

**INDEPENDENT SCHOOL DISTRICT NO. 273
EDINA, MINNESOTA**

**Financial Statements
and Supplemental Information**

**Year Ended
June 30, 2012**

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INDEPENDENT SCHOOL DISTRICT NO. 273

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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 273

School Board and Administration
Year Ended June 30, 2012

SCHOOL BOARD

	<u>Position</u>
Randy Meyer	Chairperson
Idith Almog	Vice Chairperson
Cathy Cella	Treasurer
Leny Wallen-Freidman	Assistant Treasurer
Regina Neville	Clerk
Sarah Patzloff	Assistant Clerk
Lonni Skrentner	Assistant Clerk

ADMINISTRATION

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

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the District's financial statements for the year ended June 30, 2011, and in our report dated October 13, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial statements include prior year partial comparative information, which does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2011, from which such information was derived.

(continued)

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

The supplemental information, 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory 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.

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

October 10, 2012

INDEPENDENT SCHOOL DISTRICT NO. 273

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

This section of Independent School District No. 273, Edina, Minnesota's (the District) annual financial report presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2012. Please read it in conjunction with the other components of the District's annual financial report.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-Wide Statements

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

The two government-wide statements report the District's *net assets* and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

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

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

- 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 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 Assets:

Table 1 Summary Statement of Net Assets as of June 30, 2012 and 2011		
	2012	2011
Assets		
Current and other assets	\$ 124,385,630	\$ 52,555,072
Capital assets, net of depreciation	96,167,283	98,439,107
Total assets	\$ 220,552,913	\$ 150,994,179
Liabilities		
Current and other liabilities	\$ 54,385,419	\$ 42,758,869
Long-term liabilities, including due within one year	131,670,543	77,765,714
Total liabilities	\$ 186,055,962	\$ 120,524,583
Net assets		
Invested in capital assets, net of related debt	\$ 28,640,024	\$ 24,796,401
Restricted	1,693,537	1,580,366
Unrestricted	4,163,390	4,092,829
Total net assets	\$ 34,496,951	\$ 30,469,596

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

Total net assets increased by \$4,027,355, which reflects the current year operating results. The District's investment in capital assets, net of related debt, increased \$3,843,623 from the prior year. Restricted and unrestricted net assets also increased \$113,171 and \$70,561, respectively. The increase in the District's current and other assets, and corresponding increase in long-term liabilities, is due to the District issuing certificates of participation and crossover refunding bonds during the current year.

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

Table 2 Summary Statement of Activities for the Years Ended June 30, 2012 and 2011		
	<u>2012</u>	<u>2011</u>
Revenues		
Program revenues		
Charges for services	\$ 10,477,064	\$ 9,739,742
Operating grants and contributions	11,623,300	10,832,915
General revenues		
Property taxes	36,951,246	41,558,982
General grants and aids	51,397,390	44,498,713
All other	1,081,010	1,358,509
Total revenues	<u>111,530,010</u>	<u>107,988,861</u>
Expenses		
Administration	2,794,268	3,003,572
District support services	2,806,696	2,707,740
Elementary and secondary regular instruction	46,776,156	49,473,041
Vocational education instruction	321,154	209,565
Special education instruction	15,681,508	16,312,013
Instructional support services	6,965,909	6,533,971
Pupil support services	7,416,662	6,760,115
Sites and buildings	9,826,177	9,262,844
Fiscal and other fixed cost programs	227,350	109,103
Food service	3,156,064	3,241,740
Community service	7,192,308	7,092,460
Interest and fiscal charges on debt	4,338,403	3,129,478
Total expenses	<u>107,502,655</u>	<u>107,835,642</u>
Change in net assets	<u>\$ 4,027,355</u>	<u>\$ 153,219</u>

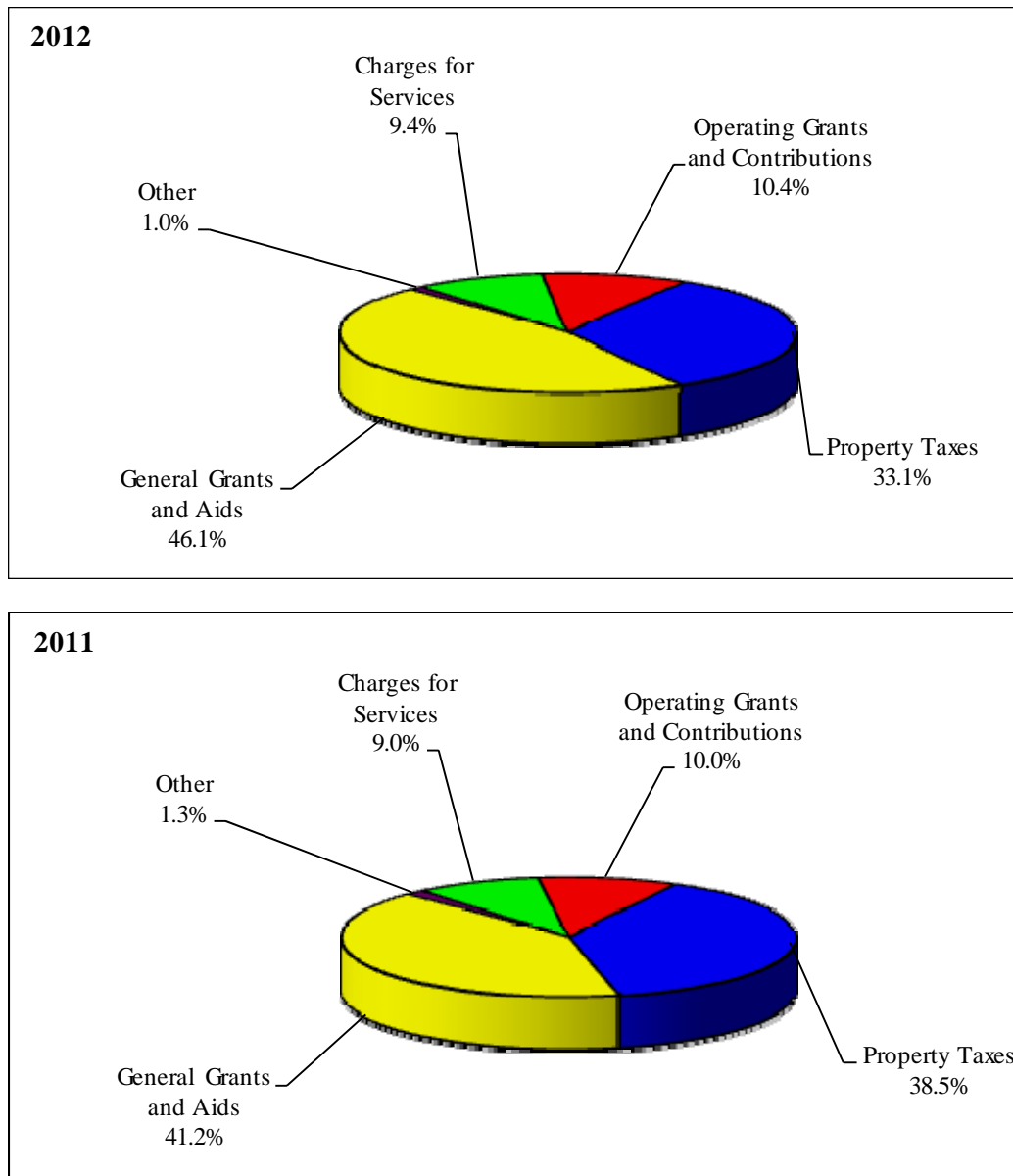
This format is similar to fund financial statements except that this is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment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

Total revenues for fiscal year 2012 were \$3,541,149 higher than the prior year. This increase was mainly due to approximately \$1.2 million of additional general education aid due to higher enrollment and a formula allowance increase of \$50 per pupil unit, increases in special education aid, and increases in capital projects and debt service tax levies.

Expenses decreased \$332,987 compared to fiscal year 2011 levels. In April 2011, the School Board approved \$2.3 million in budget reductions, reallocations, and revenue generation. This resulted in an approximate decrease in expenditures of \$1.6 million. Other expenditure changes included increases in employee benefit rates, special education transportation, interest for cash flow borrowing, and salary lane changes. 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 2012 and 2011

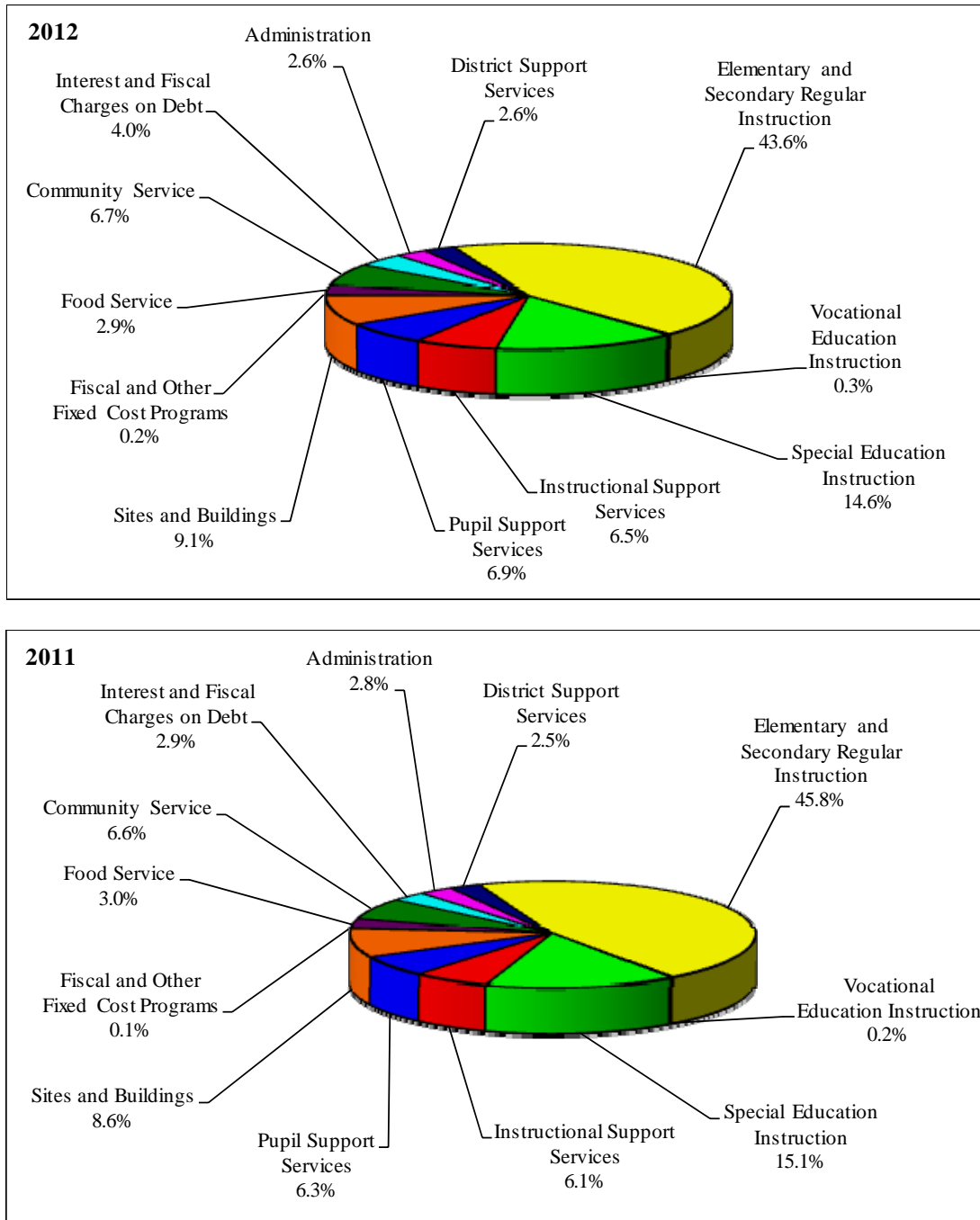


The largest share of the District's revenue is received from the state, including the aid formula and most of the operating grants. This significant reliance on the state for funding has placed tremendous pressure on local school districts as a result of limited funding due to the state's financial position 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 changed significantly from fiscal 2011 to fiscal 2012, due to the "tax shift." The tax shift is an accounting tool used 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 reduces aid payments to districts by an equal amount.

Figure B – Expenses for Fiscal Years 2012 and 2011



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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Table 3 Governmental Fund Balances as of June 30, 2012 and 2011			
	2012	2011	Increase (Decrease)
Major funds			
General	\$ 12,541,786	\$ 10,722,113	\$ 1,819,673
Capital Projects – Building Construction	(899,023)	(1,715,404)	816,381
Debt Service	59,057,681	17,844	59,039,837
Nonmajor funds			
Food Service Special Revenue	481,376	356,378	124,998
Community Service Special Revenue	1,253,241	1,221,285	31,956
Total governmental funds	<u>\$ 72,435,061</u>	<u>\$ 10,602,216</u>	<u>\$ 61,832,845</u>

In the General Fund, nonspendable fund balances for prepaid items decreased \$254,076. Fund balance restricted for operating capital increased \$168,886 due to reclassification of the lease levy balance. The District's School Board adopted a policy during the prior year committing fund balance equal to 2 percent of unassigned General Fund expenditures for future cash flows, which was \$1,529,788 at year-end. This policy also committed fund balance for any remaining federal education jobs dollars, which was \$894,821 at year-end. Fund balances assigned for various purposes decreased \$597,189, and unassigned fund balance increased by \$1,600,494 during the year.

The increase in the Capital Projects – Building Construction Fund balance reflects issuance of \$1,615,000 of Certificates of Participation, Series 2011C, of which \$505,461 remains restricted for building projects at year-end. The accumulated fund balance deficits in the restricted accounts for capital project levies and the alternative facilities program were also reduced by \$287,895, as planned.

The Debt Service Fund increased with \$50,370,000 of General Obligation School Building Refunding Bonds, Series 2011B issued in the current year. At year-end, \$58,664,372 of cash, investments, and accrued interest receivable held by a trustee is restricted for bond refunding.

General Fund

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

Table 4 summarizes the amendments to the General Fund budget:

Table 4 General Fund Budget				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Revenue	<u>\$ 86,330,677</u>	<u>\$ 87,763,827</u>	<u>\$ 1,433,150</u>	<u>1.7%</u>
Expenditures	<u>\$ 85,757,387</u>	<u>\$ 87,457,374</u>	<u>\$ 1,699,987</u>	<u>2.0%</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. During the year, the District might amend that budget for known changes in circumstances such as enrollment levels, legislative funding, and employee contract settlements.

Table 5 summarizes the operating results of the General Fund:

Table 5 General Fund Operating Results					
	<u>2012 Actual</u>	<u>Over (Under) Final Budget</u>		<u>Over (Under) Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Revenue	\$ 88,769,978	\$ 1,006,151	1.1%	\$ 2,448,941	2.8%
Expenditures	<u>86,950,305</u>	\$ (507,069)	(0.6%)	\$ 1,291,755	1.5%
Net change in fund balances	<u>\$ 1,819,673</u>				

Actual revenues for fiscal year 2012 were 1.1 percent over budget. The revenue variance was primarily in state sources and other local revenues. Expenditures were 0.6 percent under budget. The expenditure variance in 2012 was spread across several programs, with the largest under spending occurring in special education instruction, regular instruction, and instructional support services.

Revenue increases from the prior year were mainly due to additional general education aid due to higher enrollment and a formula allowance increase of \$50 per pupil unit, and increases in special education aid.

Expenditures increased from the prior year mainly due to increases in employee benefit rates, special education transportation, interest for cash flow borrowing, and salary lane changes. In April of 2011, the board approved a \$2.3 million in budget reductions, reallocations, and revenue generation. This resulted in an approximate decrease in expenditures of \$1.6 million. The growth in remaining expenditures is consistent with regional inflationary trends.

Food Service Special Revenue Fund

Food Service Special Revenue Fund revenue for fiscal 2012 totaled \$3,277,313 and expenditures were \$3,152,315. The June 30, 2012 fund balance is \$481,376, an increase of \$124,998 from fiscal year 2011.

Community Service Special Revenue Fund

Community Service Special Revenue Fund revenue for fiscal 2012 totaled \$7,185,703 and expenditures were \$7,153,747. The June 30, 2012 fund balance is \$1,253,241, an increase of \$31,956 from fiscal year 2011.

Capital Projects – Building Construction Fund

Capital Projects – Building Construction Fund revenue and other financing sources for fiscal 2012 totaled \$3,511,063 and expenditures were \$2,694,682. The June 30, 2012 fund balance is a deficit of (\$899,023), an improvement of \$816,381 from fiscal year 2011. This reflects the District's planned elimination of the accumulated fund balance deficit.

Debt Service Fund

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital, or for initial or refunding bonds. Debt Service Fund revenue and other financing sources for 2011–2012 totaled \$69,317,865 and expenditures were \$10,278,028. The June 30, 2012 fund balance is \$59,057,681, an increase of \$59,039,837 from fiscal year 2011 due to the District issuing \$50,370,000 in crossover refunding bonds. The expenditure budget is based on the payment schedules of bond principal and interest on the general obligation bonds issued.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2012, the District had invested \$96,167,283 in a broad range of capital assets, including school buildings, athletic facilities, and technology and equipment (see Table 6). Total depreciation expense for this year was \$4,593,206.

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2012 and 2011.

Table 6 Capital Assets			
	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Land	\$ 1,627,557	\$ 1,627,557	\$ —
Land improvements	4,407,472	4,126,890	280,582
Buildings	168,663,635	168,583,544	80,091
Furniture and equipment	12,979,397	12,501,943	477,454
Construction in progress	1,282,255	—	1,282,255
Less accumulated depreciation	<u>(92,793,033)</u>	<u>(88,400,827)</u>	<u>(4,392,206)</u>
Total	<u>\$ 96,167,283</u>	<u>\$ 98,439,107</u>	<u>\$ (2,271,824)</u>
Depreciation expense	<u>\$ 4,593,206</u>	<u>\$ 7,431,696</u>	<u>\$ (2,838,490)</u>

The changes presented in the table above reflect the ongoing activity and completion of projects at district sites during fiscal year 2012. The most significant change from last year is accumulated depreciation. The increase in construction in process is due to the addition to South View Middle School. This addition is funded through lease levy, alternative facilities, and capital funding.

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

Long-Term Liabilities

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

Table 7 Outstanding Long-Term Liabilities			
	2012	2011	Increase (Decrease)
General obligation bonds payable	\$ 116,100,000	\$ 72,705,000	\$ 43,395,000
Certification of participation payable	1,615,000	—	1,615,000
Premiums on bonds payable	8,686,722	860,027	7,826,695
Capital leases payable	—	77,679	(77,679)
Severance benefits payable	460,530	372,058	88,472
Net OPEB obligation	3,015,993	2,321,310	694,683
Net pension obligation	1,792,298	1,429,640	362,658
Total	<u>\$ 131,670,543</u>	<u>\$ 77,765,714</u>	<u>\$ 53,904,829</u>

The increase in general obligation bonds payable, certificates of participation payable, and premiums are due to the issuance of General Obligation School Building Refunding Bonds, Series 2011B and Certificates of Participation, Series 2011C offset by the scheduled principal payments during fiscal year 2012.

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

Table 8 Limitations on Debt	
District's market value	\$ 7,623,209,979
Limit rate	<u>15.0%</u>
Legal debt limit	<u>\$ 1,143,481,497</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 \$50 per pupil in fiscal year 2012 to \$5,174. The Legislature also added \$50 per pupil to the formula for fiscal year 2013. A weakened economy and growing demand on limited resources continue to present challenges in funding education for Minnesota schools.

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 November 2011, the District was successful in its request to renew the existing operating levy scheduled to sunset in 2011–2012, and renew and increase a capital/technology levy. The increase of \$3.5 million in technology funding will expand and integrate technology infrastructure, hardware, software, support, and training.

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, Independent School District No. 273, 5701 Normandale Road, Edina, Minnesota 55424, or visit the District website at www.edina.k12.mn.us.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	Governmental Activities	
	2012	2011
Assets		
Cash and temporary investments	\$ 17,842,798	\$ 14,452,602
Receivables		
Current taxes	19,903,261	17,391,944
Delinquent taxes	229,941	267,276
Accounts and interest receivable	185,409	195,204
Due from other governmental units	25,399,457	19,422,085
Prepaid items	590,465	825,961
Restricted assets – temporarily restricted		
Cash and investments for debt service	58,608,909	–
Cash and investments for capital asset acquisition	1,569,927	–
Interest receivable for debt service	55,463	–
Total restricted assets – temporarily restricted	60,234,299	–
Capital assets		
Not depreciated	2,909,812	1,627,557
Depreciated, net of accumulated depreciation	93,257,471	96,811,550
Total capital assets, net of accumulated depreciation	96,167,283	98,439,107
Total assets	<u>\$ 220,552,913</u>	<u>\$ 150,994,179</u>
Liabilities		
Tax anticipation certificates	\$ 15,175,917	\$ 8,063,213
Salaries payable	3,548,803	3,485,778
Accounts and contracts payable	5,779,808	5,030,919
Accrued interest payable	3,020,564	1,325,563
Due to other governmental units	498,201	786,627
Property taxes levied for subsequent year	25,300,487	22,929,342
Unearned revenue	1,061,639	1,137,427
Long-term liabilities		
Due within one year	63,029,506	7,148,390
Due in more than one year	68,641,037	70,617,324
Total long-term liabilities	131,670,543	77,765,714
Total liabilities	186,055,962	120,524,583
Net assets		
Invested in capital assets, net of related debt	28,640,024	24,796,401
Restricted for		
Food service	481,376	356,378
Community service	1,212,161	1,223,988
Unrestricted	4,163,390	4,092,829
Total net assets	34,496,951	30,469,596
Total liabilities and net assets	<u>\$ 220,552,913</u>	<u>\$ 150,994,179</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

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

Functions/Programs	2012			2011	
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	\$ 2,794,268	\$ —	\$ —	\$ (2,794,268)	\$ (2,961,867)
District support services	2,806,696	—	—	(2,806,696)	(2,707,740)
Elementary and secondary regular instruction	46,776,156	678,802	355,799	(45,741,555)	(48,585,780)
Vocational education instruction	321,154	—	—	(321,154)	(209,565)
Special education instruction	15,681,508	349,339	7,817,374	(7,514,795)	(8,858,715)
Instructional support services	6,965,909	23,342	—	(6,942,567)	(6,527,371)
Pupil support services	7,416,662	24,483	2,689,473	(4,702,706)	(4,500,462)
Sites and buildings	9,826,177	659,123	—	(9,167,054)	(8,678,777)
Fiscal and other fixed cost programs	227,350	—	—	(227,350)	(109,103)
Food service	3,156,064	2,782,190	494,441	120,567	(34,865)
Community service	7,192,308	5,959,785	266,213	(966,310)	(959,262)
Interest and fiscal charges	4,338,403	—	—	(4,338,403)	(3,129,478)
Total governmental activities	<u>\$ 107,502,655</u>	<u>\$ 10,477,064</u>	<u>\$ 11,623,300</u>	(85,402,291)	(87,262,985)
General revenue					
Taxes					
Property taxes, levied for general purposes				23,799,356	28,763,717
Property taxes, levied for community service				990,666	1,418,433
Property taxes, levied for capital projects				1,885,412	1,493,607
Property taxes, levied for debt service				10,275,812	9,883,225
General grants and aids				51,397,390	44,498,713
Other general revenues				1,010,977	1,329,301
Investment earnings				70,033	29,208
Total general revenues				<u>89,429,646</u>	<u>87,416,204</u>
Change in net assets				4,027,355	153,219
Net assets – beginning				<u>30,469,596</u>	<u>30,316,377</u>
Net assets – ending				<u>\$ 34,496,951</u>	<u>\$ 30,469,596</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds	
					2012	2011
Assets						
Cash and temporary investments	\$ 9,174,342	\$ –	\$ 5,503,084	\$ 2,867,839	\$ 17,545,265	\$ 14,205,155
Cash and investments held by trustee	–	1,569,927	58,608,909	–	60,178,836	–
Receivables						
Current taxes	13,394,132	841,281	5,140,847	527,001	19,903,261	17,391,944
Delinquent taxes	153,407	–	69,891	6,643	229,941	267,276
Accounts and interest	173,280	–	55,463	1,875	230,618	185,627
Due from other governmental units	25,258,349	54	30,748	110,306	25,399,457	19,422,085
Due from other funds	1,269,496	–	–	–	1,269,496	675,614
Prepaid items	561,282	29,183	–	–	590,465	825,961
Total assets	\$ 49,984,288	\$ 2,440,445	\$ 69,408,942	\$ 3,513,664	\$ 125,347,339	\$ 52,973,662
Liabilities and Fund Balances						
Liabilities						
Tax anticipation certificates	\$ 15,175,917	\$ –	\$ –	\$ –	\$ 15,175,917	\$ 8,063,213
Salaries payable	3,336,226	19,481	–	193,096	3,548,803	3,485,778
Accounts and contracts payable	5,215,428	320,427	–	179,756	5,715,611	4,967,188
Accrued interest payable	112,183	–	–	–	112,183	58,981
Due to other governmental units	498,201	–	–	–	498,201	786,627
Due to other funds	–	1,269,496	–	–	1,269,496	675,614
Property taxes levied for subsequent year	12,746,911	1,730,064	10,281,370	542,142	25,300,487	22,929,342
Unearned revenue	204,229	–	–	857,410	1,061,639	1,137,427
Deferred revenue	153,407	–	69,891	6,643	229,941	267,276
Total liabilities	37,442,502	3,339,468	10,351,261	1,779,047	52,912,278	42,371,446
Fund balances (deficit)						
Nonspendable	561,282	29,183	–	–	590,465	825,961
Restricted	297,835	505,461	59,057,681	1,734,617	61,595,594	1,720,011
Committed	2,424,609	–	–	–	2,424,609	1,523,051
Assigned	3,333,975	–	–	–	3,333,975	3,931,164
Unassigned	5,924,085	(1,433,667)	–	–	4,490,418	2,602,029
Total fund balances (deficit)	12,541,786	(899,023)	59,057,681	1,734,617	72,435,061	10,602,216
Total liabilities and fund balances	\$ 49,984,288	\$ 2,440,445	\$ 69,408,942	\$ 3,513,664	\$ 125,347,339	\$ 52,973,662

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	<u>2012</u>	<u>2011</u>
Total fund balances – governmental funds	\$ 72,435,061	\$ 10,602,216
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets are included in net assets, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	188,960,316	186,839,934
Accumulated depreciation	(92,793,033)	(88,400,827)
Long-term liabilities are included in net assets, but are excluded from fund balances until due and payable. Debt issuance premiums and discounts are excluded from net assets until amortized, but are included in fund balances upon issuance as other financing sources and uses.		
General obligation bonds payable	(116,100,000)	(72,705,000)
Certificates of participation payable	(1,615,000)	–
Premium on bonds	(8,686,722)	(860,027)
Capital leases payable	–	(77,679)
Severance benefits payable	(460,530)	(372,058)
Net OPEB obligation	(3,015,993)	(2,321,310)
Net pension obligation	(1,792,298)	(1,429,640)
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 Assets.		
	243,590	193,293
Accrued interest payable on long-term debt is included in net assets, but is excluded from fund balances until due and payable.		
	(2,908,381)	(1,266,582)
Certain revenues (including delinquent property taxes) are included in net assets, but are excluded from fund balances until they are available to liquidate liabilities of the current period.		
	<u>229,941</u>	<u>267,276</u>
Total net assets – governmental activities	<u>\$ 34,496,951</u>	<u>\$ 30,469,596</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, 2012
(With Partial Comparative Information for the Year Ended June 30, 2011)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds	
					2012	2011
Revenue						
Local sources						
Property taxes	\$ 23,813,219	\$ 1,895,634	\$ 10,287,758	\$ 991,970	\$ 36,988,581	\$ 41,698,355
Investment earnings	8,660	429	58,038	2,906	70,033	29,208
Other	2,746,066	–	–	8,741,975	11,488,041	11,069,043
State sources	58,857,487	–	92,492	287,795	59,237,774	51,834,496
Federal sources	3,344,546	–	–	438,370	3,782,916	3,497,132
Total revenue	88,769,978	1,896,063	10,438,288	10,463,016	111,567,345	108,128,234
Expenditures						
Current						
Administration	2,921,447	–	–	–	2,921,447	2,922,416
District support services	2,701,860	–	–	–	2,701,860	2,731,865
Elementary and secondary regular instruction	42,233,743	–	–	–	42,233,743	41,956,717
Vocational education instruction	321,154	–	–	–	321,154	209,565
Special education instruction	15,585,966	–	–	–	15,585,966	16,071,958
Instructional support services	6,760,932	–	–	–	6,760,932	6,592,322
Pupil support services	7,329,686	–	–	–	7,329,686	6,669,731
Sites and buildings	8,714,030	–	–	–	8,714,030	8,203,146
Fiscal and other fixed cost programs	227,350	–	–	–	227,350	132,543
Food service	–	–	–	3,152,315	3,152,315	3,209,853
Community service	–	–	–	7,050,293	7,050,293	6,969,843
Capital outlay	–	2,694,682	–	103,454	2,798,136	1,523,553
Debt service						
Principal	77,679	–	6,975,000	–	7,052,679	6,783,798
Interest and fiscal charges	76,458	–	3,303,028	–	3,379,486	3,424,839
Total expenditures	86,950,305	2,694,682	10,278,028	10,306,062	110,229,077	107,402,149
Excess (deficiency) of revenue over expenditures	1,819,673	(798,619)	160,260	156,954	1,338,268	726,085
Other financing sources (uses)						
Certificates of participation issued	–	1,615,000	–	–	1,615,000	–
Refunding bonds issued	–	–	50,370,000	–	50,370,000	–
Premium on refunding bonds issued	–	–	8,509,577	–	8,509,577	–
Transfers in	–	–	–	–	–	113,315
Transfers (out)	–	–	–	–	–	(113,315)
Total other financing sources (uses)	–	1,615,000	58,879,577	–	60,494,577	–
Net change in fund balances	1,819,673	816,381	59,039,837	156,954	61,832,845	726,085
Fund balances (deficit)						
Beginning of year	10,722,113	(1,715,404)	17,844	1,577,663	10,602,216	9,876,131
End of year	\$ 12,541,786	\$ (899,023)	\$ 59,057,681	\$ 1,734,617	\$ 72,435,061	\$ 10,602,216

See notes to basic financial statements

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

	2012	2011
Total net change in fund balances – governmental funds	\$ 61,832,845	\$ 726,085
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net assets and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	2,321,382	1,095,439
Depreciation expense	(4,593,206)	(7,431,696)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is included in the governmental activities in the Statement of Activities.		
	50,297	69,929
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 refunding bonds payable	(50,370,000)	–
Certificates of participation payable	(1,615,000)	–
Repayment of long-term debt does not affect the change in net assets. However, it reduces fund balances.		
General obligation bonds payable	6,975,000	6,710,000
Capital leases payable	77,679	73,798
Interest on long-term debt is included in the change in net assets as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.		
	(1,641,799)	123,054
Debt issuance premiums, discounts, and issuance costs are included in the change in net assets as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.		
	(7,826,695)	172,307
Certain expenses are included in the change in net assets, but do not require the use of current funds, and are not included in the change in fund balances.		
Severance benefits payable	(88,472)	43,071
Net OPEB obligation	(694,683)	(904,747)
Net pension obligation	(362,658)	(384,648)
Certain revenues (including delinquent property taxes) are included in the change in net assets, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.		
	(37,335)	(139,373)
Change in net assets – governmental activities	<u>\$ 4,027,355</u>	<u>\$ 153,219</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
Revenue				
Local sources				
Property taxes	\$ 21,368,885	\$ 23,969,411	\$ 23,813,219	\$ (156,192)
Investment earnings	50,000	5,000	8,660	3,660
Other	1,815,272	2,281,565	2,746,066	464,501
State sources	60,244,495	58,342,908	58,857,487	514,579
Federal sources	2,852,025	3,164,943	3,344,546	179,603
Total revenue	<u>86,330,677</u>	<u>87,763,827</u>	<u>88,769,978</u>	<u>1,006,151</u>
Expenditures				
Current				
Administration	2,843,527	2,948,435	2,921,447	(26,988)
District support services	2,844,743	2,766,214	2,701,860	(64,354)
Elementary and secondary regular instruction	41,791,561	42,586,091	42,233,743	(352,348)
Vocational education instruction	208,161	313,202	321,154	7,952
Special education instruction	15,318,681	16,050,696	15,585,966	(464,730)
Instructional support services	7,778,135	7,024,610	6,760,932	(263,678)
Pupil support services	6,579,205	6,850,463	7,329,686	479,223
Sites and buildings	8,094,460	8,506,326	8,714,030	207,704
Fiscal and other fixed cost programs	133,200	257,200	227,350	(29,850)
Debt service				
Principal	73,714	77,679	77,679	—
Interest and fiscal charges	92,000	76,458	76,458	—
Total expenditures	<u>85,757,387</u>	<u>87,457,374</u>	<u>86,950,305</u>	<u>(507,069)</u>
Net change in fund balances	<u>\$ 573,290</u>	<u>\$ 306,453</u>	1,819,673	<u>\$ 1,513,220</u>
Fund balances				
Beginning of year			<u>10,722,113</u>	
End of year			<u>\$ 12,541,786</u>	

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Cash and temporary investments	\$ 297,533	\$ 247,447
Accounts receivable	<u>10,254</u>	<u>9,577</u>
Total assets	<u>307,787</u>	<u>257,024</u>
Liabilities		
Current liabilities		
Accounts and contracts payable	<u>64,197</u>	<u>63,731</u>
Net assets		
Unrestricted	<u><u>\$ 243,590</u></u>	<u><u>\$ 193,293</u></u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenses, and Changes in Fund Net Assets
 Proprietary Fund
 Internal Service Fund

Year Ended June 30, 2012

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

	<u>2012</u>	<u>2011</u>
Operating revenue		
Charges for services	\$ 781,809	\$ 797,869
Operating expenses		
Dental claims and expenses	<u>731,512</u>	<u>727,940</u>
Operating income	50,297	69,929
Net assets		
Beginning of year	<u>193,293</u>	<u>123,364</u>
End of year	<u><u>\$ 243,590</u></u>	<u><u>\$ 193,293</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, 2012
 (With Partial Comparative Information for the Year Ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Contributions from employees	\$ 781,132	\$ 788,292
Dental claims and other expense payments	<u>(731,046)</u>	<u>(726,697)</u>
Net cash flows from operating activities	50,086	61,595
Cash and temporary investments		
Beginning of year	<u>247,447</u>	<u>185,852</u>
End of year	<u><u>\$ 297,533</u></u>	<u><u>\$ 247,447</u></u>
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 50,297	\$ 69,929
Adjustments to reconcile operating income to net cash flows from operating activities		
Changes in assets and liabilities		
Accounts receivable	(677)	(9,577)
Accounts and contracts payable	<u>466</u>	<u>1,243</u>
Net cash flows from operating activities	<u><u>\$ 50,086</u></u>	<u><u>\$ 61,595</u></u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Notes to Basic Financial Statements June 30, 2012

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, 2012, the District paid TIES \$1,330,462 for services provided.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are not included in these financial statements.

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Assets and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service funds are charges to customers (other district funds) for service. Operating expenses for the internal service funds include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The District applies only those applicable pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 in accounting and reporting for its proprietary operations.

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

Description of Funds

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

Major Governmental Funds

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

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

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

Nonmajor Governmental Funds

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

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

Proprietary Funds

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Expenditures in the Food Service Special Revenue Fund, Community Service Special Revenue Fund, and Debt Service Fund exceeded budgeted appropriations by \$51,356, \$173,999, and \$237,663, respectively.

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 and Debt Service Fund are not pooled, and earnings on these proceeds are allocated directly to those funds.

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

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

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

G. Receivables

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

H. Prepaid Items

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

I. Property Taxes

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$14,504,779 of the property tax levy collectible in 2012 as revenue to the District in fiscal year 2011–2012. The remaining portion of the taxes collectible in 2012 is recorded as deferred revenue (property taxes levied for subsequent year).

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid by the state of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Taxes 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 deferred in the fund financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

J. Capital Assets

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

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 15 years for furniture and equipment. Land and construction in progress are not depreciated.

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

K. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. If material, bond premiums, discounts, and issuance costs 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, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Compensated Absences

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

M. Severance Benefits

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

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

N. Risk Management and Self-Insurance

1. **General Insurance** – The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2012.
2. **Self-Insurance** – The District established an Internal Service Fund to account for and finance its uninsured risk of loss for its employee dental plan. Under this plan, the District provides coverage to participating employees and their dependants for various dental costs as described in the plan.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

<u>Fiscal Year Ended June 30,</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2011	\$ 62,488	\$ 727,940	\$ 726,697	\$ 63,731
2012	\$ 63,731	\$ 731,512	\$ 731,046	\$ 64,197

O. Net Assets

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

- **Invested in Capital Assets, Net of Related Debt** – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Assets** – Consists of net assets restricted related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Unrestricted Net Assets** – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

P. Fund Balance Classifications

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Q. Deficit Fund Equity

As of June 30, 2012, the District has an accumulated fund balance deficit of \$899,023 in its Capital Projects – Building Construction Fund. This deficit will be eliminated through future alternative facilities and capital project levies.

R. Use of Estimates

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

S. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2011, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	\$ 140,202
Investments	<u>77,881,432</u>
Total	<u>\$ 78,021,634</u>

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

Statement of Net Assets	
Cash and temporary investments	\$ 17,842,798
Restricted assets – temporarily restricted	
Cash and investments for capital asset acquisition	58,608,909
Cash and investments for debt service	<u>1,569,927</u>
Total	<u>\$ 78,021,634</u>

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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 \$140,202 while the balance on the bank records was \$142,061. At June 30, 2012, all deposits were fully covered by federal depository insurance or collateral held by the District's agent in the District's name.

C. Investments

The District has the following investments at year-end:

Investment Type	Credit Rating	Rating Agency	Maturity Duration	Carrying Value
U.S. treasury securities	N/A	N/A	08/01/2012	\$ 1,870,588
U.S. treasury securities	N/A	N/A	02/01/2013	56,738,320
Commercial paper	A-1+	S&P	08/13/2012	1,569,927
Investment pools/mutual funds				
Minnesota School District Liquid Asset Fund	AAAm	S&P	N/A	11,180,109
Minnesota Trust Investment Shares Portfolio	AAA	S&P	N/A	6,522,488
Total investment pools/mutual funds				<u>\$ 77,881,432</u>

N/A – Not Applicable

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

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

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

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

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

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

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

NOTE 3 – CAPITAL ASSETS

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

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	\$ 1,627,557	\$ –	\$ –	\$ 1,627,557
Construction in progress	–	1,282,255	–	1,282,255
Total capital assets, not depreciated	1,627,557	1,282,255	–	2,909,812
Capital assets, depreciated				
Land improvements	4,126,890	280,582	–	4,407,472
Buildings	168,583,544	80,091	–	168,663,635
Furniture and equipment	12,501,943	678,454	(201,000)	12,979,397
Total capital assets, depreciated	185,212,377	1,039,127	(201,000)	186,050,504
Less accumulated depreciation for				
Land improvements	(2,855,161)	(134,407)	–	(2,989,568)
Buildings	(76,783,873)	(3,701,890)	–	(80,485,763)
Furniture and equipment	(8,761,793)	(756,909)	201,000	(9,317,702)
Total accumulated depreciation	(88,400,827)	(4,593,206)	201,000	(92,793,033)
Net capital assets, depreciated	96,811,550	(3,554,079)	–	93,257,471
Total capital assets, net	\$ 98,439,107	\$ (2,271,824)	\$ –	\$ 96,167,283

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

Administration	\$ 386
Elementary and secondary regular instruction	3,874,651
Special education instruction	64,544
Instructional support services	58,104
Pupil support services	23,133
Sites and buildings	545,452
Food service	3,749
Community service	23,187
Total depreciation expense	\$ 4,593,206

NOTE 4 – TAX ANTICIPATION CERTIFICATES

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

Issue Date	Maturity Date	Interest Rate	June 30, 2011	Additions	Retirements	June 30, 2012
01/27/2011	02/27/2012	1.75%	\$ 8,063,213	\$ –	\$ 8,063,213	\$ –
02/15/2012	03/15/2013	2.00%	–	15,268,650	92,733	15,175,917
			<u>\$ 8,063,213</u>	<u>\$ 15,268,650</u>	<u>\$ 8,155,946</u>	<u>\$ 15,175,917</u>

Interest and fiscal charges, net of premium amortization, totaling \$48,923 were charged to the General Fund in fiscal year 2012 related to these certificates.

NOTE 5 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

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

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
School building bonds	12/17/2003	3.00–4.50%	\$ 85,800,000	02/01/2024	\$ 59,400,000
Refunding bonds	11/01/2005	3.50–5.00%	\$ 18,200,000	02/01/2013	3,030,000
Alternative facilities bonds	05/08/2008	3.00–3.60%	\$ 4,500,000	02/01/2019	3,300,000
Refunding bonds	10/05/2011	4.00–5.00%	\$ 50,370,000	02/01/2024	50,370,000
Total general obligation bonds payable					<u>\$ 116,100,000</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.

In October 2011, the District issued \$50,370,000 of General Obligation School Building Refunding Bonds, Series 2011B. The proceeds of this issue and interest earned thereon will be used to refund, in advance of their stated maturities, the 2014 through 2024 maturities of the District's 2004 General Obligation School Building Bonds. The proceeds of the 2011B issue have been placed in an escrow account pending the February 1, 2013 call date of the refunded issue. Until the call date, the District will continue to make all debt service payments on the 2004 issue, and all debt service on the 2011B issue will be paid from the escrow account. On February 1, 2013, the escrow account will be used to call the remaining principal of the 2004 issue, and the District will assume all future principal and interest payments on the 2011B issue. This advance "crossover refunding" will reduce the District's total future debt service payments by \$4,913,202 and will result in present value savings of \$4,908,514.

B. Certificates of Participation Payable

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

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

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 several capital lease agreements for building improvements and equipment. The leases, with interest rates ranging from 4.94 percent to 5.19 percent, called for periodic principal and interest payments through February 1, 2012. The leases were being paid through the General Fund. The leased assets were recorded at \$1,751,761 (the present value of future minimum lease payments as of the inception dates of the leases). Total accumulated depreciation on these assets is \$562,748.

D. Other Long-Term Liabilities

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

E. Minimum Debt Payments

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

Year Ending June 30,	General Obligation Bonds Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
2013	\$ 62,855,000	\$ 5,839,966	\$ 75,000	\$ 67,942
2014	3,885,000	2,445,865	95,000	48,013
2015	4,115,000	2,260,415	95,000	46,113
2016	4,245,000	2,063,310	95,000	43,738
2017	4,475,000	1,859,285	100,000	41,125
2018–2022	25,020,000	5,817,115	530,000	159,575
2023–2027	11,505,000	697,400	625,000	69,425
	<u>\$ 116,100,000</u>	<u>\$ 20,983,356</u>	<u>\$ 1,615,000</u>	<u>\$ 475,931</u>

F. Changes in Long-Term Liabilities

	Balance – Beginning of Year	Additions	Retirements	Balance – End of Year	Due Within One Year
General obligation bonds payable	\$ 72,705,000	\$ 50,370,000	\$ 6,975,000	\$ 116,100,000	\$ 62,855,000
Certificates of participation payable	–	1,615,000	–	1,615,000	75,000
Plus premium	860,027	8,509,577	682,882	8,686,722	–
Total bonds payable	<u>73,565,027</u>	<u>60,494,577</u>	<u>7,657,882</u>	<u>126,401,722</u>	<u>62,930,000</u>
Capital leases payable	77,679	–	77,679	–	–
Severance benefits payable	372,058	144,329	55,857	460,530	99,506
Net OPEB obligation (see Note 8)	2,321,310	1,741,686	1,047,003	3,015,993	–
Net pension obligation (see Note 9)	1,429,640	857,656	494,998	1,792,298	–
	<u>\$ 77,765,714</u>	<u>\$ 63,238,248</u>	<u>\$ 9,333,419</u>	<u>\$ 131,670,543</u>	<u>\$ 63,029,506</u>

NOTE 6 – FUND BALANCES

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

A. Classifications

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Prepaid items	\$ 561,282	\$ 29,183	\$ –	\$ –	\$ 590,465
Restricted					
Operating capital	297,835	–	–	–	297,835
Building projects funded by COP	–	505,461	–	–	505,461
Bond refunding	–	–	58,664,372	–	58,664,372
Debt service	–	–	393,309	–	393,309
Food service	–	–	–	481,376	481,376
Community education programs	–	–	–	1,033,026	1,033,026
Early childhood family education programs	–	–	–	216,161	216,161
School readiness	–	–	–	3,386	3,386
Community service	–	–	–	668	668
Total restricted	297,835	505,461	59,057,681	1,734,617	61,595,594
Committed					
Cash flow	1,529,788	–	–	–	1,529,788
Federal education jobs	894,821	–	–	–	894,821
Total committed	2,424,609	–	–	–	2,424,609
Assigned					
Separation/retirement benefits	2,287,692	–	–	–	2,287,692
Alternative compensation	254,036	–	–	–	254,036
Carryover	756,439	–	–	–	756,439
High school ALC	35,808	–	–	–	35,808
Total assigned	3,333,975	–	–	–	3,333,975
Unassigned					
Health and safety restricted deficit	(527,600)	–	–	–	(527,600)
Capital projects levy restricted deficit	–	(662,170)	–	–	(662,170)
Alternative facilities restricted deficit	–	(771,497)	–	–	(771,497)
Unassigned	6,451,685	–	–	–	6,451,685
Total unassigned	5,924,085	(1,433,667)	–	–	4,490,418
Total	\$ 12,541,786	\$ (899,023)	\$ 59,057,681	\$ 1,734,617	\$ 72,435,061

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, 2012, the unassigned fund balance of the General Fund was 8.4 percent of the annual budget.

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

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

Teachers' Retirement Association (TRA)

A. Plan Description

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

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

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

Tier I

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

With these provisions:

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

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

Tier II

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

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

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

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

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

B. Funding Policy

Minnesota Statutes, Chapter 354 sets the rates for employee and employer contributions. These statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 6.0 percent and 9.0 percent, respectively, of their annual covered salary during fiscal year 2012 as employee contributions. The TRA employer contribution rates are 6.0 percent for Coordinated Plan members and 9.5 percent for Basic Plan members during fiscal year 2012. Total covered payroll salaries for all TRA members state-wide during the fiscal years ended June 30, 2011, 2010, and 2009 were approximately \$3.84 billion, \$3.79 billion, and \$3.76 billion, respectively.

The District's contributions for the years ended June 30, 2012, 2011, and 2010 were \$2,551,254, \$2,290,344, and \$2,209,827, respectively, equal to the contractually required contributions for each year as set by state statutes.

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

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

Public Employees' Retirement Association (PERA)

A. Plan Description

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

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

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

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or (800) 652-9026.

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

B. Funding Policy

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

The District's contributions to GERP for the years ended June 30, 2012, 2011, and 2010 were \$1,132,253, \$1,113,259, and \$1,054,955, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statutes.

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

A. Plan Descriptions

The District provides post-employment benefits to certain eligible employees through its OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. These benefits are summarized as follows:

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

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

B. Funding Policy

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

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)**C. Annual OPEB Cost and Net OPEB Obligation**

The District's annual OPEB cost (expense) is calculated based on annual required contributions (ARC) of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement No. 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation to the plan:

ARC	\$ 1,784,679
Interest on net OPEB obligation	104,459
Adjustment to ARC	<u>(147,452)</u>
Annual OPEB cost (expense)	1,741,686
Contributions made	<u>1,047,003</u>
Increase in net OPEB obligation	694,683
Net OPEB obligation – beginning of year	<u>2,321,310</u>
Net OPEB obligation – end of year	<u><u>\$ 3,015,993</u></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 Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$ 1,640,882	\$ 965,809	58.9%	\$ 1,416,563
June 30, 2011	\$ 1,715,136	\$ 810,389	47.2%	\$ 2,321,310
June 30, 2012	\$ 1,741,686	\$ 1,047,003	60.1%	\$ 3,015,993

D. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$12,943,585, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,943,585. The covered payroll (annual payroll of active employees covered by the plan) was \$50,747,706, and the ratio of the UAAL to the covered payroll was 25.5 percent.

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

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2010 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, 2010 for the various amortization layers ranged from 28 to 30 years.

NOTE 9 – PENSION BENEFITS PLAN

A. Plan Description

The District provides pension (severance) benefits to certain eligible employees through its Pension Benefits Plan, a single-employer defined benefit plan administered by the District. All pension benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. The benefits are calculated using a predetermined number of days depending on the employee group, multiplied by the employee's daily base pay, or in certain cases, a fixed amount per year of service. Payments are made in either a lump sum or installments to a 403(b) plan or in a lump sum directly to the employee. These contractual agreements do not include any specific contribution or funding requirements.

B. Funding Policy

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

NOTE 9 – PENSION BENEFITS PLAN (CONTINUED)

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. 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	\$	884,134
Interest on net pension obligation		64,334
Adjustment to ARC		(90,812)
Annual pension cost (expense)		<u>857,656</u>
Contributions made		<u>494,998</u>
Increase in net pension obligation		362,658
Net pension obligation – beginning of year		<u>1,429,640</u>
Net pension obligation – end of year	\$	<u><u>1,792,298</u></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 Year Ended</u>	<u>Annual Pension Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual Pension Cost Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$ 828,323	\$ 332,242	40.1%	\$ 1,044,992
June 30, 2011	\$ 832,719	\$ 448,071	53.8%	\$ 1,429,640
June 30, 2012	\$ 857,656	\$ 494,998	57.7%	\$ 1,792,298

D. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$6,276,813, and the actuarial value of assets was \$0, resulting in an UAAL of \$6,276,813. The covered payroll (annual payroll of active employees covered by the plan) was \$40,584,492 and the ratio of the UAAL to the covered payroll was 15.5 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment 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.

NOTE 9 – PENSION BENEFITS PLAN (CONTINUED)

E. Actuarial Methods and Assumptions

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

In the July 1, 2010 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, 2010 for the various amortization layers ranged from 28 to 30 years.

NOTE 10 – FLEXIBLE BENEFIT PLAN

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

Before the beginning of the Plan year, which is from January 1 to December 31, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. The Plan is administered by the District and is accounted for in the District's General Fund. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the medical reimbursement portion of the Plan, whether or not such contributions have been made.

All property of the Plan and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the Plan are equal to those of general creditors of the District in an amount equal to the eligible healthcare and dependant care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 11 – INTERFUND BALANCES AND TRANSACTIONS

Interfund Receivables and Payables

The District had the following interfund receivables and payables at June 30, 2012:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 1,269,496	\$ –
Capital Projects – Building Construction Fund	<u>–</u>	<u>1,269,496</u>
	<u><u>\$ 1,269,496</u></u>	<u><u>\$ 1,269,496</u></u>

This balance represents an interfund loan from the General Fund to eliminate a temporary cash deficit in the Capital Projects – Building Construction Fund as of June 30, 2012. Such interfund balances are eliminated in the government-wide financial statements.

NOTE 12 – 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, 2012, the District had commitments totaling \$669,450 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, 2012

Other Post-Employment Benefits Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2008	\$ 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 %

Pension Benefits Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2008	\$ 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 %

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	\$ 693,674	\$ 2,174,165	\$ 2,867,839
Receivables			
Current taxes	—	527,001	527,001
Delinquent taxes	—	6,643	6,643
Accounts and interest	—	1,875	1,875
Due from other governmental units	9,981	100,325	110,306
Total assets	\$ 703,655	\$ 2,810,009	\$ 3,513,664
Liabilities and Fund Balances			
Liabilities			
Salaries payable	\$ 3,787	\$ 189,309	\$ 193,096
Accounts and contracts payable	71,136	108,620	179,756
Property taxes levied for subsequent year	—	542,142	542,142
Unearned revenue	147,356	710,054	857,410
Deferred revenue – delinquent taxes	—	6,643	6,643
Total liabilities	222,279	1,556,768	1,779,047
Fund balances			
Restricted	481,376	1,253,241	1,734,617
Total liabilities and fund balances	\$ 703,655	\$ 2,810,009	\$ 3,513,664

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	\$ —	\$ 991,970	\$ 991,970
Investment earnings	682	2,224	2,906
Other	2,782,190	5,959,785	8,741,975
State sources	56,071	231,724	287,795
Federal sources	438,370	—	438,370
Total revenue	<u>3,277,313</u>	<u>7,185,703</u>	<u>10,463,016</u>
Expenditures			
Current			
Food service	3,152,315	—	3,152,315
Community service	—	7,050,293	7,050,293
Capital outlay	—	103,454	103,454
Total expenditures	<u>3,152,315</u>	<u>7,153,747</u>	<u>10,306,062</u>
Net change in fund balances	124,998	31,956	156,954
Fund balances			
Beginning of year	<u>356,378</u>	<u>1,221,285</u>	<u>1,577,663</u>
End of year	<u>\$ 481,376</u>	<u>\$ 1,253,241</u>	<u>\$ 1,734,617</u>

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	2012	2011
Assets		
Cash and temporary investments	\$ 9,174,342	\$ 6,265,187
Receivables		
Current taxes	13,394,132	10,659,544
Delinquent taxes	153,407	167,270
Accounts and interest	173,280	181,785
Due from other governmental units	25,258,349	19,251,881
Due from other funds	1,269,496	675,614
Prepaid items	561,282	815,358
Total assets	<u>\$ 49,984,288</u>	<u>\$ 38,016,639</u>
Liabilities and Fund Balances		
Liabilities		
Tax anticipation certificates	\$ 15,175,917	\$ 8,063,213
Salaries payable	3,336,226	3,243,252
Accounts and contracts payable	5,215,428	4,614,391
Accrued interest payable	112,183	58,981
Due to other governmental units	498,201	785,648
Property taxes levied for subsequent year	12,746,911	9,981,891
Unearned revenue	204,229	379,880
Deferred revenue – delinquent taxes	153,407	167,270
Total liabilities	<u>37,442,502</u>	<u>27,294,526</u>
Fund balances (deficits)		
Nonspendable for prepaid items	561,282	815,358
Restricted for operating capital	297,835	128,949
Committed for cash flow	1,529,788	1,523,051
Committed for federal education jobs	894,821	–
Assigned for separation/retirement benefits	2,287,692	2,796,406
Assigned for federal special education	–	38,493
Assigned for alternative compensation	254,036	196,431
Assigned for carryover	756,439	882,502
Assigned for high school ALC	35,808	17,332
Unassigned – health and safety restricted account deficit	(527,600)	(1,007,975)
Unassigned	6,451,685	5,331,566
Total fund balances	<u>12,541,786</u>	<u>10,722,113</u>
Total liabilities and fund balances	<u>\$ 49,984,288</u>	<u>\$ 38,016,639</u>

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	2012		2011	
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 23,969,411	\$ 23,813,219	\$ (156,192)	\$ 28,851,473
Investment earnings	5,000	8,660	3,660	18,544
Other	2,281,565	2,746,066	464,501	2,502,390
State sources	58,342,908	58,857,487	514,579	51,887,383
Federal sources	3,164,943	3,344,546	179,603	3,061,247
Total revenue	87,763,827	88,769,978	1,006,151	86,321,037
Expenditures				
Current				
Administration	2,948,435	2,921,447	(26,988)	2,922,416
District support services	2,766,214	2,701,860	(64,354)	2,731,865
Elementary and secondary regular instruction	42,586,091	42,233,743	(352,348)	41,956,717
Vocational education instruction	313,202	321,154	7,952	209,565
Special education instruction	16,050,696	15,585,966	(464,730)	16,071,958
Instructional support services	7,024,610	6,760,932	(263,678)	6,592,322
Pupil support services	6,850,463	7,329,686	479,223	6,669,731
Sites and buildings	8,506,326	8,714,030	207,704	8,203,146
Fiscal and other fixed cost programs	257,200	227,350	(29,850)	132,543
Debt service				
Principal	77,679	77,679	—	73,798
Interest and fiscal charges	76,458	76,458	—	94,489
Total expenditures	87,457,374	86,950,305	(507,069)	85,658,550
Excess of revenue over expenditures	306,453	1,819,673	1,513,220	662,487
Other financing sources (uses)				
Transfers (out)	—	—	—	(113,315)
Net change in fund balances	\$ 306,453	1,819,673	\$ 1,513,220	549,172
Fund balances				
Beginning of year		10,722,113		10,172,941
End of year		\$ 12,541,786		\$ 10,722,113

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	<u>2012</u>	<u>2011</u>
Assets		
Cash and temporary investments	\$ 693,674	\$ 622,293
Receivables		
Due from other governmental units	9,981	—
Prepaid items	<u>—</u>	<u>4,445</u>
Total assets	<u><u>\$ 703,655</u></u>	<u><u>\$ 626,738</u></u>
Liabilities and Fund Balances		
Liabilities		
Salaries payable	\$ 3,787	\$ 2,244
Accounts and contracts payable	71,136	129,806
Unearned revenue	<u>147,356</u>	<u>138,310</u>
Total liabilities	222,279	270,360
Fund balances		
Nonspendable for prepaid items	—	4,445
Restricted for food service	<u>481,376</u>	<u>351,933</u>
Total fund balances	<u><u>481,376</u></u>	<u><u>356,378</u></u>
Total liabilities and fund balances	<u><u>\$ 703,655</u></u>	<u><u>\$ 626,738</u></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, 2012
(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012			2011
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	\$ 3,000	\$ 682	\$ (2,318)	\$ 1,209
Other – primarily meal sales	2,724,010	2,782,190	58,180	2,714,788
State sources	65,296	56,071	(9,225)	56,202
Federal sources	425,597	438,370	12,773	435,885
Total revenue	<u>3,217,903</u>	<u>3,277,313</u>	<u>59,410</u>	<u>3,208,084</u>
Expenditures				
Current				
Salaries	73,225	76,967	3,742	72,572
Employee benefits	9,996	10,297	301	9,157
Purchased services	2,936,138	2,996,091	59,953	3,094,200
Supplies and materials	81,600	68,960	(12,640)	33,924
Capital outlay	–	–	–	5,525
Total expenditures	<u>3,100,959</u>	<u>3,152,315</u>	<u>51,356</u>	<u>3,215,378</u>
Net change in fund balances	<u>\$ 116,944</u>	<u>124,998</u>	<u>\$ 8,054</u>	<u>(7,294)</u>
Fund balances				
Beginning of year		<u>356,378</u>		<u>363,672</u>
End of year		<u>\$ 481,376</u>		<u>\$ 356,378</u>

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	<u>2012</u>	<u>2011</u>
Assets		
Cash and temporary investments	\$ 2,174,165	\$ 2,128,841
Receivables		
Current taxes	527,001	494,375
Delinquent taxes	6,643	7,947
Accounts and interest	1,875	3,842
Due from other governmental units	<u>100,325</u>	<u>94,874</u>
Total assets	<u><u>\$ 2,810,009</u></u>	<u><u>\$ 2,729,879</u></u>
Liabilities and Fund Balances		
Liabilities		
Salaries payable	\$ 189,309	\$ 224,705
Accounts and contracts payable	108,620	152,302
Due to other governmental units	—	979
Property taxes levied for subsequent year	542,142	508,424
Unearned revenue	710,054	614,237
Deferred revenue – delinquent taxes	<u>6,643</u>	<u>7,947</u>
Total liabilities	1,556,768	1,508,594
Fund balances		
Restricted for community education programs	1,033,026	1,093,701
Restricted for early childhood family education programs	216,161	126,120
Restricted for school readiness	3,386	796
Restricted for community service	<u>668</u>	<u>668</u>
Total fund balances	<u>1,253,241</u>	<u>1,221,285</u>
Total liabilities and fund balances	<u><u>\$ 2,810,009</u></u>	<u><u>\$ 2,729,879</u></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, 2012
(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012			2011
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 1,010,837	\$ 991,970	\$ (18,867)	\$ 1,422,831
Investment earnings	3,500	2,224	(1,276)	4,913
Other – primarily tuition and fees	5,583,489	5,959,785	376,296	5,851,865
State sources (shifted)	213,120	231,724	18,604	(192,461)
Total revenue	6,810,946	7,185,703	374,757	7,087,148
Expenditures				
Current				
Salaries	4,329,140	4,463,297	134,157	4,384,786
Employee benefits	1,198,151	1,191,466	(6,685)	1,209,683
Purchased services	990,314	1,045,451	55,137	1,038,384
Supplies and materials	326,096	342,601	16,505	328,864
Other expenditures	7,647	7,478	(169)	8,126
Capital outlay	128,400	103,454	(24,946)	186,908
Total expenditures	6,979,748	7,153,747	173,999	7,156,751
Net change in fund balances	\$ (168,802)	31,956	\$ 200,758	(69,603)
Fund balances				
Beginning of year		1,221,285		1,290,888
End of year		\$ 1,253,241		\$ 1,221,285

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	<u>2012</u>	<u>2011</u>
Assets		
Cash and investments held by trustee	\$ 1,569,927	\$ –
Receivables		
Current taxes	841,281	926,133
Delinquent taxes	–	10,222
Due from other governmental units	54	4,597
Prepaid items	<u>29,183</u>	<u>6,158</u>
Total assets	<u>\$ 2,440,445</u>	<u>\$ 947,110</u>
Liabilities and Fund Balances		
Liabilities		
Salaries payable	\$ 19,481	\$ 15,577
Accounts and contracts payable	320,427	70,689
Due to other funds	1,269,496	675,614
Property taxes levied for subsequent year	1,730,064	1,885,412
Unearned revenue	–	5,000
Deferred revenue – delinquent taxes	–	10,222
Total liabilities	<u>3,339,468</u>	<u>2,662,514</u>
Fund balances (deficit)		
Nonspendable for prepaid items	29,183	6,158
Restricted for building projects funded by certificates of participation	505,461	–
Unassigned – capital projects levy restricted account deficit	(662,170)	(1,035,877)
Unassigned – alternative facilities program restricted account deficit	<u>(771,497)</u>	<u>(685,685)</u>
Total fund balances (deficit)	<u>(899,023)</u>	<u>(1,715,404)</u>
Total liabilities and fund balances	<u>\$ 2,440,445</u>	<u>\$ 947,110</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, 2012

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

	2012			2011
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 1,885,412	\$ 1,895,634	\$ 10,222	\$ 1,496,806
Investment earnings	–	429	429	–
Total revenue	<u>1,885,412</u>	<u>1,896,063</u>	<u>10,651</u>	<u>1,496,806</u>
Expenditures				
Capital outlay				
Salaries	404,090	376,258	(27,832)	350,623
Employee benefits	110,783	106,553	(4,230)	99,849
Purchased services	150,000	112,591	(37,409)	56,543
Capital expenditures	<u>2,552,766</u>	<u>2,099,280</u>	<u>(453,486)</u>	<u>824,105</u>
Total expenditures	<u>3,217,639</u>	<u>2,694,682</u>	<u>(522,957)</u>	<u>1,331,120</u>
Excess (deficiency) of revenues over expenditures	(1,332,227)	(798,619)	533,608	165,686
Other financing sources				
Certificated of participation issued	1,615,000	1,615,000	–	–
Transfers in	<u>–</u>	<u>–</u>	<u>–</u>	<u>113,315</u>
Total other financing sources	<u>1,615,000</u>	<u>1,615,000</u>	<u>–</u>	<u>113,315</u>
Net change in fund balances	<u>\$ 282,773</u>	<u>816,381</u>	<u>\$ 533,608</u>	<u>279,001</u>
Fund balances (deficit)				
Beginning of year		<u>(1,715,404)</u>		<u>(1,994,405)</u>
End of year		<u>\$ (899,023)</u>		<u>\$ (1,715,404)</u>

INDEPENDENT SCHOOL DISTRICT NO. 273

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

	<u>2012</u>	<u>2011</u>
Assets		
Cash and temporary investments	\$ 5,503,084	\$ 5,188,834
Cash and investments held by trustee	58,608,909	—
Receivables		
Current taxes	5,140,847	5,311,892
Delinquent taxes	69,891	81,837
Interest	55,463	—
Due from other governmental units	30,748	70,733
	<u> </u>	<u> </u>
Total assets	<u>\$ 69,408,942</u>	<u>\$ 10,653,296</u>
Liabilities and Fund Balances		
Liabilities		
Property taxes levied for subsequent year	\$ 10,281,370	\$ 10,553,615
Deferred revenue – delinquent taxes	69,891	81,837
Total liabilities	<u>10,351,261</u>	<u>10,635,452</u>
Fund balances		
Restricted for bond refunding	58,664,372	—
Restricted for debt service	393,309	17,844
Total fund balances	<u>59,057,681</u>	<u>17,844</u>
	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 69,408,942</u>	<u>\$ 10,653,296</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, 2012
(With Comparative Actual Amounts for the Year Ended June 30, 2011)

	2012		2011	
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 10,378,615	\$ 10,287,758	\$ (90,857)	\$ 9,927,245
Investment earnings	5,000	58,038	53,038	4,542
State sources	75,000	92,492	17,492	83,372
Total revenue	10,458,615	10,438,288	(20,327)	10,015,159
Expenditures				
Debt service				
Principal	6,710,000	6,975,000	265,000	6,710,000
Interest	3,327,265	3,035,765	(291,500)	3,327,265
Fiscal charges and other	3,100	267,263	264,163	3,085
Total expenditures	10,040,365	10,278,028	237,663	10,040,350
Excess (deficiency) of revenue over expenditures	418,250	160,260	(257,990)	(25,191)
Other financing sources				
Refunding bonds issued	—	50,370,000	50,370,000	—
Premium on refunding bonds issued	—	8,509,577	8,509,577	—
Total other financing sources	—	58,879,577	58,879,577	—
Net change in fund balances	\$ 418,250	59,039,837	\$ 58,621,587	(25,191)
Fund balances				
Beginning of year		17,844		43,035
End of year		\$ 59,057,681		\$ 17,844

OTHER DISTRICT INFORMATION

(UNAUDITED)

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund Revenue by Source
Last Ten Fiscal Years

Year Ended June 30,	Local Property Tax Levies	Other Local and County Revenues	State Revenue	Federal Revenue	Total
2003	\$ 12,319,314 20%	\$ 2,722,771 4%	\$ 45,014,782 74%	\$ 1,148,177 2%	\$ 61,205,044 100%
2004	17,567,343 27%	3,518,665 5%	42,985,111 67%	934,023 1%	65,005,142 100%
2005	12,925,332 20%	3,552,892 6%	44,914,300 71%	1,940,520 3%	63,333,044 100%
2006	9,674,621 14%	3,872,936 6%	51,589,559 77%	1,698,955 3%	66,836,071 100%
2007	15,915,068 22%	2,970,232 4%	51,257,316 72%	1,579,151 2%	71,721,767 100%
2008	16,415,623 22%	2,574,904 3%	54,904,780 73%	1,478,313 2%	75,373,620 100%
2009	18,737,025 23%	2,248,905 3%	58,378,178 72%	1,713,683 2%	81,077,791 100%
2010	20,228,122 24%	2,280,570 3%	53,924,966 65%	6,958,246 8%	83,391,904 100%
2011	28,851,473 33%	2,520,934 3%	51,887,383 60%	3,061,247 4%	86,321,037 100%
2012	23,813,219 27%	2,754,726 3%	58,857,487 66%	3,344,546 4%	88,769,978 100%

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund Expenditures by Program
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Instruction	Instructional Support Services	Pupil Support Services	Sites and Buildings	Other Programs	Total	Operating Expenditures Only
2003	\$ 3,179,969 5%	\$ 2,340,041 4%	\$ 38,259,487 60%	\$ 4,105,890 7%	\$ 4,222,625 7%	\$ 9,984,756 16%	\$ 754,123 1%	\$ 62,846,891 100%	\$ 56,774,145
2004	3,084,579 5%	2,390,698 4%	39,794,290 64%	4,260,555 7%	4,396,017 7%	7,119,515 11%	966,483 2%	62,012,137 100%	58,545,814
2005	3,012,443 5%	2,243,806 4%	40,039,620 64%	4,639,034 7%	5,002,755 8%	6,417,735 10%	997,262 2%	62,352,655 100%	59,522,281
2006	3,268,807 5%	2,441,300 3%	43,231,893 62%	4,666,311 7%	5,359,110 8%	9,417,647 14%	892,984 1%	69,278,052 100%	63,315,137
2007	3,260,260 5%	2,333,732 4%	46,323,253 61%	5,309,613 8%	5,605,837 8%	9,061,053 13%	611,396 1%	72,505,144 100%	67,948,144
2008	3,164,236 4%	2,405,000 3%	48,877,070 66%	5,041,640 7%	5,953,006 8%	7,917,073 11%	521,527 1%	73,879,552 100%	70,985,257
2009	3,092,640 4%	2,593,246 3%	51,619,145 65%	7,885,063 10%	6,217,918 8%	8,116,755 10%	269,231 –%	79,793,998 100%	76,569,745
2010	2,891,265 4%	2,613,421 3%	55,612,094 68%	6,593,566 8%	6,345,288 8%	7,681,111 9%	291,515 –%	82,028,260 100%	79,074,777
2011	2,922,416 3%	2,731,865 3%	58,238,240 68%	6,592,322 8%	6,669,731 8%	8,203,146 10%	300,830 –%	85,658,550 100%	82,701,038
2012	2,921,447 3%	2,701,860 3%	58,140,863 68%	6,760,932 8%	7,329,686 8%	8,714,030 10%	381,487 –%	86,950,305 100%	84,408,216

Note 1: Instruction includes regular, vocational, and special education instruction.

Note 2: Operating expenditures only exclude capital outlay.

INDEPENDENT SCHOOL DISTRICT NO. 273

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

Year Collectible	General Fund	Community Service Special Revenue Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Total All Funds
Levies					
2003	\$ 15,364,808	\$ 1,003,970	\$ 500,000	\$ 6,262,208	\$ 23,130,986
2004	12,254,905	818,816	1,000,000	9,893,343	23,967,064
2005	12,885,440	905,136	1,000,109	9,128,281	23,918,966
2006	15,614,487	946,912	1,000,111	8,074,618	25,636,128
2007	16,736,821	1,050,158	1,000,243	8,368,398	27,155,620
2008	18,851,653	893,439	1,000,553	9,181,816	29,927,461
2009	19,822,034	938,749	1,000,300	9,947,842	31,708,925
2010	21,451,658	957,557	1,000,406	10,133,671	33,543,292
2011	21,276,283	982,373	1,885,932	10,554,475	34,699,063
2012	26,739,844	1,053,989	1,730,064	10,281,370	39,805,267
Tax rates					
Tax capacity rates					
2003	9.334	1.807	0.900	11.271	23.312
2004	3.245	1.358	1.659	16.408	22.670
2005	3.311	1.344	1.485	13.554	19.694
2006	6.039	1.246	1.316	10.625	19.226
2007	5.932	1.241	1.182	9.889	18.244
2008	4.542	1.001	1.121	10.287	16.951
2009	4.635	1.037	1.105	10.989	17.766
2010	5.487	1.050	1.097	11.112	18.746
2011	7.288	1.136	1.157	12.205	21.786
2012	13.939	1.267	–	12.359	27.565
Market value rates					
2003	0.194	–	–	–	0.194
2004	0.178	–	–	–	0.178
2005	0.166	–	–	–	0.166
2006	0.154	–	–	–	0.154
2007	0.147	–	–	–	0.147
2008	0.177	–	–	–	0.177
2009	0.183	–	–	–	0.183
2010	0.194	–	–	–	0.194
2011	0.196	–	–	–	0.196
2012	0.215	–	–	–	0.215

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, this levy is being accounted for in the General Fund.

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 273

Property Tax Levies and Receivables
Last Ten Years

For Taxes Collectible	Original Levy				Uncollected Taxes Receivable as of June 30, 2012			
	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread	Delinquent		Current	
					Amount	Percent	Amount	Percent
2003	\$ 22,145,242	\$ 636,644	\$ 349,100	\$ 23,130,986	\$ —	— %	\$ —	— %
2004	22,896,961	768,204	301,899	23,967,064	—	—	—	—
2005	22,903,838	794,755	220,373	23,918,966	—	—	—	—
2006	24,734,667	722,215	179,246	25,636,128	—	—	—	—
2007	26,277,313	740,269	138,038	27,155,620	3,206	0.01	—	—
2008	29,016,879	789,966	120,616	29,927,461	68,710	0.23	—	—
2009	30,639,825	945,589	123,511	31,708,925	7,574	0.02	—	—
2010	32,343,270	1,061,264	138,758	33,543,292	25,749	0.08	—	—
2011	33,450,877	1,083,275	164,911	34,699,063	124,702	0.36	—	—
2012	38,740,332	1,064,935	—	39,805,267	—	—	19,903,261	50.00
					<u>\$ 229,941</u>		<u>\$ 19,903,261</u>	

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

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 273

Student Enrollment
Last Ten Fiscal Years

Year Ended June 30,	Average Daily Membership (ADM) (for Students Served or Tuition Paid)					Total Pupil Units
	Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	
2003	59.82	499.29	3,349.96	3,246.35	7,155.42	8,208.88
2004	64.75	465.70	3,392.34	3,334.59	7,257.38	8,359.25
2005	66.63	470.52	3,404.12	3,384.07	7,325.34	8,441.91
2006	69.29	496.28	3,480.79	3,482.66	7,529.02	8,671.00
2007	73.21	488.22	3,510.44	3,494.94	7,566.81	8,718.02
2008	69.49	512.62	3,600.26	3,562.08	7,744.45	8,941.35
2009	72.10	514.21	3,672.12	3,649.88	7,908.31	9,137.36
2010	69.27	510.50	3,699.26	3,774.26	8,053.29	9,321.73
2011	72.25	506.30	3,808.45	3,875.72	8,262.72	9,571.81
2012	62.52	507.15	3,821.39	3,916.01	8,307.07	9,630.68

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

Note 2: Beginning in 2004, ADM is limited to 1.0 ADM per student.

Note 3: ADM is weighted as follows in computing pupil units:

	<u>Pre-Kindergarten</u>	<u>Handicapped Kindergarten</u>	<u>Kindergarten</u>	<u>Elementary 1-3</u>	<u>Elementary 4-6</u>	<u>Secondary</u>
Fiscal 2003 through 2007	1.250	1.000	0.557	1.115	1.060	1.300
Fiscal 2008 through 2012	1.250	1.000	0.612	1.115	1.060	1.300

SINGLE AUDIT AND OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures
U.S. Department of Agriculture		
Passed through Minnesota Department of Education		
Child nutrition cluster		
School Breakfast Program	10.553	\$ 26,769
National School Lunch Program	10.555	<u>411,602</u>
Total child nutrition cluster		438,371
U.S. Department of Education		
Passed through Minnesota Department of Education		
Special education cluster		
Special Education – Grants to States	84.027	1,463,194
Special Education – Preschool Grants	84.173	<u>34,083</u>
Total special education cluster		1,497,277
Early intervention services cluster		
Special Education – Grants for Infants and Families	84.181	26,793
ARRA – Special Education – Grants for Infants and Families	84.393	<u>9,954</u>
Total early intervention services cluster		36,747
Education Jobs Fund	84.410	1,394,821
Title I Grants to Local Educational Agencies	84.010	205,829
Improving Teacher Quality State Grants	84.367	90,196
English Language Acquisition Grants	84.365	32,518
Passed through Carver-Scott Educational Cooperative		
Career and Technical Education – Basic Grants to States	84.048	13,761
Passed through West Metro Education Program		
Voluntary Public School Choice	84.361	21,233
U.S. Corporation for National and Community Service		
Passed through Minnesota Department of Education		
Learn and Serve America – School and Community-Based Programs	94.004	<u>11,780</u>
Total federal awards		<u>\$ 3,742,533</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 Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the District's basic financial statements.

Note 2: Non-monetary assistance of \$36,576 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.

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 of
Independent School District No. 273
Edina, Minnesota

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, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 10, 2012. 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.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

(continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

We noted certain matters that we reported to management of the District, in a separate letter dated October 10, 2012.

This report is intended solely for the information and use of management, the School Board, others within the District, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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

October 10, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

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, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 Nonprofit 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

(continued)

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the School Board, others within the District, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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

October 10, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH MINNESOTA STATE LAWS AND REGULATIONS

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

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, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 10, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Office of the State Auditor pursuant to Minnesota Statute § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the District complied with the material terms and conditions of applicable legal provisions, except as noted in the Schedule of Findings and Questioned Costs.

The District's response to the finding in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the School Board, others within the District, and the state of Minnesota and is not intended to be, and should not be, used by anyone other than these specified parties.

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

October 10, 2012

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

A. SUMMARY OF AUDIT RESULTS

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

Financial Statements

What type of auditor's report is issued? X Unqualified
 Qualified
 Adverse
 Disclaimer

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiencies identified? Yes X No

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

Federal Awards

Internal controls over major federal award programs:

Material weakness(es) identified? Yes X No

Significant deficiencies identified? Yes X No

Type of auditor's report issued on compliance for major programs? X Unqualified
 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:

<u>Program or Cluster</u>	<u>CFDA No.</u>
The U.S. Department of Education – Education Jobs Fund	84.410

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, 2012

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None.

D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

2012-1 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 selected for testing, 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 out of twenty-five disbursements tested were not in compliance. This is a current year and prior year finding.

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

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

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

Corrective Action Plan

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

Official Responsible – Jim Gilligan, Controller.

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT (CONTINUED)

2012-1 CLAIMS AND DISBURSEMENTS (CONTINUED)

Corrective Action Plan (continued)

Planned Completion Date – June 30, 2013.

Disagreement With or Explanation of Finding – The District has no disagreement with the finding.

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

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

No audit findings at June 30, 2011.

INDEPENDENT SCHOOL DISTRICT NO. 273

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2012

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		\$ 88,769,978	\$ 88,769,978	\$ –
Total expenditures		\$ 86,950,305	\$ 86,950,304	\$ 1
Nonspendable				
460	Nonspendable fund balance	\$ 561,282	\$ 561,282	\$ –
Restricted/reserve				
403	Staff development	\$ –	\$ –	\$ –
405	Deferred maintenance	\$ –	\$ –	\$ –
406	Health and safety	\$ (527,600)	\$ (527,600)	\$ –
407	Capital projects levy	\$ –	\$ –	\$ –
408	Cooperative revenue	\$ –	\$ –	\$ –
411	Severance pay	\$ –	\$ –	\$ –
414	Operating debt	\$ –	\$ –	\$ –
416	Levy reduction	\$ –	\$ –	\$ –
417	Taconite building maintenance	\$ –	\$ –	\$ –
423	Certain teacher programs	\$ –	\$ –	\$ –
424	Operating capital	\$ 297,835	\$ 297,835	\$ –
426	\$25 taconite	\$ –	\$ –	\$ –
427	Disabled accessibility	\$ –	\$ –	\$ –
428	Learning and development	\$ –	\$ –	\$ –
434	Area learning center	\$ –	\$ –	\$ –
435	Contracted alternative programs	\$ –	\$ –	\$ –
436	State approved alternative program	\$ –	\$ –	\$ –
438	Gifted and talented	\$ –	\$ –	\$ –
441	Basic skills programs	\$ –	\$ –	\$ –
445	Career and technical programs	\$ –	\$ –	\$ –
446	First grade preparedness	\$ –	\$ –	\$ –
449	Safe schools levy	\$ –	\$ –	\$ –
450	Pre-kindergarten	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
453	Unfunded severance and retirement levy	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ –	\$ –	\$ –
Committed				
418	Committed for separation	\$ –	\$ –	\$ –
461	Committed fund balance	\$ 2,424,609	\$ 2,424,609	\$ –
Assigned				
462	Assigned fund balance	\$ 3,333,975	\$ 3,333,974	\$ 1
Unassigned				
422	Unassigned fund balance	\$ 6,451,685	\$ 6,451,686	\$ (1)
Food Service				
Total revenue		\$ 3,277,313	\$ 3,277,313	\$ –
Total expenditures		\$ 3,152,315	\$ 3,152,314	\$ 1
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 481,376	\$ 481,376	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
Community Service				
Total revenue		\$ 7,185,703	\$ 7,185,705	\$ (2)
Total expenditures		\$ 7,153,747	\$ 7,153,747	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/reserve				
426	\$25 taconite	\$ –	\$ –	\$ –
431	Community education	\$ 1,033,026	\$ 1,033,026	\$ –
432	ECFE	\$ 216,161	\$ 216,161	\$ –
444	School readiness	\$ 3,386	\$ 3,386	\$ –
447	Adult basic education	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ 668	\$ 668	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

INDEPENDENT SCHOOL DISTRICT NO. 273

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2012

		Audit	UFARS	Audit – UFARS
Building Construction				
Total revenue		\$ 1,896,063	\$ 1,896,063	\$ –
Total expenditures		\$ 2,694,682	\$ 2,694,683	\$ (1)
Nonspendable				
460	Nonspendable fund balance	\$ 29,183	\$ 29,183	\$ –
Restricted/reserve				
407	Capital projects levy	\$ (662,170)	\$ (662,170)	\$ –
409	Alternative facility program	\$ (771,497)	\$ (771,497)	\$ –
413	Project funded by COP	\$ 505,461	\$ 505,461	\$ –
Restricted				
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
Debt Service				
Total revenue		\$ 10,438,288	\$ 10,438,288	\$ –
Total expenditures		\$ 10,278,028	\$ 10,278,029	\$ (1)
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/reserve				
425	Bond refundings	\$ 58,664,372	\$ 58,664,372	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ 393,309	\$ 393,309	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
Trust				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
422	Net assets	\$ –	\$ –	\$ –
Internal Service				
Total revenue		\$ 781,809	\$ 781,809	\$ –
Total expenditures		\$ 731,512	\$ 731,513	\$ (1)
422	Net assets	\$ 243,590	\$ 243,590	\$ –
OPEB Revocable Trust Fund				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
422	Net assets	\$ –	\$ –	\$ –
OPEB Irrevocable Trust Fund				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
422	Net assets	\$ –	\$ –	\$ –
OPEB Debt Service Fund				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
425	Bond refundings	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

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