         | Balance –<br>End of Year | Due Within<br>One Year |
|---------------------------------------|-----------------------------------|---------------------|---------------------|--------------------------|------------------------|
| General obligation bonds payable      | \$ 65,020,000                     | \$ –                | \$ 4,085,000        | \$ 60,935,000            | \$ 4,115,000           |
| Certificates of participation payable | 1,540,000                         | –                   | 95,000              | 1,445,000                | 95,000                 |
| Plus premium                          | 7,515,558                         | –                   | 696,548             | 6,819,010                | –                      |
| Total bonds payable                   | 74,075,558                        | –                   | 4,876,548           | 69,199,010               | 4,210,000              |
| Capital leases payable                | 443,105                           | 2,319,600           | 106,603             | 2,656,102                | 404,264                |
| Severance benefits payable            | 477,731                           | 117,479             | 101,189             | 494,021                  | 80,234                 |
| Net OPEB obligation (see Note 7)      | 4,188,112                         | 2,243,246           | 1,137,227           | 5,294,131                | –                      |
| Net pension obligation (see Note 8)   | 2,306,547                         | 1,085,616           | 496,007             | 2,896,156                | –                      |
|                                       | <u>\$ 81,491,053</u>              | <u>\$ 5,765,941</u> | <u>\$ 6,717,574</u> | <u>\$ 80,539,420</u>     | <u>\$ 4,694,498</u>    |

### G. Subsequent Event

In July 2014, the District agreed to an amendment of the capital lease issued to finance the construction of several building additions. The amendment provided an additional \$493,000 of funding, bringing the total value of the lease up to \$2,233,000. The interest rate and final maturity are the same as they were for the original lease agreement.

## 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.

### A. Classifications

At June 30, 2014, a summary of the District's governmental fund balance classifications are as follows:

|  | General Fund  | Capital<br>Projects –<br>Building<br>Construction<br>Fund | Debt Service<br>Fund | Nonmajor<br>Funds | Total         |
|--|---------------|---|----------------------|-------------------|---------------|
| <b>Nonspendable</b>                          |               |   |                      |                   |               |
| Prepaid items                                | \$ 79,058     | \$ –  | \$ –                 | \$ 13,282         | \$ 92,340     |
| <b>Restricted</b>                            |               |   |                      |                   |               |
| Staff development                            | 47,644        | –   | –                    | –                 | 47,644        |
| Operating capital                            | 1,003,010     | –   | –                    | –                 | 1,003,010     |
| Certificates of participation                | –             | 18,087  | –                    | –                 | 18,087        |
| Alternative facilities program               | –             | 3,688,167   | –                    | –                 | 3,688,167     |
| Capital projects levy                        | 36,692        | 281,570   | –                    | –                 | 318,262       |
| Debt service                                 | –             | –   | 947,081              | –                 | 947,081       |
| Food service                                 | –             | –   | –                    | 611,566           | 611,566       |
| Community education programs                 | –             | –   | –                    | 992,965           | 992,965       |
| Early childhood family<br>education programs | –             | –   | –                    | 185,126           | 185,126       |
| School readiness                             | –             | –   | –                    | 2,011             | 2,011         |
| Community service                            | –             | –   | –                    | 249               | 249           |
| Total restricted                             | 1,087,346     | 3,987,824   | 947,081              | 1,791,917         | 7,814,168     |
| <b>Committed</b>                             |               |   |                      |                   |               |
| Cash flow                                    | 1,667,722     | –   | –                    | –                 | 1,667,722     |
| Federal education jobs                       | 894,821       | –   | –                    | –                 | 894,821       |
| Total committed                              | 2,562,543     | –   | –                    | –                 | 2,562,543     |
| <b>Assigned</b>                              |               |   |                      |                   |               |
| Separation/retirement benefits               | 2,391,019     | –   | –                    | –                 | 2,391,019     |
| Alternative compensation                     | 307,395       | –   | –                    | –                 | 307,395       |
| Carryover                                    | 602,012       | –   | –                    | –                 | 602,012       |
| High school ALC                              | 4,150         | –   | –                    | –                 | 4,150         |
| Unemployment                                 | 42,525        | –   | –                    | –                 | 42,525        |
| Total assigned                               | 3,347,101     | –   | –                    | –                 | 3,347,101     |
| <b>Unassigned</b>                            |               |   |                      |                   |               |
| Health and safety restricted deficit         | (102,553)     | –   | –                    | –                 | (102,553)     |
| Unassigned                                   | 8,638,008     | –   | –                    | –                 | 8,638,008     |
| Total unassigned                             | 8,535,455     | –   | –                    | –                 | 8,535,455     |
| Total  | \$ 15,611,503 | \$ 3,987,824  | \$ 947,081           | \$ 1,805,199      | \$ 22,351,607 |



**NOTE 5 – FUND BALANCES (CONTINUED)**

**B. Minimum Unassigned Fund Balance Policy**

The School Board has formally adopted a fund balance policy regarding maintaining a minimum unassigned fund balance for the General Fund. The policy establishes a minimum unassigned General Fund balance goal of 6 percent of the unassigned General Fund expenditures. At June 30, 2014, the unassigned fund balance of the General Fund was 8.9 percent of budgeted expenditures for fiscal 2015.

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

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

**Teachers’ Retirement Association (TRA)**

**A. Plan Description**

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

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

Two methods are used to compute benefits for 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**

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

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

With these provisions:

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

### **Tier II**

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4.0 to 5.4 percent per year.

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

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

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

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

### **B. Funding Policy**

Minnesota Statutes, Chapter 354 sets the rates for employee and employer contributions. These statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 7.0 percent and 10.5 percent, respectively, of their annual covered salary during fiscal year 2014 as employee contributions. The TRA employer contribution rates are 7.0 percent for Coordinated Plan members and 11.0 percent for Basic Plan members during fiscal year 2014. Total covered payroll salaries for all TRA members state-wide during the fiscal years June 30, 2013, 2012, and 2011, were approximately \$3.92 billion, \$3.87 billion, and \$3.84 billion, respectively.

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

The District's contributions for the years ended June 30, 2014, 2013, and 2012 were \$3,179,000, \$2,867,634, and \$2,551,254, respectively, equal to the contractually required contributions for each year as set by state statutes.

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

### **Public Employees' Retirement Association (PERA)**

#### **A. Plan Description**

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

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

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

Two methods are used to compute benefits for the PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the GERP. That report may be obtained on the PERA website at [www.mnpera.org](http://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.

### **B. Funding Policy**

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. The GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in fiscal 2014. In fiscal 2014, the District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.25 percent for Coordinated Plan members.

The District's contributions to the GERP for the years ended June 30, 2014, 2013, and 2012 were \$1,141,626, \$1,153,033, and \$1,132,253, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statutes.

Beginning January 1, 2015, Coordinated Plan contribution rates will increase for employees and employers to 6.50 percent and 7.50 percent, respectively.

## **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.

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

## NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) 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 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                                     | \$ 2,126,739        |
| Interest on net OPEB obligation         | 188,465             |
| Adjustment to ARC                       | (71,958)            |
| Annual OPEB cost (expense)              | <u>2,243,246</u>    |
| Contributions made                      | <u>1,137,227</u>    |
| Increase in net OPEB obligation         | 1,106,019           |
| Net OPEB obligation – beginning of year | <u>4,188,112</u>    |
| Net OPEB obligation – end of year       | <u>\$ 5,294,131</u> |

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

| <u>Fiscal<br/>Year Ended</u> | <u>Annual<br/>OPEB Cost</u> | <u>Employer<br/>Contribution</u> | <u>Percentage of<br/>Annual OPEB<br/>Cost Contributed</u> | <u>Net OPEB<br/>Obligation</u> |
|------------------------------|-----------------------------|----------------------------------|---|--------------------------------|
| June 30, 2012                | \$ 1,741,686                | \$ 1,047,003                     | 60.1%   | \$ 3,015,993                   |
| June 30, 2013                | \$ 2,004,788                | \$ 832,669                       | 41.5%   | \$ 4,188,112                   |
| June 30, 2014                | \$ 2,243,246                | \$ 1,137,227                     | 50.7%   | \$ 5,294,131                   |

### D. Funded Status and Funding Progress

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

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

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

### **E. Actuarial Methods and Assumptions**

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

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

## **NOTE 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.

### **B. Funding Policy**

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

### **C. Annual Pension Cost and Net Pension Obligation**

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

## NOTE 8 – PENSION BENEFITS PLAN (CONTINUED)

The following table shows the components of the District’s annual pension cost for the year, the amount actually contributed to the plan, and the changes in the District’s net pension obligation to the plan:

|  |                     |
|--|---------------------|
| ARC  | \$ 1,013,392        |
| Interest on net pension obligation         | 103,795             |
| Adjustment to ARC                          | <u>(31,571)</u>     |
| Annual pension cost (expense)              | 1,085,616           |
| Contributions made                         | <u>496,007</u>      |
| Increase in net pension obligation         | 589,609             |
| Net pension obligation – beginning of year | <u>2,306,547</u>    |
| Net pension obligation – end of year       | <u>\$ 2,896,156</u> |

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

| <u>Fiscal<br/>Year Ended</u> | <u>Annual<br/>Pension Cost</u> | <u>Employer<br/>Contribution</u> | <u>Percentage of<br/>Annual Pension<br/>Cost Contributed</u> | <u>Net Pension<br/>Obligation</u> |
|------------------------------|--------------------------------|----------------------------------|--|-----------------------------------|
| June 30, 2012                | \$ 857,656                     | \$ 494,998                       | 57.7%  | \$ 1,792,298                      |
| June 30, 2013                | \$ 951,711                     | \$ 437,462                       | 46.0%  | \$ 2,306,547                      |
| June 30, 2014                | \$ 1,085,616                   | \$ 496,007                       | 45.7%  | \$ 2,896,156                      |

### D. Funded Status and Funding Progress

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

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

### E. Actuarial Methods and Assumptions

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

## **NOTE 8 – PENSION BENEFITS PLAN (CONTINUED)**

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4.5 percent investment rate of return (net of administrative expenses) based on the District's own investments and a 3.0 percent salary increase for all members. This rate includes a 2.5 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization periods at July 1, 2012 for the various amortization layers ranged from 28 to 30 years.

## **NOTE 9 – FLEXIBLE BENEFIT PLAN**

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

### **B. Construction Commitments**

At June 30, 2014, the District had commitments totaling \$8,414,303 under various construction contracts for which the work was not yet completed.

### **C. Legal Claims**

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



REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Funding Progress  
June 30, 2014

**Other Post-Employment Benefits Plan  
Schedule of Funding Progress**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Accrued<br>Liability | Actuarial<br>Value of<br>Plan Assets | Unfunded<br>Actuarial<br>Accrued<br>Liability | Funded<br>Ratio | Covered<br>Payroll | Unfunded<br>Liability as a<br>Percentage of<br>Payroll |
|--------------------------------|-----------------------------------|--------------------------------------|---|-----------------|--------------------|--|
| July 1, 2008                   | \$ 11,975,266                     | \$ -                                 | \$ 11,975,266                                 | - %             | \$ 49,308,752      | 24.3 %   |
| July 1, 2010                   | \$ 12,943,585                     | \$ -                                 | \$ 12,943,585                                 | - %             | \$ 50,747,706      | 25.5 %   |
| July 1, 2012                   | \$ 15,827,290                     | \$ -                                 | \$ 15,827,290                                 | - %             | \$ 54,243,749      | 29.2 %   |

**Pension Benefits Plan  
Schedule of Funding Progress**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Accrued<br>Liability | Actuarial<br>Value of<br>Plan Assets | Unfunded<br>Actuarial<br>Accrued<br>Liability | Funded<br>Ratio | Covered<br>Payroll | Unfunded<br>Liability as a<br>Percentage of<br>Payroll |
|--------------------------------|-----------------------------------|--------------------------------------|---|-----------------|--------------------|--|
| July 1, 2008                   | \$ 5,723,086                      | \$ -                                 | \$ 5,723,086                                  | - %             | \$ 37,646,571      | 15.2 %   |
| July 1, 2010                   | \$ 6,276,813                      | \$ -                                 | \$ 6,276,813                                  | - %             | \$ 40,584,492      | 15.5 %   |
| July 1, 2012                   | \$ 7,465,933                      | \$ -                                 | \$ 7,465,933                                  | - %             | \$ 42,893,260      | 17.4 %   |

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 273

Nonmajor Governmental Funds  
 Combining Balance Sheet  
 as of June 30, 2014

|  | Special Revenue Funds |                     | Total               |
|--|-----------------------|---------------------|---------------------|
|  | Food Service          | Community Service   |                     |
| <b>Assets</b>  |                       |                     |                     |
| Cash and temporary investments   | \$ 836,839            | \$ 2,590,092        | \$ 3,426,931        |
| Receivables  |                       |                     |                     |
| Current taxes  | -                     | 563,746             | 563,746             |
| Delinquent taxes   | -                     | 24,226              | 24,226              |
| Accounts and interest  | -                     | 1,125               | 1,125               |
| Due from other governmental units  | 17,408                | 37,321              | 54,729              |
| Prepaid items  | 4,845                 | 8,437               | 13,282              |
| <b>Total assets</b>  | <b>\$ 859,092</b>     | <b>\$ 3,224,947</b> | <b>\$ 4,084,039</b> |
| <b>Liabilities</b>   |                       |                     |                     |
| Salaries payable   | \$ 3,413              | \$ 228,356          | \$ 231,769          |
| Accounts and contracts payable   | 67,959                | 195,463             | 263,422             |
| Due to other governmental units  | -                     | 15                  | 15                  |
| Unearned revenue   | 171,309               | 445,278             | 616,587             |
| <b>Total liabilities</b>   | <b>242,681</b>        | <b>869,112</b>      | <b>1,111,793</b>    |
| <b>Deferred inflows of resources</b>                                       |                       |                     |                     |
| Property taxes levied for subsequent year                                  | -                     | 1,142,821           | 1,142,821           |
| Deferred revenue – delinquent taxes  | -                     | 24,226              | 24,226              |
| <b>Total deferred inflows of resources</b>                                 | <b>-</b>              | <b>1,167,047</b>    | <b>1,167,047</b>    |
| <b>Fund balances</b>   |                       |                     |                     |
| Nonspendable   | 4,845                 | 8,437               | 13,282              |
| Restricted   | 611,566               | 1,180,351           | 1,791,917           |
| <b>Total fund balances</b>   | <b>616,411</b>        | <b>1,188,788</b>    | <b>1,805,199</b>    |
| <b>Total liabilities, deferred inflows of resources, and fund balances</b> | <b>\$ 859,092</b>     | <b>\$ 3,224,947</b> | <b>\$ 4,084,039</b> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Nonmajor Governmental Funds  
 Combining Statement of Revenue, Expenditures, and Changes in Fund Balances  
 Year Ended June 30, 2014

|                             | Special Revenue Funds |                     | Total               |
|-----------------------------|-----------------------|---------------------|---------------------|
|                             | Food Service          | Community Service   |                     |
| Revenue                     |                       |                     |                     |
| Local sources               |                       |                     |                     |
| Property taxes              | \$ -                  | \$ 536,211          | \$ 536,211          |
| Investment earnings         | 867                   | 2,467               | 3,334               |
| Other                       | 2,770,547             | 6,499,436           | 9,269,983           |
| State sources               | 57,125                | 819,667             | 876,792             |
| Federal sources             | 442,952               | -                   | 442,952             |
| Total revenue               | <u>3,271,491</u>      | <u>7,857,781</u>    | <u>11,129,272</u>   |
| Expenditures                |                       |                     |                     |
| Current                     |                       |                     |                     |
| Food service                | 3,183,720             | -                   | 3,183,720           |
| Community service           | -                     | 7,652,852           | 7,652,852           |
| Capital outlay              | -                     | 178,223             | 178,223             |
| Total expenditures          | <u>3,183,720</u>      | <u>7,831,075</u>    | <u>11,014,795</u>   |
| Net change in fund balances | 87,771                | 26,706              | 114,477             |
| Fund balances               |                       |                     |                     |
| Beginning of year           | <u>528,640</u>        | <u>1,162,082</u>    | <u>1,690,722</u>    |
| End of year                 | <u>\$ 616,411</u>     | <u>\$ 1,188,788</u> | <u>\$ 1,805,199</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund  
Comparative Balance Sheet  
as of June 30, 2014 and 2013

|  | <u>2014</u>          | <u>2013</u>          |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Cash and temporary investments   | \$ 26,243,718        | \$ 10,093,181        |
| Receivables  |                      |                      |
| Current taxes  | 13,425,239           | 13,382,335           |
| Delinquent taxes   | 658,382              | 197,243              |
| Accounts and interest  | 233,004              | 247,258              |
| Due from other governmental units                                      | 9,278,723            | 10,747,081           |
| Prepaid items  | <u>79,058</u>        | <u>734,483</u>       |
| Total assets   | <u>\$ 49,918,124</u> | <u>\$ 35,401,581</u> |
| <b>Liabilities</b>   |                      |                      |
| Salaries payable   | \$ 3,533,954         | \$ 3,401,740         |
| Accounts and contracts payable   | 5,434,565            | 5,054,492            |
| Due to other governmental units  | 741,351              | 680,800              |
| Due to other funds   | 281,570              | -                    |
| Unearned revenue   | <u>262,859</u>       | <u>313,737</u>       |
| Total liabilities  | 10,254,299           | 9,450,769            |
| <b>Deferred inflows of resources</b>                                   |                      |                      |
| Property taxes levied for subsequent year                              | 23,393,940           | 11,643,651           |
| Unavailable revenue – delinquent taxes                                 | <u>658,382</u>       | <u>197,243</u>       |
| Total deferred inflows of resources                                    | 24,052,322           | 11,840,894           |
| <b>Fund balances (deficits)</b>  |                      |                      |
| Nonspendable for prepaid items   | 79,058               | 734,483              |
| Restricted for operating capital                                       | 1,003,010            | 540,918              |
| Restricted for capital projects levy                                   | 36,692               | -                    |
| Restricted staff development   | 47,644               | -                    |
| Committed for cash flow  | 1,667,722            | 1,571,068            |
| Committed for federal education jobs                                   | 894,821              | 894,821              |
| Assigned for separation/retirement benefits                            | 2,391,019            | 2,305,843            |
| Assigned for alternative compensation                                  | 307,395              | 282,127              |
| Assigned for carryover   | 602,012              | 601,498              |
| Assigned for high school ALC   | 4,150                | 11,095               |
| Assigned for unemployment  | 42,525               | 58,740               |
| Assigned for subsequent year budget                                    | -                    | 136,081              |
| Unassigned – health and safety restricted account deficit              | (102,553)            | (231,908)            |
| Unassigned – capital projects levy restricted account deficit          | -                    | (23,862)             |
| Unassigned   | <u>8,638,008</u>     | <u>7,229,014</u>     |
| Total fund balances  | <u>15,611,503</u>    | <u>14,109,918</u>    |
| Total liabilities, deferred inflows of resources,<br>and fund balances | <u>\$ 49,918,124</u> | <u>\$ 35,401,581</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 Year Ended June 30, 2014  
 (With Comparative Actual Amounts for the Year Ended June 30, 2013)

|   | 2014                |                      | 2013                   |                      |
|---|---------------------|----------------------|------------------------|----------------------|
|   | Budget              | Actual               | Over (Under)<br>Budget | Actual               |
| <b>Revenue</b>                                      |                     |                      |                        |                      |
| Local sources                                       |                     |                      |                        |                      |
| Property taxes                                      | \$ 10,834,726       | \$ 10,666,213        | \$ (168,513)           | \$ 27,237,931        |
| Investment earnings                                 | 10,000              | 20,622               | 10,622                 | 13,030               |
| Other   | 2,228,984           | 2,573,245            | 344,261                | 2,474,544            |
| State sources                                       | 75,822,960          | 76,710,991           | 888,031                | 62,296,085           |
| Federal sources                                     | 1,841,298           | 1,809,161            | (32,137)               | 1,683,183            |
| Total revenue                                       | <u>90,737,968</u>   | <u>91,780,232</u>    | <u>1,042,264</u>       | <u>93,704,773</u>    |
| <b>Expenditures</b>                                 |                     |                      |                        |                      |
| Current   |                     |                      |                        |                      |
| Administration                                      | 2,927,037           | 3,100,900            | 173,863                | 3,057,055            |
| District support services                           | 3,063,571           | 2,969,022            | (94,549)               | 2,517,407            |
| Elementary and secondary                            |                     |                      |                        |                      |
| regular instruction                                 | 45,832,329          | 45,074,133           | (758,196)              | 44,171,797           |
| Vocational education instruction                    | 352,266             | 357,150              | 4,884                  | 366,826              |
| Special education instruction                       | 16,425,226          | 16,841,301           | 416,075                | 16,036,151           |
| Instructional support services                      | 4,879,487           | 4,916,476            | 36,989                 | 5,105,226            |
| Pupil support services                              | 7,646,182           | 7,544,789            | (101,393)              | 7,608,727            |
| Sites and buildings                                 | 10,056,919          | 9,691,920            | (364,999)              | 13,393,834           |
| Fiscal and other fixed cost programs                | 225,000             | 219,543              | (5,457)                | 139,340              |
| Debt service  |                     |                      |                        |                      |
| Principal   | 95,000              | 95,000               | –                      | 221,755              |
| Interest and fiscal charges                         | 48,013              | 48,013               | –                      | 108,383              |
| Total expenditures                                  | <u>91,551,030</u>   | <u>90,858,247</u>    | <u>(692,783)</u>       | <u>92,726,501</u>    |
| Excess (deficiency) of revenue<br>over expenditures | (813,062)           | 921,985              | 1,735,047              | 978,272              |
| <b>Other financing sources</b>                      |                     |                      |                        |                      |
| Capital lease                                       | <u>410,028</u>      | <u>579,600</u>       | <u>169,572</u>         | <u>589,860</u>       |
| Net change in fund balances                         | <u>\$ (403,034)</u> | <u>1,501,585</u>     | <u>\$ 1,904,619</u>    | <u>1,568,132</u>     |
| <b>Fund balances</b>                                |                     |                      |                        |                      |
| Beginning of year                                   |                     | <u>14,109,918</u>    |                        | <u>12,541,786</u>    |
| End of year   |                     | <u>\$ 15,611,503</u> |                        | <u>\$ 14,109,918</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Food Service Special Revenue Fund  
 Comparative Balance Sheet  
 as of June 30, 2014 and 2013

|                                     | <u>2014</u>       | <u>2013</u>       |
|-------------------------------------|-------------------|-------------------|
| <b>Assets</b>                       |                   |                   |
| Cash and temporary investments      | \$ 836,839        | \$ 677,302        |
| Receivables                         |                   |                   |
| Due from other governmental units   | 17,408            | 74,806            |
| Prepaid items                       | <u>4,845</u>      | <u>4,845</u>      |
| Total assets                        | <u>\$ 859,092</u> | <u>\$ 756,953</u> |
| <b>Liabilities</b>                  |                   |                   |
| Salaries payable                    | \$ 3,413          | \$ 2,834          |
| Accounts and contracts payable      | 67,959            | 56,859            |
| Unearned revenue                    | <u>171,309</u>    | <u>168,620</u>    |
| Total liabilities                   | 242,681           | 228,313           |
| <b>Fund balances</b>                |                   |                   |
| Nonspendable for prepaid items      | 4,845             | 4,845             |
| Restricted for food service         | <u>611,566</u>    | <u>523,795</u>    |
| Total fund balances                 | <u>616,411</u>    | <u>528,640</u>    |
| Total liabilities and fund balances | <u>\$ 859,092</u> | <u>\$ 756,953</u> |



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, 2014  
 (With Comparative Actual Amounts for the Year Ended June 30, 2013)

|                              | 2014               |                   | Over (Under)<br>Budget | 2013              |
|------------------------------|--------------------|-------------------|------------------------|-------------------|
|                              | Budget             | Actual            |                        | Actual            |
| Revenue                      |                    |                   |                        |                   |
| Local sources                |                    |                   |                        |                   |
| Investment earnings          | \$ 1,000           | \$ 867            | \$ (133)               | \$ 610            |
| Other – primarily meal sales | 2,843,725          | 2,770,547         | (73,178)               | 2,800,476         |
| State sources                | 64,300             | 57,125            | (7,175)                | 58,927            |
| Federal sources              | 459,000            | 442,952           | (16,048)               | 448,560           |
| Total revenue                | <u>3,368,025</u>   | <u>3,271,491</u>  | <u>(96,534)</u>        | <u>3,308,573</u>  |
| Expenditures                 |                    |                   |                        |                   |
| Current                      |                    |                   |                        |                   |
| Salaries                     | 80,000             | 77,826            | (2,174)                | 78,922            |
| Employee benefits            | 8,620              | 11,287            | 2,667                  | 10,902            |
| Purchased services           | 3,213,130          | 3,063,069         | (150,061)              | 3,102,860         |
| Supplies and materials       | 89,500             | 31,538            | (57,962)               | 58,076            |
| Capital outlay               | –                  | –                 | –                      | 10,549            |
| Total expenditures           | <u>3,391,250</u>   | <u>3,183,720</u>  | <u>(207,530)</u>       | <u>3,261,309</u>  |
| Net change in fund balances  | <u>\$ (23,225)</u> | 87,771            | <u>\$ 110,996</u>      | 47,264            |
| Fund balances                |                    |                   |                        |                   |
| Beginning of year            |                    | <u>528,640</u>    |                        | <u>481,376</u>    |
| End of year                  |                    | <u>\$ 616,411</u> |                        | <u>\$ 528,640</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Community Service Special Revenue Fund  
 Comparative Balance Sheet  
 as of June 30, 2014 and 2013

|  | <u>2014</u>             | <u>2013</u>             |
|--|-------------------------|-------------------------|
| <b>Assets</b>  |                         |                         |
| Cash and temporary investments   | \$ 2,590,092            | \$ 2,077,964            |
| Receivables  |                         |                         |
| Current taxes  | 563,746                 | 543,268                 |
| Delinquent taxes   | 24,226                  | 7,924                   |
| Accounts and interest  | 1,125                   | 1,125                   |
| Due from other governmental units  | 37,321                  | 49,675                  |
| Prepaid items  | <u>8,437</u>            | <u>905</u>              |
| Total assets   | <u>\$ 3,224,947</u>     | <u>\$ 2,680,861</u>     |
| <b>Liabilities</b>   |                         |                         |
| Salaries payable   | \$ 228,356              | \$ 175,446              |
| Accounts and contracts payable   | 195,463                 | 125,401                 |
| Due to other governmental units  | 15                      | 5,202                   |
| Unearned revenue   | <u>445,278</u>          | <u>642,752</u>          |
| Total liabilities  | 869,112                 | 948,801                 |
| <b>Deferred inflows of resources</b>                                       |                         |                         |
| Property taxes levied for subsequent year                                  | 1,142,821               | 562,054                 |
| Unavailable revenue – delinquent taxes                                     | <u>24,226</u>           | <u>7,924</u>            |
| Total deferred inflows of resources  | 1,167,047               | 569,978                 |
| <b>Fund balances</b>   |                         |                         |
| Nonspendable for prepaid items   | 8,437                   | 905                     |
| Restricted for community education programs                                | 992,965                 | 862,903                 |
| Restricted for early childhood family education programs                   | 185,126                 | 296,592                 |
| Restricted for school readiness  | 2,011                   | 1,014                   |
| Restricted for community service   | <u>249</u>              | <u>668</u>              |
| Total fund balances  | <u>1,188,788</u>        | <u>1,162,082</u>        |
| <br>Total liabilities, deferred inflows of resources,<br>and fund balances | <br><u>\$ 3,224,947</u> | <br><u>\$ 2,680,861</u> |

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, 2014  
 (With Comparative Actual Amounts for the Year Ended June 30, 2013)

|                                    | 2014             |                     | Over (Under)<br>Budget | 2013                |
|------------------------------------|------------------|---------------------|------------------------|---------------------|
|                                    | Budget           | Actual              |                        | Actual              |
| Revenue                            |                  |                     |                        |                     |
| Local sources                      |                  |                     |                        |                     |
| Property taxes                     | \$ 561,718       | \$ 536,211          | \$ (25,507)            | \$ 1,060,692        |
| Investment earnings                | 2,000            | 2,467               | 467                    | 1,799               |
| Other – primarily tuition and fees | 6,293,327        | 6,499,436           | 206,109                | 6,061,113           |
| State sources                      | 818,081          | 819,667             | 1,586                  | 271,963             |
| Total revenue                      | <u>7,675,126</u> | <u>7,857,781</u>    | <u>182,655</u>         | <u>7,395,567</u>    |
| Expenditures                       |                  |                     |                        |                     |
| Current                            |                  |                     |                        |                     |
| Salaries                           | 4,595,649        | 4,832,935           | 237,286                | 4,612,514           |
| Employee benefits                  | 1,260,090        | 1,258,294           | (1,796)                | 1,245,969           |
| Purchased services                 | 1,155,674        | 1,171,771           | 16,097                 | 1,079,443           |
| Supplies and materials             | 378,878          | 381,156             | 2,278                  | 358,417             |
| Other expenditures                 | 9,224            | 8,696               | (528)                  | 8,725               |
| Capital outlay                     | 242,780          | 178,223             | (64,557)               | 181,658             |
| Total expenditures                 | <u>7,642,295</u> | <u>7,831,075</u>    | <u>188,780</u>         | <u>7,486,726</u>    |
| Net change in fund balances        | <u>\$ 32,831</u> | 26,706              | <u>\$ (6,125)</u>      | (91,159)            |
| Fund balances                      |                  |                     |                        |                     |
| Beginning of year                  |                  | <u>1,162,082</u>    |                        | <u>1,253,241</u>    |
| End of year                        |                  | <u>\$ 1,188,788</u> |                        | <u>\$ 1,162,082</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Capital Projects – Building Construction Fund  
 Comparative Balance Sheet  
 as of June 30, 2014 and 2013

|   | <u>2014</u>                 | <u>2013</u>                 |
|---|-----------------------------|-----------------------------|
| <b>Assets</b>   |                             |                             |
| Cash and temporary investments  | \$ 9,041,638                | \$ 13,093,605               |
| Cash and investments held by trustee  | 1,473,314                   | 328,800                     |
| Receivables   |                             |                             |
| Current taxes   | 2,224,539                   | 2,035,824                   |
| Due from other funds  | <u>281,570</u>              | <u>–</u>                    |
| Total assets  | <u><u>\$ 13,021,061</u></u> | <u><u>\$ 15,458,229</u></u> |
| <b>Liabilities</b>  |                             |                             |
| Accounts and contracts payable  | \$ 3,248,323                | \$ 2,198,645                |
| Unearned revenue  | <u>1,144,347</u>            | <u>–</u>                    |
| Total liabilities   | 4,392,670                   | 2,198,645                   |
| <b>Deferred inflows of resources</b>  |                             |                             |
| Property taxes levied for subsequent year                                   | 4,640,567                   | 4,218,529                   |
| <b>Fund balances</b>  |                             |                             |
| Restricted for building projects funded by<br>certificates of participation | 18,087                      | 30,230                      |
| Restricted for alternative facilities program                               | 3,688,167                   | 9,010,825                   |
| Restricted for capital projects levy  | <u>281,570</u>              | <u>–</u>                    |
| Total fund balances   | <u><u>3,987,824</u></u>     | <u><u>9,041,055</u></u>     |
| Total liabilities, deferred inflows of resources,<br>and fund balances      | <u><u>\$ 13,021,061</u></u> | <u><u>\$ 15,458,229</u></u> |

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, 2014

(With Comparative Actual Amounts for the Year Ended June 30, 2013)

|  | 2014                  |                     | Over (Under)<br>Budget | 2013                |
|--|-----------------------|---------------------|------------------------|---------------------|
|  | Budget                | Actual              |                        | Actual              |
| Revenue  |                       |                     |                        |                     |
| Local sources  |                       |                     |                        |                     |
| Property taxes                                       | \$ 8,856,632          | \$ 8,856,632        | \$ –                   | \$ 2,392,234        |
| Investment earnings                                  | –                     | 219                 | 219                    | 384                 |
| Total revenue  | <u>8,856,632</u>      | <u>8,856,851</u>    | <u>219</u>             | <u>2,392,618</u>    |
| Expenditures   |                       |                     |                        |                     |
| Capital outlay                                       |                       |                     |                        |                     |
| Salaries   | 1,328,767             | 1,282,012           | (46,755)               | 505                 |
| Employee benefits                                    | 405,459               | 398,708             | (6,751)                | 351                 |
| Purchased services                                   | 106,525               | 133,554             | 27,029                 | 28,015              |
| Supplies and materials                               | 130,268               | 195,088             | 64,820                 | –                   |
| Capital expenditures                                 | 14,531,483            | 13,522,748          | (1,008,735)            | 4,092,681           |
| Debt service   |                       |                     |                        |                     |
| Principal  | 106,603               | 106,603             | –                      | –                   |
| Interest and fiscal charges                          | 11,369                | 11,369              | –                      | –                   |
| Total expenditures                                   | <u>16,620,474</u>     | <u>15,650,082</u>   | <u>(970,392)</u>       | <u>4,121,552</u>    |
| Excess (deficiency) of revenues<br>over expenditures | (7,763,842)           | (6,793,231)         | 970,611                | (1,728,934)         |
| Other financing sources                              |                       |                     |                        |                     |
| Bonds issued   | –                     | –                   | –                      | 11,669,012          |
| Capital lease  | 2,960,895             | 1,740,000           | (1,220,895)            | –                   |
| Total other financing sources                        | <u>2,960,895</u>      | <u>1,740,000</u>    | <u>(1,220,895)</u>     | <u>11,669,012</u>   |
| Net change in fund balances                          | <u>\$ (4,802,947)</u> | <u>(5,053,231)</u>  | <u>\$ (250,284)</u>    | <u>9,940,078</u>    |
| Fund balances (deficit)                              |                       |                     |                        |                     |
| Beginning of year                                    |                       | <u>9,041,055</u>    |                        | <u>(899,023)</u>    |
| End of year  |                       | <u>\$ 3,987,824</u> |                        | <u>\$ 9,041,055</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Debt Service Fund  
Comparative Balance Sheet  
as of June 30, 2014 and 2013

|  | <u>2014</u>         | <u>2013</u>         |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| Cash and temporary investments   | \$ 4,636,509        | \$ 4,402,934        |
| Receivables  |                     |                     |
| Current taxes  | 3,499,682           | 3,575,248           |
| Delinquent taxes   | <u>204,357</u>      | <u>80,041</u>       |
| Total assets   | <u>\$ 8,340,548</u> | <u>\$ 8,058,223</u> |
| <b>Liabilities</b>   |                     |                     |
| Accounts and contracts payable   | \$ 94,649           | \$ 8,141            |
| <b>Deferred inflows of resources</b>                                   |                     |                     |
| Property taxes levied for subsequent year                              | 7,094,461           | 7,194,307           |
| Unavailable revenue – delinquent taxes                                 | <u>204,357</u>      | <u>80,041</u>       |
| Total deferred inflows of resources                                    | <u>7,298,818</u>    | <u>7,274,348</u>    |
| <b>Fund balances</b>   |                     |                     |
| Restricted for debt service  | <u>947,081</u>      | <u>775,734</u>      |
| Total liabilities, deferred inflows of resources,<br>and fund balances | <u>\$ 8,340,548</u> | <u>\$ 8,058,223</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Debt Service Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual

Year Ended June 30, 2014

(With Comparative Actual Amounts for the Year Ended June 30, 2013)

|   | 2014              |                   | Over (Under)        | 2013                |
|---|-------------------|-------------------|---------------------|---------------------|
|   | Budget            | Actual            | Budget              | Actual              |
| Revenue   |                   |                   |                     |                     |
| Local sources                                       |                   |                   |                     |                     |
| Property taxes                                      | \$ 7,093,037      | \$ 6,970,712      | \$ (122,325)        | \$ 10,153,102       |
| Investment earnings                                 | 1,500             | 2,600             | 1,100               | 45,719              |
| State sources                                       | 133               | —                 | (133)               | 134                 |
| Total revenue                                       | <u>7,094,670</u>  | <u>6,973,312</u>  | <u>(121,358)</u>    | <u>10,198,955</u>   |
| Expenditures  |                   |                   |                     |                     |
| Debt service  |                   |                   |                     |                     |
| Principal   | 4,085,000         | 4,085,000         | —                   | 7,255,000           |
| Interest  | 2,715,516         | 2,715,516         | —                   | 5,839,966           |
| Fiscal charges and other                            | 5,000             | 1,449             | (3,551)             | 92,356              |
| Total expenditures                                  | <u>6,805,516</u>  | <u>6,801,965</u>  | <u>(3,551)</u>      | <u>13,187,322</u>   |
| Excess (deficiency) of revenue<br>over expenditures | 289,154           | 171,347           | (117,807)           | (2,988,367)         |
| Other financing sources (uses)                      |                   |                   |                     |                     |
| Bonds issued  | —                 | —                 | —                   | 105,988             |
| Premium on bonds issued                             | —                 | —                 | —                   | 200,432             |
| Payments to refunded bond escrow agent              | —                 | —                 | —                   | (55,600,000)        |
| Total other financing sources (uses)                | <u>—</u>          | <u>—</u>          | <u>—</u>            | <u>(55,293,580)</u> |
| Net change in fund balances                         | <u>\$ 289,154</u> | 171,347           | <u>\$ (117,807)</u> | (58,281,947)        |
| Fund balances                                       |                   |                   |                     |                     |
| Beginning of year                                   |                   | <u>775,734</u>    |                     | <u>59,057,681</u>   |
| End of year   |                   | <u>\$ 947,081</u> |                     | <u>\$ 775,734</u>   |

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OTHER DISTRICT INFORMATION

(UNAUDITED)

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INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund Revenue by Source  
Last Ten Fiscal Years

| Year Ended<br>June 30, | Local Property<br>Tax Levies | Other Local<br>and County<br>Revenues | State Revenue        | Federal Revenue    | Total                 |
|------------------------|------------------------------|---------------------------------------|----------------------|--------------------|-----------------------|
| 2005                   | \$ 12,925,332<br>20%         | \$ 3,552,892<br>6%                    | \$ 44,914,300<br>71% | \$ 1,940,520<br>3% | \$ 63,333,044<br>100% |
| 2006                   | 9,674,621<br>14%             | 3,872,936<br>6%                       | 51,589,559<br>77%    | 1,698,955<br>3%    | 66,836,071<br>100%    |
| 2007                   | 15,915,068<br>22%            | 2,970,232<br>4%                       | 51,257,316<br>72%    | 1,579,151<br>2%    | 71,721,767<br>100%    |
| 2008                   | 16,415,623<br>22%            | 2,574,904<br>3%                       | 54,904,780<br>73%    | 1,478,313<br>2%    | 75,373,620<br>100%    |
| 2009                   | 18,737,025<br>23%            | 2,248,905<br>3%                       | 58,378,178<br>72%    | 1,713,683<br>2%    | 81,077,791<br>100%    |
| 2010                   | 20,228,122<br>24%            | 2,280,570<br>3%                       | 53,924,966<br>65%    | 6,958,246<br>8%    | 83,391,904<br>100%    |
| 2011                   | 28,851,473<br>33%            | 2,520,934<br>3%                       | 51,887,383<br>60%    | 3,061,247<br>4%    | 86,321,037<br>100%    |
| 2012                   | 23,813,219<br>27%            | 2,754,726<br>3%                       | 58,857,487<br>66%    | 3,344,546<br>4%    | 88,769,978<br>100%    |
| 2013                   | 27,237,931<br>29%            | 2,487,574<br>3%                       | 62,296,085<br>66%    | 1,683,183<br>2%    | 93,704,773<br>100%    |
| 2014                   | 10,666,213<br>12%            | 2,593,867<br>3%                       | 76,710,991<br>83%    | 1,809,161<br>2%    | 91,780,232<br>100%    |

Note: Legislative changes in the “tax shift” impacted the amount of tax revenue recognized in fiscal years 2006, 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

| <u>Year Ended<br/>June 30,</u> | <u>Administration</u> | <u>District<br/>Support Services</u> | <u>Instruction</u>   | <u>Instructional<br/>Support Services</u> | <u>Pupil<br/>Support Services</u> |
|--------------------------------|-----------------------|--------------------------------------|----------------------|---|-----------------------------------|
| 2005                           | \$ 3,012,443<br>5%    | \$ 2,243,806<br>4%                   | \$ 40,039,620<br>64% | \$ 4,639,034<br>7%                        | \$ 5,002,755<br>8%                |
| 2006                           | 3,268,807<br>5%       | 2,441,300<br>3%                      | 43,231,893<br>62%    | 4,666,311<br>7%                           | 5,359,110<br>8%                   |
| 2007                           | 3,260,260<br>5%       | 2,333,732<br>4%                      | 46,323,253<br>61%    | 5,309,613<br>8%                           | 5,605,837<br>8%                   |
| 2008                           | 3,164,236<br>4%       | 2,405,000<br>3%                      | 48,877,070<br>66%    | 5,041,640<br>7%                           | 5,953,006<br>8%                   |
| 2009                           | 3,092,640<br>4%       | 2,593,246<br>3%                      | 51,619,145<br>65%    | 7,885,063<br>10%                          | 6,217,918<br>8%                   |
| 2010                           | 2,891,265<br>4%       | 2,613,421<br>3%                      | 55,612,094<br>68%    | 6,593,566<br>8%                           | 6,345,288<br>8%                   |
| 2011                           | 2,922,416<br>3%       | 2,731,865<br>3%                      | 58,238,240<br>68%    | 6,592,322<br>8%                           | 6,669,731<br>8%                   |
| 2012                           | 2,921,447<br>3%       | 2,701,860<br>3%                      | 58,140,863<br>68%    | 6,760,932<br>8%                           | 7,329,686<br>8%                   |
| 2013                           | 3,057,055<br>3%       | 2,517,407<br>3%                      | 60,574,774<br>66%    | 5,105,226<br>6%                           | 7,608,727<br>8%                   |
| 2014                           | 3,100,900<br>4%       | 2,969,022<br>3%                      | 62,272,584<br>69%    | 4,916,476<br>5%                           | 7,544,789<br>8%                   |

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

| <u>Sites and<br/>Buildings</u> | <u>Other Programs</u> | <u>Total</u>          |
|--------------------------------|-----------------------|-----------------------|
| \$ 6,417,735<br>10%            | \$ 997,262<br>2%      | \$ 62,352,655<br>100% |
| 9,417,647<br>14%               | 892,984<br>1%         | 69,278,052<br>100%    |
| 9,061,053<br>13%               | 611,396<br>1%         | 72,505,144<br>100%    |
| 7,917,073<br>11%               | 521,527<br>1%         | 73,879,552<br>100%    |
| 8,116,755<br>10%               | 269,231<br>-%         | 79,793,998<br>100%    |
| 7,681,111<br>9%                | 291,515<br>-%         | 82,028,260<br>100%    |
| 8,203,146<br>10%               | 300,830<br>-%         | 85,658,550<br>100%    |
| 8,714,030<br>10%               | 381,487<br>-%         | 86,950,305<br>100%    |
| 13,393,834<br>14%              | 469,478<br>-%         | 92,726,501<br>100%    |
| 9,691,920<br>11%               | 362,556<br>-%         | 90,858,247<br>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 |
|--------------------|---------------|--|---|-------------------|-----------------|
| <b>Levies</b>      |               |  |   |                   |                 |
| 2005               | \$ 12,885,440 | \$ 905,136                             | \$ 1,000,109                                  | \$ 9,128,281      | \$ 23,918,966   |
| 2006               | 15,614,487    | 946,912                                | 1,000,111                                     | 8,074,618         | 25,636,128      |
| 2007               | 16,736,821    | 1,050,158                              | 1,000,243                                     | 8,368,398         | 27,155,620      |
| 2008               | 18,851,653    | 893,439                                | 1,000,553                                     | 9,181,816         | 29,927,461      |
| 2009               | 19,822,034    | 938,749                                | 1,000,300                                     | 9,947,842         | 31,708,925      |
| 2010               | 21,451,658    | 957,557                                | 1,000,406                                     | 10,133,671        | 33,543,292      |
| 2011               | 21,276,283    | 982,373                                | 1,885,932                                     | 10,554,475        | 34,699,063      |
| 2012               | 26,739,844    | 1,053,989                              | 1,730,064                                     | 10,281,370        | 39,805,267      |
| 2013               | 26,641,579    | 1,093,196                              | 4,383,529                                     | 7,194,307         | 39,312,611      |
| 2014               | 27,084,132    | 1,142,821                              | 4,640,567                                     | 7,094,461         | 39,961,981      |
| <b>Tax rates</b>   |               |  |   |                   |                 |
| Tax capacity rates |               |  |   |                   |                 |
| 2005               | 3.311         | 1.344                                  | 1.485   | 13.554            | 19.694          |
| 2006               | 6.039         | 1.246                                  | 1.316   | 10.625            | 19.226          |
| 2007               | 5.932         | 1.241                                  | 1.182   | 9.889             | 18.244          |
| 2008               | 4.542         | 1.001                                  | 1.121   | 10.287            | 16.951          |
| 2009               | 4.635         | 1.037                                  | 1.105   | 10.989            | 17.766          |
| 2010               | 5.487         | 1.050                                  | 1.097   | 11.112            | 18.746          |
| 2011               | 7.288         | 1.136                                  | 1.157   | 12.205            | 21.786          |
| 2012               | 13.939        | 1.267                                  | –   | 12.359            | 27.565          |
| 2013               | 17.649        | 1.334                                  | –   | 8.779             | 27.762          |
| 2014               | 17.566        | 1.386                                  | –   | 8.604             | 27.556          |
| Market value rates |               |  |   |                   |                 |
| 2005               | 0.166         | –                                      | –   | –                 | 0.166           |
| 2006               | 0.154         | –                                      | –   | –                 | 0.154           |
| 2007               | 0.147         | –                                      | –   | –                 | 0.147           |
| 2008               | 0.177         | –                                      | –   | –                 | 0.177           |
| 2009               | 0.183         | –                                      | –   | –                 | 0.183           |
| 2010               | 0.194         | –                                      | –   | –                 | 0.194           |
| 2011               | 0.196         | –                                      | –   | –                 | 0.196           |
| 2012               | 0.215         | –                                      | –   | –                 | 0.215           |
| 2013               | 0.217         | –                                      | –   | –                 | 0.217           |
| 2014               | 0.223         | –                                      | –   | –                 | 0.223           |

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<br>Collectible | Original Levy |                    |                         |               |
|--------------------------|---------------|--------------------|-------------------------|---------------|
|                          | Local Spread  | Fiscal Disparities | Property<br>Tax Credits | Total Spread  |
| 2005                     | \$ 22,903,838 | \$ 794,755         | \$ 220,373              | \$ 23,918,966 |
| 2006                     | 24,734,667    | 722,215            | 179,246                 | 25,636,128    |
| 2007                     | 26,277,313    | 740,269            | 138,038                 | 27,155,620    |
| 2008                     | 29,016,879    | 789,966            | 120,616                 | 29,927,461    |
| 2009                     | 30,639,825    | 945,589            | 123,511                 | 31,708,925    |
| 2010                     | 32,343,270    | 1,061,264          | 138,758                 | 33,543,292    |
| 2011                     | 33,450,877    | 1,083,275          | 164,911                 | 34,699,063    |
| 2012                     | 38,740,332    | 1,064,935          | –                       | 39,805,267    |
| 2013                     | 38,221,083    | 1,091,528          | –                       | 39,312,611    |
| 2014                     | 38,892,673    | 1,069,308          | –                       | 39,961,981    |

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, 2014

| Delinquent        |         | Current              |         |
|-------------------|---------|----------------------|---------|
| Amount            | Percent | Amount               | Percent |
| \$ -              | - %     | \$ -                 | - %     |
| -                 | -       | -                    | -       |
| -                 | -       | -                    | -       |
| 60,474            | 0.20    | -                    | -       |
| (27,752)          | (0.09)  | -                    | -       |
| (122,671)         | (0.37)  | -                    | -       |
| 198,654           | 0.57    | -                    | -       |
| 383,370           | 0.96    | -                    | -       |
| 394,890           | 1.00    | -                    | -       |
| -                 | -       | 19,713,206           | 49.33   |
| <u>\$ 886,965</u> |         | <u>\$ 19,713,206</u> |         |

INDEPENDENT SCHOOL DISTRICT NO. 273

Student Enrollment  
Last Ten Fiscal Years

| Year Ended<br>June 30, | Average Daily Membership (ADM) (for Students Served or Tuition Paid) |              |            |           |          | Total<br>Pupil Units |
|------------------------|--|--------------|------------|-----------|----------|----------------------|
|                        | Handicapped and<br>Pre-Kindergarten                                  | Kindergarten | Elementary | Secondary | Total    |                      |
| 2005                   | 66.63  | 470.52       | 3,404.12   | 3,384.07  | 7,325.34 | 8,441.91             |
| 2006                   | 69.29  | 496.28       | 3,480.79   | 3,482.66  | 7,529.02 | 8,671.00             |
| 2007                   | 73.21  | 488.22       | 3,510.44   | 3,494.94  | 7,566.81 | 8,718.02             |
| 2008                   | 69.49  | 512.62       | 3,600.26   | 3,562.08  | 7,744.45 | 8,941.35             |
| 2009                   | 72.10  | 514.21       | 3,672.12   | 3,649.88  | 7,908.31 | 9,137.36             |
| 2010                   | 69.27  | 510.50       | 3,699.26   | 3,774.26  | 8,053.29 | 9,321.73             |
| 2011                   | 72.25  | 506.30       | 3,808.45   | 3,875.72  | 8,262.72 | 9,571.81             |
| 2012                   | 70.30  | 507.92       | 3,821.35   | 3,918.16  | 8,317.73 | 9,640.67             |
| 2013                   | 78.84  | 502.78       | 3,807.72   | 3,979.41  | 8,368.75 | 9,710.33             |
| 2014                   | 68.95  | 536.79       | 3,814.31   | 4,015.18  | 8,435.23 | 9,774.26             |

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<br>Kindergarten | Kindergarten | Elementary<br>1-3 | Elementary<br>4-6 | Secondary |
|-----------------------------|------------------|-----------------------------|--------------|-------------------|-------------------|-----------|
| Fiscal 2005<br>through 2007 | 1.250            | 1.000                       | 0.557        | 1.115             | 1.060             | 1.300     |
| Fiscal 2008<br>through 2014 | 1.250            | 1.000                       | 0.612        | 1.115             | 1.060             | 1.300     |

SINGLE AUDIT AND OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

| Federal Grantor/Pass-Through Grantor/Program Title      | Federal<br>CFDA No. | Federal Expenditures       |
|---|---------------------|----------------------------|
| <b>U.S. Department of Agriculture</b>                   |                     |                            |
| Passed through Minnesota Department of Education        |                     |                            |
| Child nutrition cluster                                 |                     |                            |
| School Breakfast Program                                | 10.553              | \$ 29,162                  |
| National School Lunch Program                           | 10.555              | <u>409,147</u>             |
| Total child nutrition cluster                           |                     | 438,309                    |
| <b>U.S. Department of Education</b>                     |                     |                            |
| Passed through Minnesota Department of Education        |                     |                            |
| Special education cluster                               |                     |                            |
| Special Education – Grants to States                    | 84.027              | 1,205,410                  |
| Special Education – Preschool Grants                    | 84.173              | <u>28,142</u>              |
| Total special education cluster                         |                     | 1,233,552                  |
| Special Education – Grants for Infants and Families     | 84.181              | 27,637                     |
| Title I Grants to Local Educational Agencies            | 84.010              | 392,405                    |
| Improving Teacher Quality State Grants                  | 84.367              | 99,552                     |
| English Language Acquisition Grants                     | 84.365              | 42,095                     |
| Passed through Carver-Scott Educational Cooperative     |                     |                            |
| Career and Technical Education – Basic Grants to States | 84.048              | <u>13,500</u>              |
| Total federal awards                                    |                     | <u><u>\$ 2,247,050</u></u> |

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

Note 2: Non-monetary assistance of \$8,771 is reported in this schedule, representing the value of commodities received and disbursed for the U.S. Department of Agriculture National School Lunch Program (CFDA No. 10.555).

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



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Paul A. Radosevich, CPA  
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James H. Eichten, CPA  
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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, 2014, 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 9, 2014.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

(continued)

## COMPLIANCE AND OTHER MATTERS

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

## PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota

October 9, 2014



PRINCIPALS

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

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

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited Independent School District No. 273, Edina, Minnesota's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**MANAGEMENT'S RESPONSIBILITY**

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

**AUDITOR'S RESPONSIBILITY**

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

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

(continued)

## **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, 2014.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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

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

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

## **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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Minneapolis, Minnesota  
October 9, 2014



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, 2014, 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 9, 2014.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2014-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

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

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

Minneapolis, Minnesota  
October 9, 2014

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INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2014

**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?        Yes   X   No

Noncompliance material to the financial statements noted?        Yes   X   None reported

**Federal Awards**

Internal controls over major federal award programs:

Material weakness(es) identified?        Yes   X   No

Significant deficiencies identified?        Yes   X   No

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

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

Programs tested as major programs:

| Program or Cluster  | CFDA No. |
|---|----------|
| The U.S. Department of Education – Title I Grants to Local Educational Agencies | 84.010   |
| The U.S. Department of Agriculture child nutrition cluster consisting of:       |          |
| – School Breakfast Program  | 10.553   |
| – National School Lunch Program   | 10.555   |

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

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

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

None.

**C. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.

**D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT**

**2014-001 CLAIMS AND DISBURSEMENTS**

**Criteria** – Minnesota Statute § 471.425, Subd. 2.

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

**Questioned Costs** – Not applicable.

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

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

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

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

**Corrective Action Plan**

Actions Planned – The District will review the payment procedures and communicate the importance of paying all invoices within the 35-day time limit.

Official Responsible – The District Controller.

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

**D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT (CONTINUED)**

**2014-001 CLAIMS AND DISBURSEMENTS (CONTINUED)**

**Corrective Action Plan (continued)**

Planned Completion Date – June 30, 2015.

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

Plan to Monitor – The District Controller will review the District’s procedures for paying invoices with the district employees responsible for processing disbursements and the employees who are making purchasing requests.

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

No audit findings at June 30, 2013.

INDEPENDENT SCHOOL DISTRICT NO. 273

Uniform Financial Accounting and Reporting Standards  
Compliance Table  
June 30, 2014

|                          |  | Audit         | UFARS         | Audit – UFARS |
|--------------------------|--|---------------|---------------|---------------|
| <b>General Fund</b>      |  |               |               |               |
| Total revenue            |  | \$ 91,780,232 | \$ 91,780,232 | \$ –          |
| Total expenditures       |  | \$ 90,858,247 | \$ 90,858,247 | \$ –          |
| Nonspendable             |  |               |               |               |
| 460                      | Nonspendable fund balance              | \$ 79,058     | \$ 79,058     | \$ –          |
| Restricted/reserve       |  |               |               |               |
| 403                      | Staff development                      | \$ 47,644     | \$ 47,644     | \$ –          |
| 405                      | Deferred maintenance                   | \$ –          | \$ –          | \$ –          |
| 406                      | Health and safety                      | \$ (102,553)  | \$ (102,553)  | \$ –          |
| 407                      | Capital projects levy                  | \$ 36,692     | \$ 36,692     | \$ –          |
| 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                      | \$ 1,003,010  | \$ 1,003,010  | \$ –          |
| 426                      | \$25 taconite                          | \$ –          | \$ –          | \$ –          |
| 427                      | Disabled accessibility                 | \$ –          | \$ –          | \$ –          |
| 428                      | Learning and development               | \$ –          | \$ –          | \$ –          |
| 434                      | Area learning center                   | \$ –          | \$ –          | \$ –          |
| 435                      | Contracted alternative programs        | \$ –          | \$ –          | \$ –          |
| 436                      | State approved alternative program     | \$ –          | \$ –          | \$ –          |
| 438                      | Gifted and talented                    | \$ –          | \$ –          | \$ –          |
| 441                      | Basic skills programs                  | \$ –          | \$ –          | \$ –          |
| 445                      | Career and technical programs          | \$ –          | \$ –          | \$ –          |
| 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 | \$ –          | \$ –          | \$ –          |
| Restricted               |  |               |               |               |
| 464                      | Restricted fund balance                | \$ –          | \$ –          | \$ –          |
| Committed                |  |               |               |               |
| 418                      | Committed for separation               | \$ –          | \$ –          | \$ –          |
| 461                      | Committed fund balance                 | \$ 2,562,543  | \$ 2,562,543  | \$ –          |
| Assigned                 |  |               |               |               |
| 462                      | Assigned fund balance                  | \$ 3,347,101  | \$ 3,347,101  | \$ –          |
| Unassigned               |  |               |               |               |
| 422                      | Unassigned fund balance                | \$ 8,638,008  | \$ 8,638,008  | \$ –          |
| <b>Food Service</b>      |  |               |               |               |
| Total revenue            |  | \$ 3,271,491  | \$ 3,271,491  | \$ –          |
| Total expenditures       |  | \$ 3,183,720  | \$ 3,183,721  | \$ (1)        |
| Nonspendable             |  |               |               |               |
| 460                      | Nonspendable fund balance              | \$ 4,845      | \$ 4,845      | \$ –          |
| Restricted               |  |               |               |               |
| 452                      | OPEB liability not in trust            | \$ –          | \$ –          | \$ –          |
| 464                      | Restricted fund balance                | \$ 611,566    | \$ 611,566    | \$ –          |
| Unassigned               |  |               |               |               |
| 463                      | Unassigned fund balance                | \$ –          | \$ –          | \$ –          |
| <b>Community Service</b> |  |               |               |               |
| Total revenue            |  | \$ 7,857,781  | \$ 7,857,781  | \$ –          |
| Total expenditures       |  | \$ 7,831,075  | \$ 7,831,075  | \$ –          |
| Nonspendable             |  |               |               |               |
| 460                      | Nonspendable fund balance              | \$ 8,437      | \$ 8,437      | \$ –          |
| Restricted/reserve       |  |               |               |               |
| 426                      | \$25 taconite                          | \$ –          | \$ –          | \$ –          |
| 431                      | Community education                    | \$ 992,965    | \$ 992,965    | \$ –          |
| 432                      | ECFE                                   | \$ 185,126    | \$ 185,126    | \$ –          |
| 444                      | School readiness                       | \$ 2,011      | \$ 2,011      | \$ –          |
| 447                      | Adult basic education                  | \$ –          | \$ –          | \$ –          |
| 452                      | OPEB liability not in trust            | \$ –          | \$ –          | \$ –          |
| Restricted               |  |               |               |               |
| 464                      | Restricted fund balance                | \$ 249        | \$ 249        | \$ –          |
| Unassigned               |  |               |               |               |
| 463                      | Unassigned fund balance                | \$ –          | \$ –          | \$ –          |

INDEPENDENT SCHOOL DISTRICT NO. 273

Uniform Financial Accounting and Reporting Standards  
Compliance Table (continued)  
June 30, 2014

|                                    | Audit         | UFARS         | Audit – UFARS |
|------------------------------------|---------------|---------------|---------------|
| <b>Building Construction</b>       |               |               |               |
| Total revenue                      | \$ 8,856,851  | \$ 8,856,851  | \$ –          |
| Total expenditures                 | \$ 15,650,082 | \$ 15,650,081 | \$ 1          |
| Nonspendable                       |               |               |               |
| 460 Nonspendable fund balance      | \$ –          | \$ –          | \$ –          |
| Restricted/reserve                 |               |               |               |
| 407 Capital projects levy          | \$ 281,570    | \$ 281,570    | \$ –          |
| 409 Alternative facility program   | \$ 3,688,167  | \$ 3,688,167  | \$ –          |
| 413 Project funded by COP          | \$ 18,087     | \$ 18,087     | \$ –          |
| Restricted                         |               |               |               |
| 464 Restricted fund balance        | \$ –          | \$ –          | \$ –          |
| Unassigned                         |               |               |               |
| 463 Unassigned fund balance        | \$ –          | \$ –          | \$ –          |
| <b>Debt Service</b>                |               |               |               |
| Total revenue                      | \$ 6,973,312  | \$ 6,973,312  | \$ –          |
| Total expenditures                 | \$ 6,801,965  | \$ 6,801,966  | \$ (1)        |
| Nonspendable                       |               |               |               |
| 460 Nonspendable fund balance      | \$ –          | \$ –          | \$ –          |
| Restricted/reserve                 |               |               |               |
| 425 Bond refundings                | \$ –          | \$ –          | \$ –          |
| 451 QZAB payments                  | \$ –          | \$ –          | \$ –          |
| Restricted                         |               |               |               |
| 464 Restricted fund balance        | \$ 947,081    | \$ 947,081    | \$ –          |
| Unassigned                         |               |               |               |
| 463 Unassigned fund balance        | \$ –          | \$ –          | \$ –          |
| <b>Trust</b>                       |               |               |               |
| Total revenue                      | \$ –          | \$ –          | \$ –          |
| Total expenditures                 | \$ –          | \$ –          | \$ –          |
| 422 Net position                   | \$ –          | \$ –          | \$ –          |
| <b>Internal Service</b>            |               |               |               |
| Total revenue                      | \$ 820,368    | \$ 820,368    | \$ –          |
| Total expenditures                 | \$ 753,725    | \$ 753,724    | \$ 1          |
| 422 Net position                   | \$ 358,455    | \$ 358,455    | \$ –          |
| <b>OPEB Revocable Trust Fund</b>   |               |               |               |
| Total revenue                      | \$ –          | \$ –          | \$ –          |
| Total expenditures                 | \$ –          | \$ –          | \$ –          |
| 422 Net position                   | \$ –          | \$ –          | \$ –          |
| <b>OPEB Irrevocable Trust Fund</b> |               |               |               |
| Total revenue                      | \$ –          | \$ –          | \$ –          |
| Total expenditures                 | \$ –          | \$ –          | \$ –          |
| 422 Net position                   | \$ –          | \$ –          | \$ –          |
| <b>OPEB Debt Service Fund</b>      |               |               |               |
| 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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