

**DRAFT**

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended June 30, 2019

DULUTH  
INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

215 North First Avenue East  
Duluth, MN 55802

Prepared by the  
Finance Department

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

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DULUTH, MINNESOTA**

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## **INTRODUCTORY SECTION**

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

ORGANIZATION  
JUNE 30, 2019

School Board Directors

Term Expires

Rosie Loeffler-Kemp	Chairperson	01/03/2022
Jill Lofald	Vice Chairperson	01/03/2022
Josh Gorham	Clerk of the Board	01/03/2022
Sally Trnka	Treasurer	01/03/2022
David Kirby		01/08/2020
Alanna Oswald		01/06/2020
Nora Sandstad		01/06/2020

Ex Officio Members

Superintendent  
William Gronseth, Appointed February, 2012  
Deputy Clerk  
Catherine Erickson, Appointed October, 2018

## **FINANCIAL SECTION**



## **Independent Auditor's Report**

To the School Board  
Independent School District No. 709  
Duluth, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 709, Duluth, Minnesota (District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 5 through 16, the budgetary comparison information, information about the District's other postemployment health care plan, and information about the District's net pension liability, pages 75 through 76, 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, 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The combining and individual fund financial statements and schedules, and fiscal compliance table, pages 77 through 84, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules, and fiscal compliance table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining and individual fund financial statements and schedules, and fiscal compliance table are fairly stated in all material respects in relation to the basic financial statements as a whole.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the District's basic financial statements for the year ended June 30, 2018, which are not presented with the accompanying financial statements and we expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That 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 individual fund schedules and combining other funds statements for the year ended June 30, 2018, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2018 basic financial statements. The information was subjected to the auditing procedures applied in the audit of those 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. In our opinion, the 2018 individual fund schedules and combining other funds statements are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated DATE 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, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the District's internal control over



financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Wipfli LLP

DATE

Duluth, Minnesota

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**INDEPENDENT SCHOOL DISTRICT NO. 709 – DULUTH PUBLIC SCHOOLS**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2019**

As management of Independent School District No. 709 (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019.

**FINANCIAL HIGHLIGHTS**

- The District’s total net position of governmental activities increased approximately \$24 million versus 2018 to \$(37,382,587) primarily due to repayment of bond principal and interest and change in pension liability. One bond refunding occurred in 2016 and was held in escrow until the February, 2019 call date. On May 29, 2019, three bonds were refunded and the original issues were paid on that date.
- Overall program and general revenues were \$144.4 million, \$.5 million more than related expenses of \$143.9 million.
- General revenues accounted for \$102.6 million, or 71% of all fiscal year 2019 revenues. This amount is approximately the same percentage of total revenues as the prior year. Program specific revenues of \$47.7 million (related to services, grants and contributions) accounted for 29% of total fiscal 2019 revenues. This represents an increase of \$12.3 million versus the prior year.
- The District spent approximately \$126 million on governmental activities that includes a reduction in pension expense of \$13.6 million and a reduction in debt of \$8.4 million. The change in pension expense represents a decrease of \$52 million versus the prior year and is represented in the regular instruction category. This contributed to the overall reduction of \$34 million in governmental activities. Increases of \$11 million in sites and buildings, interest and fiscal charges, and regular instruction had the primary impact on this change.
- Among major funds, the General fund had \$111.9 million in revenues, consisting mainly of state aids and local property taxes, \$.7 million in other financing sources (uses), and \$109.6 million in expenditures.
- General Fund revenues exceeded budgeted operational revenues by \$1.1 million. Higher enrollment, which drives revenues, and a prior year special education payment, were the main reasons for increased revenues. The General Fund also improved because some operational expense budgets were not spent or were assigned to a future fiscal year. The District was required to recognize a \$3.5 million TRA/PERA Special Funding revenue and expense that were unknown at the time of budgeting. This was net neutral to the District. The combined effect resulted in a new unassigned fund balance of \$.7 million and assigned fund balances of \$1.9 million. The amount reserved for restricted programs was \$1.6 million.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor’s Report, Required Supplementary Information which includes the Management’s Discussion and Analysis (this section), the Basic Financial Statements, and Supplemental Information. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private sector business.

The *statement of net position (deficit)* presents information on all of the District’s assets and deferred outflows of resources and liabilities and deferred inflow of resources, with the difference between the two reported as *net position (deficit)*. Over time, increases or decreases in net position (deficit) may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District’s net position (deficit) changed during the most recent fiscal year. All changes in net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

***Proprietary Funds.*** The District uses an internal service fund to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund for self-insured dental benefits.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's budget process. The District adopts an annual expenditure budget for all governmental funds. A budgetary comparison statement has been provided for the General fund as required supplementary information.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the major budgetary comparisons.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

### Net Position (Deficit)

Net position (deficit) may serve over time as a useful indicator of a government's financial position. This presentation has been impacted significantly recently as the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, and GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*.

<b>Duluth Public Schools</b>			
<b>Statement of Net Position (Deficit)</b>			
<b>As of June 30,</b>			
	2019	2018	Total Percentage Change
Current and Other Assets	\$ 66,511,214	\$ 136,122,879	-51%
Capital Assets	\$ 288,299,420	\$ 294,363,164	-2%
<b>Total Assets</b>	<b>\$ 354,810,634</b>	<b>\$ 430,486,043</b>	<b>-18%</b>
<b>Total Deferred Outflows of Resources</b>	<b>\$ 93,239,157</b>	<b>\$ 100,803,701</b>	<b>-8%</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 448,049,791</b>	<b>\$ 531,289,744</b>	<b>-16%</b>
Long-term Liabilities	\$ 313,790,992	\$ 535,852,037	-41%
Other Liabilities	\$ 22,802,651	\$ 23,675,376	-4%
<b>Total Liabilities</b>	<b>\$ 336,593,643</b>	<b>\$ 559,527,413</b>	<b>-40%</b>
<b>Total Deferred Inflows of Resources</b>	<b>\$ 148,838,735</b>	<b>\$ 33,519,240</b>	<b>344%</b>
Net Position (deficit)			
Net investment in capital assets	\$ 226,566,169	\$ 104,374,986	117%
Restricted	\$ 4,078,301	\$ 39,006,692	-90%
Unrestricted (deficit)	\$(268,027,057)	\$ (205,138,587)	31%
<b>Total Net Position (Deficit)</b>	<b>\$ (37,382,587)</b>	<b>\$ (61,756,909)</b>	<b>-39%</b>

District assets of \$354.8 million include, \$29.4 million in unrestricted cash, receivables of \$36.7 million, nearly all of which is made up of property tax and state aid receivables, capital assets being depreciated of \$278 million, \$.2 million in restricted cash (for debt service and capital projects), \$10.3 million in capital assets not being depreciated, and \$0.2 million in other assets.

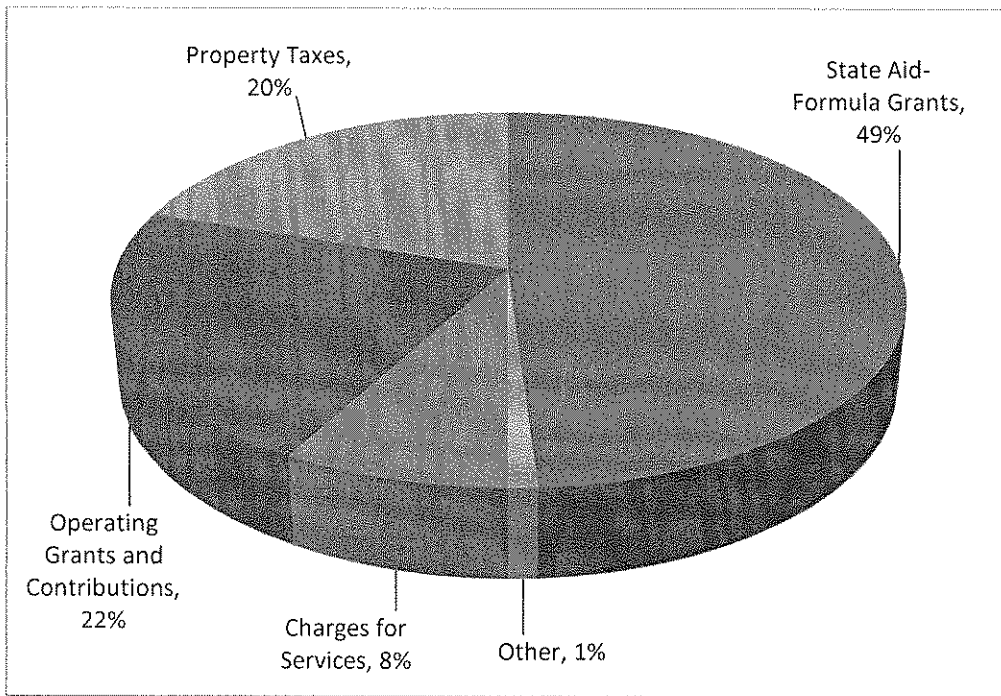
Deferred outflows of resources includes approximately \$91.9 million for pension related items and \$1.3 million for OPEB related items.

District liabilities of \$337 million include \$313.8 million in Long-term obligations (facilities plan, OPEB, severance, and future pension liabilities), \$21 million due to employees and vendors for expenditures incurred but not paid as of fiscal year-end, and \$1.7 million in other liabilities.

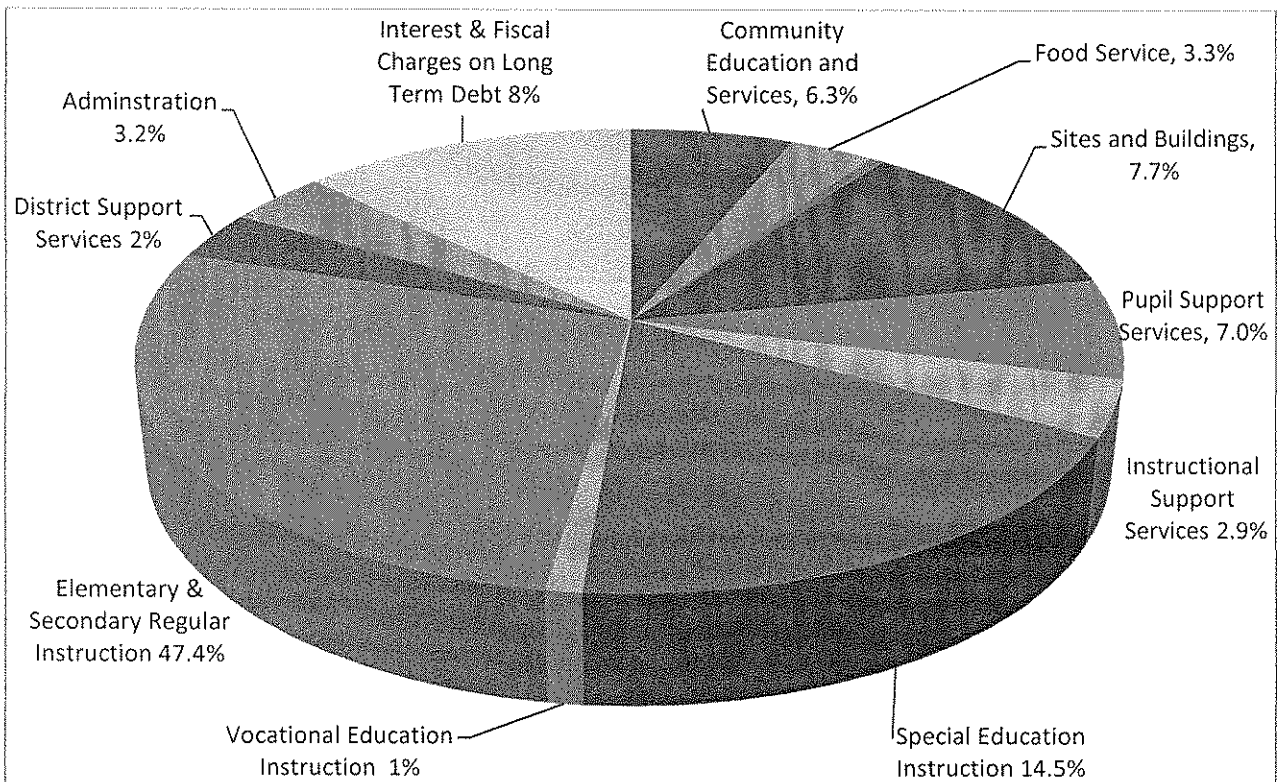
Deferred Inflows of Resources of \$148.8 million includes \$38.5 million of property taxes levied for subsequent years' expenditures and \$110.3 million for pension and OPEB related items.

INDEPENDENT SCHOOL DISTRICT NO. 709  
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Source of Revenues for Fiscal Year 2019



Expenses for Fiscal Year 2019





## Changes in Net Position (Deficit)

In the following table, the change in net position and operations are reported on a government-wide basis with no reference to funds.

### Duluth Public Schools Change in Net Position (Deficit) For the Year ended June 30,

<b>Revenues:</b>	<b>2019</b>	<b>2018</b>	<b>Total % Change</b>
Program revenues:			
Charges for Services	\$13,201,523	\$7,196,302	83.4%
Operating grants and contributions	\$34,539,773	\$30,247,880	14.2%
General revenues:			
Property taxes	\$30,589,264	\$30,752,432	-0.5%
State aids	\$70,230,002	\$68,022,872	3.2%
Other	\$1,815,845	\$1,891,811	-4.0%
<b>Total Revenues</b>	<b>\$150,376,407</b>	<b>\$138,111,297</b>	<b>8.9%</b>
<b>Expenses:</b>			
Administration	\$4,893,750	\$5,127,921	-4.6%
District support services	\$4,307,299	\$3,122,948	37.9%
Elementary and secondary regular instruction	\$35,011,512	\$76,357,900	-54.1%
Vocational education instruction	\$1,527,612	\$1,585,531	-3.7%
Special education instruction	\$23,477,723	\$23,143,086	1.4%
Instructional support services	\$4,915,289	\$4,632,083	6.1%
Pupil support services	\$9,038,782	\$8,612,179	5.0%
Sites and buildings	\$15,167,886	\$12,379,545	22.5%
Fiscal and other fixed program costs	\$295,958	\$436,404	-32.2%
Food service	\$4,175,542	\$4,197,291	-0.5%
Community Service	\$7,997,034	\$8,045,536	-0.6%
Interest and fiscal charges on long-term debt	\$15,193,698	\$12,742,182	19.21%
<b>Total Expenses</b>	<b>\$126,002,085</b>	<b>\$160,382,606</b>	<b>-21.4%</b>
<b>Change in net position(deficit)</b>	<b>\$24,374,322</b>	<b>\$(22,271,309)</b>	<b>-209.4%</b>
<b>Beginning of year net position (deficit)</b>	<b>\$(61,756,909)</b>	<b>\$(27,724,279)</b>	<b>122.8%</b>
<b>Implementation of New Standard</b>		<b>\$(11,761,321)</b>	
<b>Net position restated</b>		<b>\$(39,485,600)</b>	
<b>End of year net position (deficit)</b>	<b>\$(37,382,587)</b>	<b>\$(61,756,909)</b>	<b>-39.5%</b>

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

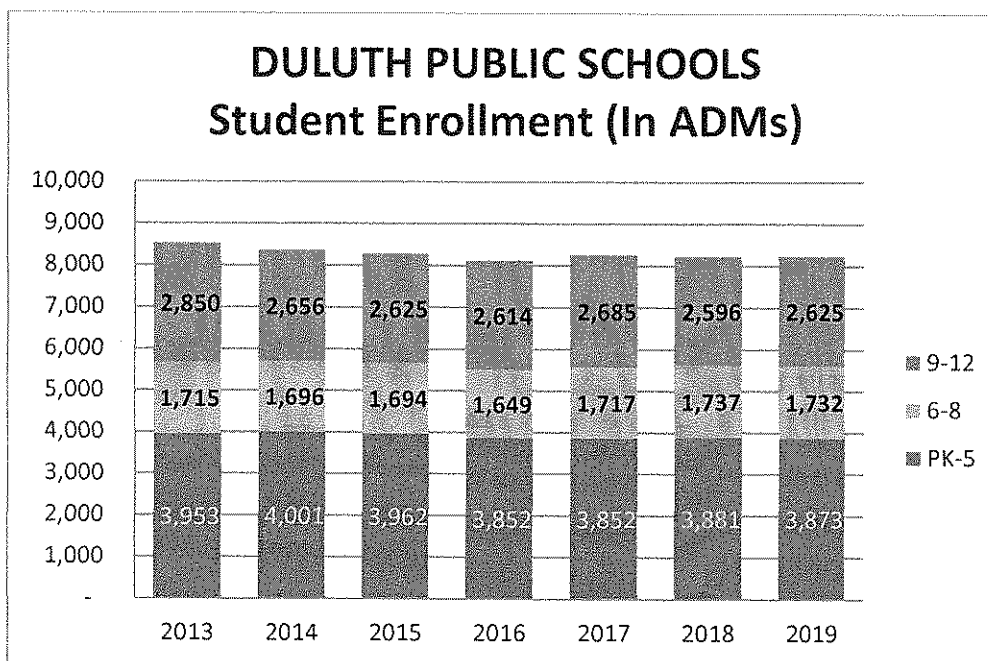
At the end of the 2018-19 fiscal year, the District's governmental funds reported a combined fund balance of \$9.9 million, a decrease of \$79 million from the prior year combined fund balance of \$89 million. This resulted from the use of escrow funds to pay off the Certificates of Participation Bond Series 2008B on the February 1, 2019 call date.

### General Fund

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

Enrollment is a critical factor in determining revenue. Like most Minnesota school districts, the District has been facing declining enrollment. These declines have largely stabilized. The following chart reflects that the number of students decreased from 2013 to a low in 2016. There was an increase in 2017 with minor fluctuations in 2018 and 2019.

**Student Enrollment**  
**Average Daily Membership (ADM)**



### General Fund Budgetary Highlights

The General fund adopted revenue budget of \$108.5 million was reduced by \$1.9 million in state aids after a review of projected enrollments and increased by \$.7 million for grants and donations related to student and curriculum support.

The General fund adopted expenditure budget of \$108 million was decreased slightly to reflect changes from above. This resulted in a balanced budget with the changes in other financing sources (uses).

General fund revenues were \$4.7 million more than the revised budget (a difference of 4%). This was due to an increase in enrollment and underspent grant funds. There were other sources and uses of financing in the amount of \$.7 million.

General fund spending was \$2 million less than the revised budget, a difference of .2%. Budgeted spending was reduced to try to offset the anticipated reduction in revenues and reflects the Title spending level.

The General Fund balance increased \$3 million to a total of \$4.4 million as follows:

- Unassigned fund balance increased by \$.3 million.
- Restricted fund balances increased by \$813,532 to a total of \$1,586,768.
- Non-spendable fund balances decreased by \$58,195 to a total of \$178,352.
- Assigned fund balances increased to \$1.9 million for future uses.

### **Food Service Fund**

The Food Service Fund revenues for 2018-19 totaled \$4,352,279 or \$233,459 more than the final budget. Expenditures were \$4,175,542 or \$83,439 less than the final budget. The resulting surplus of \$176,737 increased the year-end fund balance to \$1,150,456.

### **Community Services Fund**

The Community Services Fund revenues for 2018-19 totaled \$8,020,062 or \$233,384 more than the final budget. Expenditures were \$7,974,969 or \$218,730 more than the final budget. The resulting surplus of \$45,093 increased the year-end fund balance to \$1,272,445.

### **Capital Projects Fund**

The Capital Projects Fund revenues for 2018-19 totaled \$12,016 or \$12,016 more than the final budget. Expenditures totaled \$490,671 or \$152,019 less than the final budget. This resulted in the fund balance decreasing by \$478,655 to \$164,060.

### **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 or operating capital acquired through either initial or refunding bonds. Revenues for 2018-19 totaled \$20,115,795 or \$2,191,110 less than the final budget. Expenditures totaled \$21,614,906 or \$62,765 less than the final budget. Other Financing Sources and Uses included bond refunding payments from escrow accounts as a use of \$129,995,094 and issuance of bonds of \$49,664,444. The resulting deficit of \$81,829,761 decreased the fund balance to \$2,885,585.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of fiscal 2019, the District had over \$362 million invested in a broad range of capital assets, reflecting the impact of our Long Range Facilities Plan. Depreciation of \$74.7 million has been taken on existing items. As of June 30, 2019, the District had capital items, which had a depreciated value of \$288.3 million. Most of the capital investment is in buildings and equipment.

<b>ISD 709 CAPITAL ASSETS</b>			
	<b>2019</b>	<b>2018</b>	<b>% Change</b>
Land	\$9,922,793	\$9,977,536	-0.5%
Construction Work in Process	\$373,066	\$893,285	-58.2%
Land Improvement	\$2,496,033	\$2,496,033	0.0%
Buildings and Improvements	\$342,403,160	\$340,939,760	0.4%
Equipment	\$7,775,992	\$7,747,809	0.4%
Less: Accumulated Depreciation	\$(74,671,624)	(67,691,259)	10.3%
<b>TOTAL</b>	<b>\$288,299,420</b>	<b>\$294,363,164</b>	<b>-2%</b>

### Long-Term Liabilities

At year-end, the District had \$197.8 million of outstanding bonds payable and certificates of participation. This reflects a decrease of \$96.7 million versus the principal amount of \$294.5 million outstanding at June 30, 2018. State statute limits the District's debt to 15% of the fair market value of property in the District. This sets the District debt limit at approximately \$1.0 million as of June 30, 2019.

The remainder of long-term liabilities is the \$34.1 million recognized for capital lease, severance benefits, and other post-employment benefits (OPEB). The change from 2018 to 2019 was a decrease of \$.4 million. The final item represents the net pension liability of \$65.2 million, a decrease of \$128.5 million versus 2018 due to a change in proportionate share for TRA.

<b>ISD 709 LONG-TERM LIABILITIES</b>			
	<b>2019</b>	<b>2018</b>	<b>% Change</b>
Certificates of Participation	\$155,130,425	\$247,430,425	-37%
General Obligation Bonds	\$42,690,000	\$47,100,000	-9%
Capital Lease	\$32,184	\$18,449	74%
Other Postemployment Benefits	\$17,046,631	\$16,985,845	0%
Severance Obligation	\$17,058,177	\$17,567,541	-3%
Net Pension Liability	\$65,163,873	\$193,662,758	-66%
<b>TOTAL</b>	<b>\$297,121,290</b>	<b>\$522,765,018</b>	<b>-43%</b>
Long-Term Liabilities			
Due within one year	\$17,351,806	\$94,179,343	-82%
Due in more than one year	\$279,769,484	\$428,585,675	-35%
<b>TOTAL</b>	<b>\$297,121,290</b>	<b>\$522,765,018</b>	<b>-43%</b>

## **ECONOMIC AND BUDGETARY FACTORS BEARING ON THE DISTRICT'S FUTURE**

In November, 2018, a 2013 referendum was renewed for a period of ten (10) years along with an increase of approximately \$5 million annually. The increase, beginning in FY20, allowed the District to avoid larger staff and program reductions to the FY20 budget. While the revenue will provide some stability, there are still many unmet needs and priorities to address.

In addition to the revenue noted above, the state legislature approved increases to the basic formula allowance, and funding for early childhood education as part of the 2019 session. These increases are spread between FY20 and FY21.

Other factors affecting the District's future financial condition include the following:

**Enrollment Trends** – as the population of school-age children residing in the District declines, District revenues decline, as most of our funding is based on the number of pupils served in the District. A demographic study completed in 2017 projected slight declines in enrollment for the next five years, and while enrollment has appeared stable in FY18 and FY19, the District must consider enrollment decline in future years.

**School Choice** – in addition to projected population decline, more residents have chosen educational options other than the District. Increases in charter schools, home schooling and private school enrollment has contributed to pupil and corresponding revenue loss.

**State Budget** – Since K-12 education makes up over 40% of state spending and because State revenues account for over 78% of the District's General revenues, the District will be impacted by decisions made relative to education spending.

**Medical Insurance** – premium increases have been reduced through a plan change to a high-deductible statewide insurance plan. The District continues to work with employees to reduce the utilization of prescription drugs and medical services. The increase for FY17 was 6.8%, FY18 was 4.8%, and the trend continues to be a 4-6% increase..

**Retiree Benefits (severance)** – this large liability impacts the General fund and must be budgeted yearly until reserves are able to be set aside, as interest earned on any invested funds will accrue to the trust for severance and not be available as General fund revenue.

## **DISTRICT FINANCIAL CONTACT**

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives and utilizes. Should you have questions about this report, or need additional information, please contact:

Office of Business Services, ISD #709  
215 N. 1<sup>st</sup> Avenue East, Duluth, MN 55802  
or call 218-336-8704

Financial and other district information is also available on the District website at  
[www.isd709.org](http://www.isd709.org)

## **BASIC FINANCIAL STATEMENTS**

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Exhibit 1

Statement of Net Position (Deficit)  
June 30, 2019

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and temporary investments	\$ 29,383,558
Receivables	
Taxes and credits	24,058,711
Accounts and interest receivable	172,949
Due from other governmental units	12,429,420
Inventory	148,422
Prepayments	125,934
Restricted assets	
Cash and investments for debt service	11,412
Cash and investments for capital projects	180,808
Capital assets, net of depreciation	
Capital assets not being depreciated	10,295,859
Capital assets being depreciated	<u>278,003,561</u>
Total assets	<u>\$ 354,810,634</u>
<b>Deferred Outflows of Resources</b>	
Pension related items	91,937,958
OPEB related items	<u>1,301,199</u>
Total deferred outflows of resources	<u>\$ 93,239,157</u>
Total assets and deferred outflows of resources	<u>\$ 448,049,791</u>
<b>Liabilities</b>	
Salaries payable	\$ 11,378,326
Accounts and contracts payable	3,544,109
Accrued interest payable	6,162,162
Due to fiduciary funds	797,529
Due to other governmental units	72,980
Compensated absences	438,786
Unearned revenue	408,759
Long term liabilities	
Due within one year	17,351,806
Due in more than one year	279,769,484
Unamortized premium and discount, net	<u>16,669,702</u>
Total liabilities	<u>\$ 336,593,643</u>
<b>Deferred inflows of resources</b>	
Property taxes levied for subsequent years' expenditures	38,562,029
OPEB related items	444,497
Pension related items	<u>109,832,209</u>
Total deferred inflows of resources	<u>\$ 148,838,735</u>
<b>Net Position (Deficit)</b>	
Net investment in capital assets	\$ 226,566,169
Restricted for:	
State Restrictions	1,586,768
Food Service	1,150,456
Community Service	1,341,077
Debt Service	3,863,515
Unrestricted (Deficit)	<u>(271,890,572)</u>
Total net position (deficit)	<u>\$ (37,382,587)</u>
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 448,049,791</u>



INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Statement of Activities  
For the Year Ended June 30, 2019

Functions/Programs	Expenses
Governmental Activities	
Administration	\$ 4,893,750
District Support Services	4,307,299
Regular Instruction	35,011,512
Vocational Education Instruction	1,527,612
Special Education Instruction	23,477,723
Instructional Support Services	4,915,289
Pupil Support Services	9,038,782
Sites and Buildings	15,167,886
Fiscal and Other Fixed Cost Programs	295,958
Food Service	4,175,542
Community Service	7,997,034
Interest and Fiscal Charges on Long Term Debt	15,193,698
Total Governmental Activities	<u>\$ 126,002,085</u>

Exhibit 2

Program Revenues			Net (Expenses) Revenue and Changes in Net Position
Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
\$	\$ 3,605,662	\$	\$ (1,288,088)
	139,696		(4,167,603)
2,880,009	3,312,032		(28,819,471)
	136,850		(1,390,762)
838,794	13,603,908		(9,035,021)
23,665	1,684,253		(3,207,371)
	2,805,323		(6,233,459)
692,145			(14,475,741)
			(295,958)
1,534,543	2,804,768		163,769
1,992,923	4,826,704		(1,177,407)
5,239,444	1,620,577		(8,333,677)
<u>\$ 13,201,523</u>	<u>\$ 34,539,773</u>	<u>\$</u>	<u>\$ (78,260,789)</u>
General Revenues			
Taxes			
Property Taxes, levied for General Purposes			\$ 12,913,609
Property Taxes, levied for Community Service			961,484
Property Taxes, levied for Debt Service			16,714,171
State aid-formula grants			70,230,002
Other general revenues			1,063,959
Investments Earnings			751,886
Total General Revenues			<u>\$ 102,635,111</u>
Change in net position (deficit)			\$ 24,374,322
Net position (deficit) - beginning			<u>(61,756,909)</u>
Net position (deficit) - ending			<u>\$ (37,382,587)</u>

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**Balance Sheet  
GOVERNMENTAL FUNDS  
June 30, 2019**

	General Fund	Capital Projects Fund
<b>Assets</b>		
Cash and temporary investments	\$ 13,724,643	\$ 180,808
Cash and investments with fiscal agent	4,668	
Taxes and credits receivable	11,845,357	
Accounts and interest receivable	146,183	
Due from		
Other Minnesota school districts	1,031,782	
Department of Education	8,977,832	
Federal through Department of Education	780,943	
Federal - direct	15,416	
Other governmental units	21,291	
Inventory	56,190	
Prepayments	122,163	
	\$ 36,726,468	\$ 180,808
Total Assets	\$ 36,726,468	\$ 180,808

Debt Service Fund	Other Funds	Total Governmental Funds
\$ 12,940,462	\$ 2,196,242	\$ 29,042,155
6,744		11,412
11,615,145	598,209	24,058,711
-	25,825	172,008
		1,031,782
221,404	379,625	9,578,861
	54,704	835,647
	946,423	961,839
		21,291
	92,232	148,422
	3,771	125,934
<u>\$ 24,783,755</u>	<u>\$ 4,297,031</u>	<u>\$ 65,988,062</u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Balance Sheet  
GOVERNMENTAL FUNDS  
June 30, 2019

	General Fund	Capital Projects Fund
<b>Liabilities</b>		
Salaries payable	\$ 11,123,515	\$
Accounts payable	2,293,483	16,748
Due to		
Other funds	711,010	
Other governmental units	72,980	
Claims payable	160,274	
Construction contracts	448,763	-
Unearned revenue	250,082	
Total Liabilities	\$ 15,060,107	\$ 16,748
<b>Deferred inflows of resources</b>		
Property taxes levied for subsequent year's expenditures	\$ 16,596,510	
Unavailable revenue - delinquent property taxes	668,726	
Total deferred inflows of resources	\$ 17,265,236	\$

Exhibit 3  
(Continued)

Debt Service Fund	Other Funds	Total Governmental Funds
\$	\$ 254,811	\$ 11,378,326
	413,204	2,723,435
	86,519	797,529
		72,980
		160,274
		448,763
	5,685	255,767
<u>\$</u>	<u>\$ 760,219</u>	<u>\$ 15,837,074</u>
\$ 20,920,240	\$ 1,045,279	\$ 38,562,029
977,930	68,632	1,715,288
<u>\$ 21,898,170</u>	<u>\$ 1,113,911</u>	<u>\$ 40,277,317</u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Balance Sheet  
GOVERNMENTAL FUNDS  
June 30, 2019

	General Fund	Capital Projects Fund
<b>Fund Balances</b>		
NonSpendable:		
Inventory	\$ 56,189	\$
Prepayments	122,163	
Restricted for:		
Bond refunding	4,668	
Staff development	22,184	
Teacher Development & Evaluation	47,135	
Medical assistance	439,848	
Operating capital	57,718	
Long Term Facilities Maintenance	848,766	164,051
Projects funded by COP		9
ALC	166,449	
Debt service		
Food service		
Community education		
Early childhood family education		
School readiness		
Adult basic education		
Community service		
Assigned for:		
Textbooks	410,610	
Equipment	500,000	
Student activities	1,036,883	
Unassigned		
General	688,512	
Total Fund Balance	\$ 4,401,125	\$ 164,060
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 36,726,468	\$ 180,808

**Exhibit 3  
(Continued)**

Debt Service Fund	Other Funds	Total Governmental Funds
\$	\$ 92,232 3,771	\$ 148,421 125,934
6,744		11,412 22,184 47,135 439,848 57,718 1,012,817 9 166,449
2,878,841	1,057,216 919,855 103,488 79,941 163,480 2,918	2,878,841 1,057,216 919,855 103,488 79,941 163,480 2,918
		410,610 500,000 1,036,883 688,512
\$ 2,885,585	\$ 2,422,901	\$ 9,873,671
\$ 24,783,755	\$ 4,297,031	\$ 65,988,062



**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**Exhibit 4**

**Reconciliation of the Balance Sheet to the  
Statement of Net Position (Deficit)  
Governmental Activities  
June 30, 2019**

Total fund balances - governmental funds	\$ 9,873,671
Amounts reported for governmental activities in the statement of net position (deficit) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	362,971,044
Less: accumulated depreciation	(74,671,624)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable	(42,690,000)
Certificates of participation	(155,130,425)
Long-term liabilities, including capital leases, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
	(32,184)
Long-term liabilities, including severance benefits, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
	(17,058,177)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
	(438,786)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	
	1,715,288
Governmental funds do not report a liability for accrued interest until due and payable	
	(6,162,162)
The net pension liability and the deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the statement of net position.	
Net pension liability	(65,163,873)
Deferred inflows of resources related to pensions	(109,832,209)
Deferred outflows of resources related to pensions	91,937,958
Other post-employment benefits, deferred outflows of resources and deferred inflows of resources related to OPEB are only reported in the statement of net position.	
Total OPEB liability	(17,046,631)
Deferred inflows of resources related to OPEB	(444,497)
Deferred outflows of resources related to OPEB	1,301,199
Governmental funds report debt issuance premiums and discounts as an other financing source or use at the time of issuance, whereas, these amounts are deferred and amortized in the statement of net position.	
	(16,669,702)
An internal service fund is used by management to charge the costs of dental insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	
	<u>158,523</u>
Total net position (deficit) - governmental activities	<u>\$ (37,382,587)</u>
The notes to the financial statements are an integral part of this statement.	
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**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**Statement of Revenues, Expenditures, and Changes in Fund Balances  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2019**

	General Fund	Capital Projects Fund
<b>Revenues</b>		
Local property tax levies	\$ 12,909,752	\$
Interest income	393,273	12,016
Other local and county	3,855,457	
State sources	88,480,819	
Federal sources	5,520,217	
Insurance/Judgement recovery	2,260	
Sales and other conversions of assets	778,189	
Total Revenues	\$ 111,939,967	\$ 12,016
<b>Expenditures</b>		
Administration	\$ 4,853,527	\$
District support services	3,950,087	
Regular instruction	48,995,162	
Vocational instruction	1,456,427	
Special education instruction	23,442,026	
Community education and services	5,009	
Instructional support services	4,896,404	
Pupil support services	8,661,183	
Sites, buildings and equipment	4,963,286	
Fiscal and other fixed cost programs	375,724	
Debt service		
Principal	1,975,000	
Interest and fiscal charges	1,395,435	
Capital outlay	4,663,696	490,671
Total Expenditures	\$ 109,632,966	\$ 490,671
Excess (Deficiency) of Revenues Over Expenditures	\$ 2,307,001	\$ (478,655)
<b>Other Financing Sources (Uses)</b>		
Sale of property	\$ 388,241	\$
Issuance of bonds	24,130,000	-
Principal refunding payments from escrow	(23,900,000)	
Interest refunding payments from escrow	(255,385)	
Premium on bonds	301,644	
Issuance of capital lease	20,675	
Total Other Financing Sources (Uses)	\$ 685,175	\$ -
Net change in fund balances	\$ 2,992,176	\$ (478,655)
<b>Fund Balances</b>		
Beginning of Year	1,408,949	642,715
End of Year	\$ 4,401,125	\$ 164,060

Debt Service Fund	Other Funds	Total Governmental Funds
\$ 16,711,647	\$ 960,906	\$ 30,582,305
346,597		751,886
	2,165,705	6,021,162
2,221,808	2,766,976	93,469,603
835,743	4,944,211	11,300,171
	-	2,260
	1,534,543	2,312,732
<u>\$ 20,115,795</u>	<u>\$ 12,372,341</u>	<u>\$ 144,440,119</u>
\$	\$	\$ 4,853,527
		3,950,087
		48,995,162
		1,456,427
		23,442,026
	7,946,398	7,951,407
		4,896,404
	4,105,776	12,766,959
		4,963,286
		375,724
13,700,000		15,675,000
7,914,906		9,310,341
	98,337	5,252,704
<u>\$ 21,614,906</u>	<u>\$ 12,150,511</u>	<u>\$ 143,889,054</u>
\$ (1,499,111)	\$ 221,830	\$ 551,065
\$	\$	\$ 388,241
44,425,000		68,555,000
(125,690,000)		(149,590,000)
(4,305,094)		(4,560,479)
5,239,444		5,541,088
		20,675
<u>\$ (80,330,650)</u>	<u>\$</u>	<u>\$ (79,645,475)</u>
\$ (81,829,761)	\$ 221,830	\$ (79,094,410)
84,715,346	2,201,071	88,968,081
<u>\$ 2,885,585</u>	<u>\$ 2,422,901</u>	<u>\$ 9,873,671</u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Exhibit 6

Reconciliation of the Statement of  
Revenues, Expenditures, and Changes in Fund Balance  
to the Statement of Activities  
Governmental Funds  
Year Ended June 30, 2019

Net changes in fund balances - governmental funds	\$ (79,094,410)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	2,223,727
Disposal of capital assets	(982,638)
Depreciation expense	(7,304,833)
The issuance of capital leases is reported in the governmental funds as a source of financing. Capital leases are not revenues in the Statement of Activities, but constitute a long-term liability.	
	(20,675)
The amount of Bond proceeds are reported in the governmental funds as a source of financing. Bond proceeds are not revenues in the statement of activities, but rather constitute long-term liabilities.	
	(68,555,000)
Repayment of bond principal and capital leases are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position (deficit).	
	165,271,940
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however interest expense is recognized as the interest accrues regardless of when it is due.	
	2,252,865
Net amortization of premiums and discounts.	
	(3,582,683)
Change in severance benefits and post-employment benefits is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	
Change in severance benefits	509,364
Change in total OPEB liability	(60,786)
Change in deferred inflows related to OPEB	21,708
Change in deferred outflows related to OPEB	(26,461)
Payment of compensated absences is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
	(12,548)
Pension expense is reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.	
Change in deferred outflows of resources related to pensions	(7,538,083)
Change in deferred inflows of resources related to pensions	(107,312,775)
Change in net pension liability	128,498,885
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditure and therefore are deferred in the funds.	
	6,959
The change in net position of the internal service fund is reported with governmental activities.	
	79,766
Change in net position (deficit) - governmental activities	\$ 24,374,322

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Exhibit 7

STATEMENT OF NET POSITION  
INTERNAL SERVICE FUND - DENTAL PLAN  
PROPRIETARY FUND  
JUNE 30, 2019

**Assets**

Current Assets

Cash and Cash Equivalents	\$	522,211
Accounts and interest receivable		941

Total Assets	\$	<u>523,152</u>
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**Liabilities**

Current Liabilities

Claims payable	\$	211,637
Unearned revenue		152,992

Total Liabilities	\$	<u>364,629</u>
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**Net Position**

Unrestricted	\$	<u>158,523</u>
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Total Net Position	\$	<u>158,523</u>
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Total Liabilities and Net Position	\$	<u>523,152</u>
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INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Exhibit 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
INTERNAL SERVICE FUND - DENTAL PLAN  
PROPRIETARY FUND  
For the Year Ended June 30, 2019

<b>Operating revenues</b>	
Charges for Premiums, Net of Refunds	\$ 856,813
<b>Operating expenses</b>	
Employee benefits	\$ 718,669
Services, supplies, and fees	<u>58,378</u>
<b>Total Operating Expenses</b>	<u>\$ 777,047</u>
Operating income	\$ 79,766
Total Net Position - Beginning	<u>78,757</u>
Total Net Position - Ending	<u>\$ 158,523</u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Exhibit 9

STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUND - DENTAL PLAN  
PROPRIETARY FUND  
For the Year Ended June 30, 2019

<b>Cash Flows from Operating Activities</b>	
Receipts from Interfund Services Provided	\$ 557,525
Receipts from retirees	334,837
Payments for administrative costs	(58,378)
Payments for claims	<u>(738,112)</u>
Net Cash Provided by Operating Activities	\$ 95,872
Cash and Cash Equivalents - Beginning	<u>426,339</u>
Cash and Cash Equivalents - Ending	<u>\$ 522,211</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating income	<u>\$ 79,766</u>
Adjustments to reconcile operating income to net cash provided by operating activities	
Decrease in Account Receivable	\$ 448
(Decrease) in Claims Payable	(19,443)
Increase in Unearned Revenue	<u>35,101</u>
Total Adjustments	<u>\$ 16,106</u>
Net Cash Provided by Operating Activities	<u>\$ 95,872</u>



INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Exhibit 10

**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2019**

	<u>Federal Employee Benefit Trust Fund</u>	<u>Private- Purpose Funds</u>
<b>Assets</b>		
Cash and temporary investments	\$ 486,151	\$ 138,394
Due from other funds	<u>797,528</u>	<u>                    </u>
Total Assets	<u>\$ 1,283,679</u>	<u>\$ 138,394</u>
<b>Liabilities</b>		
Due to other funds	<u>\$</u>	<u>\$</u>
<b>Net Position</b>		
Restricted for endowment	\$	\$ 119,224
Restricted for clock tower		19,170
Restricted for retirees	<u>1,283,679</u>	<u>                    </u>
Total Net Position	<u>\$ 1,283,679</u>	<u>\$ 138,394</u>
Total Liabilities and Net Position	<u>\$ 1,283,679</u>	<u>\$ 138,394</u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Exhibit 11

Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Year Ended June 30, 2019

	Federal Employee Benefit Trust Fund	Private- Purpose Funds
<b>Additions</b>		
Interfund contribution	\$ 237,642	\$
Interest	26,637	780
Total Additions	\$ 264,279	\$ 780
<b>Deductions</b>		
Benefits paid	\$ 861,157	\$
Pupil support services		
Total Deductions	\$ 861,157	\$ -
Change in Net Position	\$ (596,878)	\$ 780
Net Position - Beginning	1,880,557	137,614
Net Position - Ending	\$ 1,283,679	\$ 138,394

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The financial statements of Independent School District No. 709 (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**Financial Reporting Entity**

The District is an instrumentality of the State of Minnesota established to function as an educational institution. The Board of Education consists of elected officials and is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board of Education and is responsible for administrative control of the District.

The District's financial statements include 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 include 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.

The financial transactions of student activities are included in the financial statements. Student activities are established by various student organizations (which have District employees as advisors). Amounts are usually generated and spent at the discretion of the student organizations and faculty advisors. The School Board has chosen to directly control the activities.

**Basic Financial Statement Presentation**

The district-wide financial statements (i.e., the Statement of Net position (deficit) and the 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. The Fiduciary Funds are only reported in the Statements of Fiduciary Net position at the fund financial statement level.

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 items not properly included among program revenues are reported instead as general revenues.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

Separate Fund financial statements are provided for governmental, proprietary funds, and fiduciary funds. Major individual governmental funds are reported as separate columns in the financial statements.

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal user of the internal services is the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the governmental-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 revenues of the District's internal service fund are charges to customers for service. Operating expenses for the internal service fund include claims paid and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net positions are available. Depreciation expense can be specifically identified by function and is included in the direct expenses of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. The effect of interfund activity has been removed from the district-wide financial statements.

Aggregate information for the remaining non-major governmental funds is reported in a single column in the fund financial statements.

The fiduciary funds are presented in the fiduciary fund financial statements by type (pension and private purpose trust funds). Since, by definition, these assets are being held for the benefit of a third party (private parties, severance obligations, etc.) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the district-wide statements.

**Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary and fiduciary fund financial statements.

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". Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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:

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

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. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.
2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 revenues of the Internal Service Fund are employee and District contributions. Operating expenses for proprietary funds include claims paid and administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**Basis of Presentation**

The District has established funds to account for and segregate the financial consequences of its various activities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, equity, revenues, and expenditures or expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and by how such activities are controlled. Descriptions of the funds included in this report are as follows:

***Major Governmental Funds***

The General Fund accounts for administration, kindergarten through 12th grade instruction, transporting students to and from school, purchases of land, buildings, improvements, equipment, and textbooks, major repairs, activities and other costs to the District and related revenues.

The Capital Projects Fund accounts for construction of facility additions financed by levy or bonds.

The Debt Service Fund accounts for the retirement of bonds issued for kindergarten through 12th grade projects and payments of related interest. The assets of this fund are legally restricted to the aforementioned purpose.

***Non-major Governmental Funds***

The Food Service Fund accounts for meals provided to students. Revenues consist of state and federal aids and grants and sales to pupils and adults.

The Community Services Fund accounts for instruction of persons not in kindergarten through 12th grades. Revenues consist of state and federal aids and grants and participation fees.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

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

***Proprietary Funds***

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The District's internal service fund is used to account for dental benefits for employees who are covered by the dental self-insured plan of the District.

***Fiduciary Funds***

The Private Purpose Funds account for principal and unexpended earnings of the Miller Memorial Playground endowment and the Clock Tower endowment.

Federal Employee Benefit Trust Fund accounts for employees' severance for federally funded programs.

**Budget Policies and Basis**

The School Board is responsible for the budget and for the District's financial performance against the budget. District employees prepare a proposed budget on the modified accrual basis of accounting. The budget is amended and approved by the Board before the beginning of the fiscal year as required by Minn. Stat. § 123.B.77, subd. 4. The Board reviews the District's financial progress against the budget regularly throughout the year.

***Budget and Budgetary Accounting***

Formal budgetary accounting is employed as a management control for all funds of the District. For each fund for which a formal budget is adopted the same basis of accounting is used to reflect actual revenues and expenditures recognized on the same basis of accounting as the fund financial statements.

Reported budget amounts represent the originally adopted budget as amended. Expenditures in excess of the budget require approval of the School Board. Employees report significant deviations from budget line amounts to the Board as they are recognized throughout the year. The annual budget is not legally binding on the District unless the District has a total deficit in its K-12 general and operating funds that exceed 2.5 percent of expenditures. The budget is adopted through passage of a resolution. The School Board must approve revisions that alter total expenditures of any fund without offsetting revenues.

**Cash and Temporary Investments**

Cash and investments of the individual funds are combined to form a pool, except for the fiduciary funds, and are invested, to the extent available, in securities as authorized by state law. Investment income is reported in the General, Capital, and Fiduciary Funds. Funds with negative cash balances are not charged interest. Certificates of deposits and securities of the U.S. government and its agencies are recorded at fair value, based on quoted market price. External investment pools and money market funds are recorded at fair value, based on the fair value of the position in the pool.

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

**Receivables**

Amounts due from individuals and organizations are recorded as receivables at year-end. Receivables are shown net of an allowance for uncollectible accounts. At June 30, 2019, the allowance for uncollectible accounts was \$6,018. The only receivables not expected to be collected within one year are delinquent property taxes receivable.

**Inventory**

General Fund inventory includes instructional and other materials held in the central storeroom. Inventory in the Food Service Fund consists of food and supplies. The General Fund central storeroom inventory is priced using the weighted average method. All inventories are accounted for using the consumption method. Under the consumption method, expenditures are recognized when inventory is used rather than when purchased. Food and supplies are valued at cost on a first-in, first-out basis.

**Prepayments**

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

**Property Taxes**

Property tax levies are established by the School Board in December of each year and are certified to the County for collection 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 January 1. Taxes are due on May 15 and October 15. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as a deferred inflow of resources (property taxes levied for subsequent year). The majority of District revenue in the General, Community Service Special Revenue Fund, and Debt Service Fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift".

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the district in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

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

**Restricted Assets**

Restricted assets are cash and temporary cash investments whose use is limited by legal requirements such as a bond indenture.

**Capital Assets**

Capital assets are recorded at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. Capital assets are recorded in the district-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, ranging from five to fifty years.

Capital assets not being depreciated include land and construction work in progress.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position (deficit) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources related to pensions for its proportionate shares of collective deferred outflows of resources related to pensions and District contributions to pension plans and the postemployment healthcare plan subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has reported unavailable revenue from delinquent property taxes, which arises only under a modified accrual basis of accounting, in the governmental funds balance sheet. The District has also reported property taxes levied for subsequent year's expenditures as Deferred inflow of resources in both the governmental funds balance sheet and the statement of net position (deficit). The District reports deferred inflows of resources for its proportionate share of collective deferred inflows of resources related to pensions. The District also reports deferred inflows of resources related to OPEB for changes in assumptions related to the postemployment healthcare plan.

**Compensated Absences**

The District records a liability for earned but unpaid vacation. Unpaid sick leave does not vest and therefore is not accrued. Sick pay is recognized when paid and unused balances are used in severance calculations.



**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

**Pensions**

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. This direct aid is a result of the merger of the Minneapolis Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015.

**Long-Term Liabilities**

In the district-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are expensed when incurred.

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 received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are included in expenditures/expenses when incurred.

**Fund Balances**

In the fund financial statements, governmental funds report fund balance amounts within one of the following fund balance categories:

1. Non-spendable Fund Balances are either (a) not in spendable form, or (b) legally contractually required to remain intact.
2. Restricted Fund Balances are amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.
3. Committed Fund Balances include amounts that can be used only for the specific purposes determined by a formal action of the School Board.
4. Assigned Fund Balances include amounts intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed.
5. Unassigned Fund Balance represents fund balance that has not been restricted, committed, or assigned to a specific purpose.

The District applies restricted resources first when an expense is incurred for the purpose which both restricted and unrestricted fund balance is available. If resources from more than one fund balance classification could be spent, the district will strive to spend resources from fund balance classifications in the following order: restricted, committed, assigned, and unassigned.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

In accordance with the District's fund balance policy, formal board action is required to establish, modify or rescind a fund balance commitment and the District's management is authorized to assign fund balance to a specific purpose.

To ensure financial stability, the board adopted a fund balance policy that shall establish and maintain an amount in the general fund unassigned amount equal to eight percent of the budgetary unrestricted expenditures from the general fund. The minimum fund balance was not achieved at June 30, 2019.

**Net Position (Deficit)**

Net position (deficit) represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the district-wide financial statements. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the district-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**Deposits**

Minn. Stat. § 118A.04 authorizes the District to deposit its cash and to invest in financial institutions designated by the District's Board. Minnesota Statutes require that all District deposits be covered 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.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District requires collateral for deposits over FDIC insurance amounts. At June 30, 2019, the District's deposits were not exposed to custodial credit risk.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

**Investments**

Minn. Stat. § 118A.04 and 118A.05 generally authorizes the following types of investments as available to the District:

1. Securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by subd. 6;
2. Shares of a Minnesota joint powers investment trust or shares of an investment company that is registered under the Federal Investment Company Act of 1940 pursuant to the restrictions of Minn. Stat § 118A.05 subd. 4;
3. General obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota or other states provided such obligations have certain specified bond ratings by a national bond rating service;
4. Time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers' acceptances of United States banks;
5. Commercial paper issued by United States corporations, or their Canadian subsidiaries, that is of the highest quality and matures in 270 days or less;
6. Guaranteed investment contracts (gic's) issued or guaranteed by United States commercial banks, or domestic branches of foreign banks, or United States insurance companies, if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories;
7. Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers; and
8. Securities lending agents under the provisions of Minn. Stat. § 118A.05 subd.3.

The Minnesota School District Liquid Asset Fund (MSDLAF) and MNTrust are external investment pools not registered with the Securities and Exchange Commission (SEC). The fair value of the position on the pool is the same as the value of the pool shares. The District's investment in MSDLAF and MN Trust Investment Shares Portfolio are measured at net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. MSDLAF and MN Trust are short-term money market portfolios. The portfolios are managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seek to maintain a constant net asset value (NAV) per share of \$1.00.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

**Interest Rate Risk**

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The District has the following investments at June 30, 2019:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 Yr</u>	<u>1-3 Years</u>	<u>Over 3 Years</u>
External Investment Pools	\$ 25,871,114	\$ 25,871,114	\$	\$
Negotiable CD's	2,831,966	2,831,966		
<b>Total Investments</b>	<b>\$ 28,703,080</b>	<b>\$ 28,703,080</b>	<b>\$</b>	<b>\$</b>

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the District's policy to invest only in securities that meet the ratings requirements set by state statute.

The District's exposure to credit risk as of June 30, 2019 is as follows:

<u>S &amp; P or Moody's Rating</u>	<u>Fair Value</u>
AAAm	\$ 15,871,114
Not Rated	12,831,966
<b>Total Investments</b>	<b>\$ 28,703,080</b>

**Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2019, none of the District's investments were subject to custodial credit risk.

**Concentration of Credit Risk**

The concentration of credit risk is the risk of loss that may be caused by the District's investment in a single issuer. The District places no limit on the amount the District may invest in one issuer. At June 30, 2019 the District did not hold investments in any one issuer (excluding mutual funds and external investment pools) that represents five percent or more of the District's investments.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

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

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

The District has the following investments valued at recurring fair value measurements at June 30, 2019:

Investments by fair value level	Total	Active Markets	Significant Other	Unobservable
		of Identical Assets	Observable Inputs	Inputs
		(Level 1)	(Level 2)	(Level 3)
Negotiable certificates of deposit	\$ 2,831,966	\$	\$ 2,831,966	\$
	<u>2,831,966</u>	<u>\$</u>	<u>\$ 2,831,966</u>	<u>\$</u>
<b>Investments measured at the net asset value (NAV)</b>				
External investment pools	25,871,114			
	<u>\$ 28,703,080</u>			

The following table sets forth additional disclosures about the District's investments whose values are estimated using net asset value (NAV) as of June 30, 2019:

	Amount	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - MSDLAF	\$ 1,853,503	\$	14 days*	24-hour notice
External Investment Pool - MNTrust	24,017,611	\$	None	None
	<u>\$ 25,871,114</u>			

\*With the exception of direct investments of funds distributed by the State of Minnesota

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

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

The District's total cash and investments as of June 30, 2019 are as follows:

Petty Cash	\$	2,605
Deposits		1,494,638
Investments		28,703,080
		28,703,080
	\$	30,200,323

The District's total cash and investments as of June 30, 2019 are presented in the basic financial statements as follows:

Statement of Net Position (Deficit)		
Cash and Temporary Investments	\$	29,383,558
Restricted Assets		
Cash and Investments for Debt Service		11,412
Cash and Investments for Capital Projects		180,808
Statement of Fiduciary Net Position		
Cash and Temporary Investments		
Federal Employee Benefit Trust Fund		486,151
Private Purpose Funds		138,394
		138,394
Total Cash and Investments	\$	30,200,323

**NOTE 3 – TAXES AND CREDITS RECEIVABLE**

Current taxes and credits receivable represent the uncollected balance of the 2018 levy, collectible in 2019, including related state property tax relief aid. Delinquent taxes receivable represent taxes due from levies of the prior six years. At June 30, 2019, property taxes and credits receivable consisted of:

<u>Fund</u>	<u>Current</u>	<u>Delinquent</u>	<u>Total</u>
General Fund	\$ 11,176,631	\$ 668,726	\$ 11,845,357
Community Services Fund	529,577	68,632	598,209
Debt Services Fund	10,637,215	977,930	11,615,145
	10,637,215	977,930	11,615,145
Total	\$ 22,343,423	\$ 1,715,288	\$ 24,058,711

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 4 - INVENTORY**

Inventory at June 30, 2019, consisted of:

· General Fund - Supplies	\$ 56,189
Food Service Fund - Food	<u>92,232</u>
Total	<u>\$ 148,421</u>

**NOTE 5 - LEASE OBLIGATIONS**

**Operating Leases**

The District is committed under various operating leases for building space, parking facilities, and equipment. Rent expense for the year ended June 30, 2019, was \$311,064.

Future minimum lease payments under operating leases, which are not reflected in these financial statements, consist of the following at June 30, 2019:

Year Ending June 30

2020	\$ 316,390
2021	249,845
2022	215,416
2023	<u>32,104</u>
Total	<u>\$ 813,755</u>

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 6 – CAPITAL ASSETS**

A summary of the changes in capital assets in fiscal year 2019 is as follows:

<b>Capital Assets Not Depreciated</b>	<b>Balance 6/30/2018</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 6/30/2019</b>
Land	\$ 9,977,536	\$ -	\$ (54,743)	\$ 9,922,793
Construction Work in Process	893,285	373,066	(893,285)	373,066
<b>Total Capital Assets Not Depreciated</b>	<b>\$ 10,870,821</b>	<b>\$ 373,066</b>	<b>\$ (948,028)</b>	<b>\$ 10,295,859</b>
<b>Capital Assets Depreciated</b>				
Land Improvements	\$ 2,496,033	\$ -	\$ -	\$ 2,496,033
Buildings	340,939,760	1,463,400	-	342,403,161
Furniture & Equipment	7,747,809	387,262	(359,079)	7,775,992
<b>Total Capital Assets Depreciated</b>	<b>\$ 351,183,602</b>	<b>\$ 1,850,662</b>	<b>\$ (359,079)</b>	<b>\$ 352,675,186</b>
Less Accumulated Depreciation	\$ (67,691,259)	\$ (7,304,833)	\$ 324,468	\$ (74,671,624)
Capital assets, being depreciated, net	283,492,343	(5,454,172)	(34,611)	278,003,561
<b>Total capital assts, net of depreciation</b>	<b>\$ 294,363,164</b>	<b>\$ (5,081,106)</b>	<b>\$ (982,638)</b>	<b>\$ 288,299,420</b>

Depreciation expense was charged to governmental functions as follows:

<b>Program</b>	<b>2019 Depreciation</b>
Administration	\$ 13,917
District Support Service	87,255
Elem/Sec Regular Instruction	11,806
Vocational Education Instruction	21,493
Special Education Instruction	4,985
Community Education and Service	17,056
Instructional Support Services	2,124
Pupil Support Services	198,638
Sites and Buildings	6,947,558
<b>Total</b>	<b>\$ 7,304,833</b>



**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 6 – CAPITAL ASSETS (CONTINUED)**

Included in amounts reported for capital assets are land, buildings, and equipment related to closure hearings conducted by the School Board. The closure hearings included Central High School and Secondary Technical Center. The net book value of the remaining assets total \$3,119,713.

**NOTE 7 – LONG-TERM LIABILITIES**

**Certificates of Participation**

\$5,000,000 Full Term Refunding Certificates of Participation, Series 2010C due in annual installments of \$210,000 to \$370,000 plus 2.00 to 4.00 percent interest from August 1, 2011 through February 1, 2028.	\$ 985,000
\$12,800,424.50 Full Term Capital Appreciation Certificates of Participation, Series 2012A due in annual installments of \$536,344 to \$2,304,404 plus 3.70 to 4.25 percent interest from February 1, 2021 through February 1, 2028.	12,800,425
\$6,340,000 Certificates of Participation, Series 2012B due in annual installments of \$260,000 to \$460,000 plus 3.00 to 5.25 percent interest from March 1, 2013 through March 1, 2032.	4,715,000
\$82,605,000 Full Term Refunding Certificates of Participation, Series 2016A due in annual installments of \$4,470,000 to \$9,900,000 plus 3.00 to 5.00 percent interest from February 1, 2017 through February 1, 2028.	68,075,000
\$24,130,000 Refunding Certificates of Participation, Series 2019A due in annual installments of \$1,350,000 to \$2,585,000 plus 3.00 to 4.20 percent interest from March 1, 2020 through March 1, 2034.	24,130,000
\$41,715,000 Full Term Refunding Certificates of Participation, Series 2019B due in annual installments of \$4,215,000 to \$5,935,000 plus 5.00 percent interest from February 1, 2020 through February 1, 2028.	41,715,000
\$2,710,000 Full Term Refunding Certificates of Participation, Series 2019C due in annual installments of \$295,000 to \$350,000 plus 5.00 percent interest from February 1, 2020 through February 1, 2028.	2,710,000
Total	<hr/> \$ 155,130,425 <hr/>

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)**

The annual requirements to amortize the principal and interest are:

Year Ended June 30	Total	Principal	Interest
2020	\$ 17,200,986	\$ 11,785,000	\$ 5,415,986
2021	17,967,984	11,851,344	6,116,640
2022	19,348,184	13,308,895	6,039,289
2023	19,882,459	14,288,340	5,594,119
2024	20,212,059	15,183,560	5,028,499
2025-2029	94,169,876	76,793,286	17,376,590
2030-2034	13,469,580	11,920,000	1,549,580
Total	<u>\$ 202,251,128</u>	<u>\$ 155,130,425</u>	<u>\$ 47,120,703</u>

On May 29, 2019, the District issued \$24,130,000 in Refunding Certificates of Participation, Series 2019A, to refund the Certificates of Participation, Series 2009B; \$41,715,000 Full Term Refunding Certificates of Participation, Series 2019B, to refund the Taxable Full Term Certificates of Participation, Series 2009A; and \$2,710,000 Full Term Certificates of Participation, Series 2019C, to refund the Full Term Refunding Certificates of Participation, Series 2010C. The maturity date for the Series 2019A was extended by five years beyond that of the refunded Series 2009B. The refundings of Series 2009A and Series 2010C were undertaken to reduce total debt service payments over the next nine years by \$6,576,679 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$1,723,608. The refunding of Series 2009B, while extending the payments by five years, resulted in a net present value of savings in the amount of \$493,291 over the term of the certificates.

**Bonds Payable**

\$44,320,000 General Obligation School Building Refunding Bonds (Series 2015B) due in annual installments of \$525,000 to \$5,135,000 plus 3.50 to 4.00 percent interest from August 1, 2015 to February 1, 2028.	\$ 40,125,000
\$3,640,000 Taxable General Obligation Facilities Maintenance Bonds (Series 2017A) due in annual installments of \$690,000 to \$755,000 plus 2.00 to 3.00 percent interest from February 1, 2018 through February 1, 2022.	2,195,000
\$615,000 Taxable General Obligation School Capital Facilities Bonds (Series 2017B) due in annual installments of \$115,000 to \$130,000 plus 2.00 to 3.00 percent interest from February 1, 2018 through February 1, 2022.	<u>370,000</u>
Total	<u>\$ 42,690,000</u>

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 7 – Long-Term Liabilities (CONTINUED)**

The annual requirements to amortize the principal and interest are:

Year Ended June 30	Total	Principal	Interest
2020	\$ 6,194,950	\$ 4,565,000	\$ 1,629,950
2021	6,190,650	4,735,000	1,455,650
2022	6,191,000	4,955,000	1,236,000
2023	5,280,850	4,275,000	1,005,850
2024	5,282,100	4,490,000	792,100
2025-2028	21,165,800	19,670,000	1,495,800
Total	<u>\$ 50,305,350</u>	<u>\$ 42,690,000</u>	<u>\$ 7,615,350</u>

**Capital Leases**

The District is committed under two capital leases for six (6) copiers. The terms of the leases are for 60 months beginning September 1, 2017 and for 60 months beginning February 1, 2019. At the end of the lease the District will purchase the copiers for one dollar.

Furniture and equipment includes the following amounts for the copiers that have been capitalized:

Furniture and equipment	\$ 42,814
Less: Accumulated amortization	8,709
Total	<u>\$ 34,105</u>

Lease amortization is included in depreciation expense.

Future minimum lease payments by year and in the aggregate under the capital lease consist of the following at June 30, 2019:

<u>Year Ending June 30</u>	
2020	\$ 8,563
2021	8,563
2022	8,563
2023	4,872
2024	1,624
	<u>\$ 32,184</u>

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)**

Changes in long-term debt for the year ended June 30, 2019 are:

	Balance June 30, 2018	Increase	Payments/ Adjustments	Balance June 30, 2019
Certificates of participation	\$ 247,430,425	\$ 68,555,000	\$ 160,855,000	\$ 155,130,425
Bonds payable	47,100,000		4,410,000	42,690,000
Capital lease	18,449	20,675	6,940	32,184
OPEB	16,985,845	1,610,558	1,549,772	17,046,631
Severance obligation	17,567,541	3,583,053	4,092,417	17,058,177
Net pension liability	<u>193,662,758</u>	<u>3,844,344</u>	<u>132,343,229</u>	<u>65,163,873</u>
<b>Total</b>	<u><u>\$ 522,765,018</u></u>	<u><u>\$ 77,613,630</u></u>	<u><u>\$ 303,257,358</u></u>	<u><u>\$ 297,121,290</u></u>

Certificates of Participation and bonds are paid from the General and Debt Service Funds. OPEB, severance obligations, and net pension liability are paid from the General, Food Service, Community Service, or the Federal Employee Benefit Trust funds.

The American Recovery and Reinvestment Act of 2009 (ARRA) created build America bonds and recovery zone economic development bonds. As a result of this act, the District receives direct payments from the Federal Government equal to 35 percent of the interest payments due on bond Series 2009A. During the year the District received an interest subsidy from the Federal Government totaling \$835,743. Bond Series 2009A was refunded on May 29, 2019.

The following is a summary of the current (due in one year or less) and the long-term portion (due in more than one year) of long-term debt as of June 30, 2019:

	Current Portion	Long-term Portion	Total
Certificates of participation	\$ 11,785,000	\$ 143,345,425	\$ 155,130,425
Bonds payable	4,565,000	38,125,000	42,690,000
Capital lease	8,563	23,621	32,184
OPEB		17,046,631	17,046,631
Severance obligation	993,243	16,064,934	17,058,177
Net pension liability		<u>65,163,873</u>	<u>65,163,873</u>
<b>Total</b>	<u><u>\$ 17,351,806</u></u>	<u><u>\$ 279,769,484</u></u>	<u><u>\$ 297,121,290</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)**

**Legal Debt Margin**

The District's legal debt limit is 15% of the fair market value of the property within the District. The District's legal debt margin at June 30, 2019 is approximately \$1,019,078,548.

**NOTE 8 - COMPENSATED ABSENCES**

Vacation and sick leave are earned based on various bargaining unit contracts and length of service as follows:

	<u>Vacation</u>	<u>Sick Leave</u>
Teachers	None	10 days per year
Administrative	10 - 25 days per year	10 - 13 days per year
Maintenance	2 - 5 weeks per year	18 days per year
Non-certified	0 - 6 weeks per year	13 - 18 days per year

At June 30, 2019, \$438,786 has been included in the district-wide financial statements.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 9 - SEVERANCE OBLIGATIONS**

Upon retirement, most District employees are entitled to a severance amount based on accumulated unused sick leave, age, years of service and wage rate at date of retirement, as established by contracts with bargaining units or other employment contracts. These contracts establish the terms and amounts each retiree is eligible to receive, and establish when these severance benefits vest, all of which may differ between each bargaining unit and employee group.

For some bargaining units, the District remits either a lump sum or one third of the calculated severance benefit to the Minnesota State Retirement System Health Care Savings Plan (HCSP) upon retirement of the employee. The remaining two thirds of the calculated amount due the employee are paid over a two year period. These funds will be disbursed in accordance with the HCSP account agreement, which is a separate agreement between the HCSP and the retiree.

For the remaining employees, the District pays a portion of the severance benefit to the state HCSP and retains a portion for the employees to use to pay future health insurance premiums. Severance is recorded as expenditure when paid. The retained severance obligation for this benefit is for future health insurance benefits and amounts due to the state HCSP.

During 2019, 107 retirees received a total benefit of \$2,188,216. The District funds these expenditures as paid except for the severance for employees of federal programs, which is funded through the Federal Employee Benefit Trust.

Retained severance benefit obligations for retirees		\$ 658,971
Retained severance benefit obligations for qualified employees		17,682,885
Total termination benefits payable		<u>\$ 18,341,856</u>
Amount available in Federal Employee Benefit Trust Fund		<u>(1,283,679)</u>
 Total		 <u><u>\$ 17,058,177</u></u>

**NOTE 10 – INTERFUND TRANSACTIONS**

Individual fund receivable and payable balances at June 30, 2019:

	Receivable	Payable
General Fund	\$ -	\$ 711,010
Community Service Fund		86,519
Fiduciary Funds		
Federal Employee Benefit Trust Fund	797,529	
Total Funds	<u>\$ 797,529</u>	<u>\$ 797,529</u>

These amounts represent federal severance calculation and are expected to be paid within one year.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 9 - SEVERANCE OBLIGATIONS**

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Total termination benefits payable		<u>\$ 18,341,856</u>
Amount available in Federal Employee Benefit Trust Fund		<u>(1,283,679)</u>
 Total		 <u><u>\$ 17,058,177</u></u>

**NOTE 10 – INTERFUND TRANSACTIONS**

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	Receivable	Payable
General Fund	\$ -	\$ 711,010
Community Service Fund		86,519
Fiduciary Funds		
Federal Employee Benefit Trust Fund	\$ 797,529	
Private Purpose Funds		-
Total Funds	<u>\$ 797,529</u>	<u>\$ 797,529</u>

These amounts represent federal severance calculation and are expected to be paid within one year.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 11 – FUND BALANCE**

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties.

Restricted fund balances at June 30, 2019 are as follows:

1. Restricted for Teacher Development & Evaluations – This represents amounts available for development and evaluations for teachers and principals.
2. Restricted for Projects funded by Certificates of Participation (COP) – Represents unspent COP bond issue proceeds available for construction projects identified in the District's Long-Range Facility Plan.
3. Restricted for Area Learning Center - Represents available resources for students attending the Area Learning Center. Revenue is derived by state aid and expenditures are for salaries, benefits, and supplies.
4. Restricted for Debt Service - This amount represents available resources for the payment of long-term debt. Revenues are derived from local tax levies, state aids, and federal sources and expenditures are for principal and interest costs.
5. Restricted for Food Service - This amount represents available resources for food service programs. Revenues are derived from local, state, and federal sources and expenditures are for salaries, benefits and supplies.
6. Restricted for Community Education - This amount represents available resources for community education classes. Revenues are derived from local tax levies and state aids and expenditures are for salaries, benefits and supplies.
7. Restricted for Early Childhood and Family Education (ECFE) - This amount represents available resources for ECFE classes. Revenues are derived from local tax levies and state aids and expenditures are for salaries, benefits and supplies.
8. Restricted for School Readiness - This amount represents available resources to provide services for learning readiness programs.
9. Restricted for Adult Basic Education – This amount represents the balance of carryover monies for all activity involving Adult Basic Education
10. Restricted for Community Service - This amount represents available resources to provide services for community service.
11. Restricted for Long-Term Facilities Maintenance (LTFM) - This amount represents available resources to be used for LTFM projects in accordance with the 10 Year Plan.
12. Restricted for Bond Refunding - This amount represents amounts held in escrow on Refunding Bond Series 2019A, B, and C.
13. Restricted for Staff Development – This amount represents funds available for staff development expenses consisting of substitute costs, registrations, trainings, etc.
14. Restricted for Medical Assistance – This represents funds generated from medical assistance billings and can only be used for special education activities.
15. Restricted for Operating Capital – This amount represents available resources for purposes specified as allowable operating capital uses.



**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 11 – FUND BALANCE (CONTINUED)**

Below is a detail description of the restricted fund balance amount reported on the Government's Balance Sheet on June 30, 2019.

Teacher Development & Eval	\$ 47,135
Medical Assistance	\$ 439,848
Staff Development	22,184
Bond Refunding	11,412
Operating Capital	57,718
LTFM	1,012,817
Projects Funded by COP	9
Area Learning Center	166,449
Debt Service	2,878,841
Food Service	1,057,216
Community Education	1,019,855
Early Childhood Family Education	103,488
School Readiness	79,941
Adult Basic Education	163,480
Community Service	<u>2,918</u>
Total Restricted Fund Balance	<u><u>\$ 7,063,311</u></u>

**NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN**

The cost of post-employment benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 75, the District recognizes the costs of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the District's future cash flows. The plan does not issue a standalone financial report, but is included in this report of the District.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

**Plan Description**

Duluth Public Schools administers a single-employer defined benefit OPEB plan which provides medical benefits to eligible retired employees and their dependents in accordance with the terms of the plan. The District has not established a trust fund to account for the plan.

**Employees covered by benefit terms**

At June 30, 2017, the following employees were covered by the benefit terms:

Active employees electing coverage	1,036
Active employees waiving coverage	53
Retirees electing coverage	801
	1,890

The District's total OPEB liability of \$17,046,631 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

**Actuarial Assumptions and Other Inputs**

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	2.75%	
Discount rate	3.62%	
Healthcare trend rates	Fiscal Year	
	Beginning	Medical
	2018	6.80%
	2019	6.90%
	2020	6.30%
	2021	5.80%
	2022-2055	5.20%
		Transition
		ultimate
	2056-2074	rate
	2075	4.40%

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

The discount rate was determined using the index rate for 20-Year, tax-exempt, municipal bonds (Fidelity 20-Year Municipal GO AA Index).

Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments.

**Changes in the Total OPEB Liability**

	Total OPEB Liability
Balances at 6/30/2018	\$ 16,985,845
Changes for the year:	
Service cost	997,070
Interest	613,488
Changes of assumptions	(49,578)
Benefit payments	(1,500,194)
	60,786
Net changes	60,786
Balances at 6/30/2019	\$ 17,046,631

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of the District, as well as that the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.62%) or one percentage point higher (4.62%) than the current discount rate:

	1% Decrease 2.62%	Discount Rate 3.62%	1% Increase 4.62%
Total OPEB Liability	\$ 17,881,965	\$ 17,046,631	\$ 16,232,407

**Sensitivity of the Total OPEB Liability to Changes in the Health Care Trend Rates**

The following presents the total OPEB Liability of the District, as well as what the District's total OPEB liability would be if calculated using healthcare trend rates that are one percentage point lower or one percentage point higher than the current healthcare trend rates:

	1% Decrease	Discount Rate	1% Increase
Total OPEB Liability	\$ 16,511,121	\$ 17,046,631	\$ 17,662,710

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)**

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to OPEB**

For the year ended June 30, 2019 the District recognized OPEB expense of \$1,539,272. The District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources
Changes of assumptions	\$		\$ 444,497
Contribution subsequent to measurement date		1,301,199	
<b>Total</b>	<b>\$</b>	<b>1,301,199</b>	<b>\$ 444,497</b>

The amount of \$1,301,199 reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30	Pension Expense Amount
2020	\$ (71,286)
2021	(71,286)
2022	(71,286)
2023	(71,286)
2024	(71,286)
Thereafter	(88,067)
<b>Total</b>	<b>\$ (444,497)</b>

**NOTE 13 – DEFINED BENEFIT PENSION PLANS**

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

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**Teachers' Retirement Association of Minnesota**

***Plan Description***

Certified employees of the District are covered by defined benefit plans administered by the Teachers' Retirement Association (TRA). TRA is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state (except those teachers employed by St. Paul schools or Minnesota State colleges and universities) are required to be TRA members. Educators first hired by Minnesota State may elect either TRA coverage or coverage through Minnesota State's Individual Retirement Account Plan (IRAP) within one year of eligible employment.

***Benefits Provided***

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 benefits as described.

<u>Tier I Benefits</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	First ten years of service	2.2%/year
	All years after	2.7%/year
Coordinated	First ten years if years up to 7/1/2006	1.2%/year
	First ten years if years 7/1/2006 or after	1.4%/year
	All other years if years up to 7/1/2006	1.7%/year
	All other years if years 7/1/2006 or after	1.9%/year

Under Tier I benefits, normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service; 3 percent per year early retirement reduction factor for all years under normal retirement age; and unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

Tier II Benefits

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

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

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

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

***Contribution Rate***

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal years ended June 30, 2017, June 30, 2018, and June 30, 2019, were:

<u>Basic</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Employee	11.00%	11.00%	11.00%
Employer	11.50%	11.50%	11.71%

<u>Coordinated</u>			
Employee	7.50%	7.50%	7.50%
Employer	7.50%	7.50%	7.71%

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

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

Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	\$ 378,728,000
Add employer contributions not related to future contribution efforts	522,000
Deduct TRA's contributions not included in allocation	<u>(471,000)</u>
 Total employer contributions	 \$ 378,779,000
 Total non-employer contributions	 <u>35,588,000</u>
Total contributions reported in Schedule of Employer and Non-Employer Allocations	<u><u>\$ 414,367,000</u></u>

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

***Actuarial Assumptions***

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information:

Valuation Date	July 1, 2018
Experience Study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	7.50%
Price inflation rate	2.50%
Wage growth rate	2.85% for 10 years, 3.25% thereafter
Projected salary increase	2.85% - 8.85% for 10 years and 3.25% to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then Increasing by 0.1% each year up to 1.5% annually

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

Mortality Assumption:

Pre-retirement:

RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.

Post-retirement:

RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.

Post-disability:

RP-2014 disabled retiree mortality table, without adjustment.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

<u>Asset Class</u>	<u>Allocations of June 30, 2018</u>	<u>Final Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	33%	36%	5.10%
International Equity	16%	17%	5.30%
Private Markets	25%	25%	5.90%
Fixed Income	16%	20%	0.75%
Treasuries	8%	8%	0.50%
Unallocated Cash	2%	2%	0.00%
Total	100%	100%	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is six years. The *Difference Between Expected and Actual Experience*, *Changes of Assumptions*, and *Changes in Proportion* use the amortization period of six years in the schedule presented. The amortization period for *Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments* is five years as required by GASB 68.

***Changes in actuarial assumptions since the 2017 valuation:***

1. The cost of living adjustment (COLA) was assumed to increase from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.



**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

2. Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
3. The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
4. Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
5. Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
6. The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.5% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

***Discount Rate***

The discount rate used to measure the total pension liability was 7.50%. This is an increase from the discount rate at the prior measurement date of 5.12%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2018 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

***Net Pension Liability***

At June 30, 2019, the District reported a liability of \$52,088,203 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.8293% at the end of the measurement period and 0.8874% for the beginning of the year.

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

District's proportional share of net pension liability	\$ 52,088,203
State's proportional share of net pension liability associated with the District	\$ 4,893,712

For the year ended June 30, 2019, the District recognized pension expense of \$(37,560,485). It also recognized \$3,415,494 as an increase to pension expense for the support provided by direct aid.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

At June 30, 2018, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 15,517	\$ 1,115,489
Net difference between projected and actual earnings on plan investments		4,419,345
Changes in assumptions	70,148,371	90,116,441
Contributions paid to TRA subsequent to the measurement period	4,047,446	
Changes in proportion	14,479,228	9,664,845.00
Total	\$ 88,690,562	\$ 105,316,120

\$3,639,786 reported as a deferred outflow resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Deferred outflows and inflows of resources will be recognized in pension expense as follows:

Year Ended June 30	Pension Expense Amount
2020	\$ 12,189,972
2021	\$ 3,976,652
2022	\$ 626,849
2023	\$ (21,456,433)
2024	\$ (16,010,044)
Total	\$ (20,673,004)

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

***Pension Liability Sensitivity***

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the TRA net pension liability	\$ 82,663,767	\$ 52,088,203	\$ 26,863,564

The District's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis, and Minneapolis School District.

***Pension Plan Fiduciary Net Position***

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at [www.MinnesotaTRA.org](http://www.MinnesotaTRA.org), or by writing to Teachers Retirement Association of Minnesota, 60 Empire Drive, Suite 400, St. Paul, Minnesota, 55103-4000, or by calling 651-296-2409 or 800-657-3669.

**Public Employees Retirement Association (PERA)**

***Plan Description***

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

***Benefits Provided***

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute, and can only be modified by the state legislature. 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.

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for a Coordinated Plan member is 1.2% for each of the first 10 years and 1.7% for each additional year. Under Method 2, the accrual rate is 1.7% for Coordinated Plan members for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. General Employees Plan benefit recipients receive a future annual increase equal to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

***Contributions***

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2019. The District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2019 were \$1,042,135. The District's contribution was equal to the contractually required contribution for the year as set by state statute.

***Pension Costs***

At June 30, 2019, the District reported a liability of \$13,075,670 for its proportionate share of General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$428,850. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 82% at the end of the measurement period and 99% for the beginning of the period.

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

District's proportionate share of the net pension liability	\$	13,075,670
State of Minnesota's proportionate share of the net pension liability associated with the District		428,850
Total	\$	13,504,520

For the year ended June 30, 2019, the District recognized pension expense of \$758,306 for its proportionate share of General Employees Plan's pension expense. In addition, the District recognized an additional \$100,007 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2019, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 378,491	\$ 412,103
Net difference between projected and actual earnings on plan investments		1,384,872
Changes in assumptions	1,349,745	1,567,750
Contributions paid to PERA subsequent to the measurement period	1,352,710	
Changes in proportion	166,450	1,151,364
Total	\$ 3,247,396	\$ 4,516,089

\$1,352,710 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expense Amount
2020	\$ 176,369
2021	(1,032,611)
2022	(1,492,250)
2023	(272,911)
<b>Total</b>	<b>\$ (2,621,403)</b>

***Actuarial Assumptions***

The total pension liability in the June 30, 2018 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for General Employees Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2018:

Changes in Actuarial Assumptions:

1. The mortality projection scale was changed from MP-2015 to MP-2017.
2. The assumed benefit increase rate was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

Changes in Plan Provisions:

1. The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
2. Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
3. Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
4. Contribution stabilizer provisions were repealed.
5. Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of the 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and nor more than 1.5%, beginning January 1, 2019.
6. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
7. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
Total	100%	

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)**

***Discount Rate***

The discount rate used to measure the total pension liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Pension Liability Sensitivity***

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

	1% Decrease in Discount Rate	Deferred Inflows Discount Rate	1% Increase in Discount Rate
Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the PERA net pension liability	\$ 21,249,637	\$ 13,075,670	\$ 6,328,293

***Pension Plan Fiduciary Net Position***

Detailed information about General Employees Fund fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org).



**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 14 - DENTAL SELF-INSURANCE PLAN**

The District established an Internal Service Fund to account for and finance its uninsured risk of loss for employee dental insurance plans. Under these plans, the Internal Service Fund provides coverage to participating employees and their dependents for various dental costs as described in the plan.

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

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

Changes in the balance of dental claim liabilities for fiscal year 2019 were as follows:

Fiscal Year Ended June 30	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	Claims Payments	Balance af Fiscal Year End
2019	\$ 231,080	\$ 777,047	\$ 797,033	\$211,094
2018	102,875	938,135	809,930	231,080

**NOTE 15 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employee health and dental; and natural disasters. Risks of loss related to employee dental claims are self-insured. Risk of loss associated with workers' compensation claims were insured through participation in the Minnesota School Boards Association Insurance Trust and continue to cover claims arising during their period of coverage. The District currently carries commercial workers' compensation insurance. This policy provides coverage for up to a maximum liability limit of \$2,000,000 with a medical deductible of \$2,500 for each workers' compensation claim. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 16 - COMMITMENTS**

At June 30, 2019, the District had commitments under various construction and service contracts totaling \$418,086. The construction commitments will be paid by the General Fund.

**NOTE 17 - CONTINGENT LIABILITIES**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's counsel the resolution of these matters will not have a material adverse effect on the financial conditions of the District.

**NOTE 18 - SUBSEQUENT EVENT**

On October 18, 2019, the District sold some vacant land. The District realized property sale revenue of \$47,735. This will be reflected in Fiscal Year 2020 financial statements.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Statement A- 1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GENERAL FUND  
BUDGET AND ACTUAL

Year Ended June 30, 2019  
With Comparative Actual Amounts for the Year Ended June 30, 2018

	Budget		Actual	Over (Under)	Prior Year Actual
	Original	Final		Final Budget	
<b>Revenues</b>					
Local property tax levies	\$ 12,802,625	\$ 12,780,894	\$ 12,909,752	\$ 128,858	\$ 12,829,419
Interest income	105,695	105,695	393,273	287,578	186,902
Other local and county	3,685,302	3,978,178	3,855,457	(122,721)	3,863,690
State sources	85,611,424	83,681,597	88,480,819	4,799,222	81,532,066
Federal sources	5,623,431	6,075,309	5,520,217	(555,092)	5,840,535
Insurance/Judgement recovery			2,260	2,260.00	80
Sales and other conversions of assets	655,847	655,847	778,189	122,342	675,155
<b>Total Revenues</b>	<b>\$ 108,484,324</b>	<b>\$ 107,277,520</b>	<b>\$ 111,939,967</b>	<b>\$ 4,662,447</b>	<b>\$ 104,927,847</b>
<b>Expenditures</b>					
Administration	\$ 5,260,551	\$ 5,048,892	\$ 4,853,527	\$ 195,365	\$ 5,091,704
District support services	4,800,216	5,035,368	3,950,087	1,085,281	2,801,448
Regular instruction	43,977,813	44,242,091	48,995,162	(4,753,071)	44,634,867
Vocational instruction	1,691,212	1,678,590	1,456,427	222,163	1,541,147
Special education instruction	23,157,515	22,375,302	23,442,026	(1,066,724)	23,128,596
Community education and services	-	6,789	5,009	1,780	58,829
Instructional support services	3,777,733	4,035,362	4,896,404	(861,042)	4,578,607
Pupil support services	7,861,695	7,802,822	8,661,183	(858,361)	8,184,343
Sites, buildings and equipment	6,373,469	5,726,709	4,963,286	763,423	7,785,096
Fiscal and other fixed cost programs	3,480,000	3,260,000	375,724	2,884,276	349,086
Debt Service					
Principal	1,975,000	1,975,000	1,975,000		1,900,000
Interest	1,395,435	1,395,435	1,395,435		1,471,085
Capital outlay	4,613,617	5,062,494	4,663,696	398,798	2,763,620
<b>Total Expenditures</b>	<b>\$ 108,364,256</b>	<b>\$ 107,644,854</b>	<b>\$ 109,632,966</b>	<b>\$ (1,988,112)</b>	<b>\$ 104,288,428</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 120,068</b>	<b>\$ (367,334)</b>	<b>\$ 2,307,001</b>	<b>\$ 2,674,335</b>	<b>\$ 639,419</b>
<b>Other Financing Sources (Uses)</b>					
Sale of property	\$	\$ 300,000	\$ 388,241	\$ 88,241	\$ 157,571
Issuance of bonds			24,130,000	24,130,000	615,000
Premium on bonds			301,644	301,644	2,870
Principal refunding payments from escrow			(23,900,000)	(23,900,000)	
Interest refunding payments from escrow			(255,385)	(255,385)	
Transfers out				-	(139,467)
Issuance of capital lease			20,675	20,675	22,138
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ 300,000</b>	<b>\$ 685,175</b>	<b>\$ 385,175</b>	<b>\$ 658,112</b>
<b>Net change in fund balance</b>	<b>\$ 120,068</b>	<b>\$ (67,334)</b>	<b>\$ 2,992,176</b>	<b>\$ 3,059,510</b>	<b>\$ 1,297,531</b>
<b>Fund Balance</b>					
Beginning of Year			\$ 1,408,949		\$ 111,418
End of Year			<u>\$ 4,401,125</u>		<u>\$ 1,408,949</u>

**INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA**

**INFORMATION ABOUT THE DISTRICT'S OTHER POSTEMPLOYMENT  
HEALTH CARE PLAN  
June 30, 2019**

Statement A- 2

**Schedule of Changes in Total OPEB Liability and Related Ratios**

	2019
<b>Total OPEB Liability</b>	
Service Cost	\$ 997,070
Interest	613,488
Changes in assumptions	(49,578)
Benefit payments	(1,500,194)
Net change in total OPEB liability	\$ 60,786
Total OPEB Liability - beginning of year	16,985,845
Total OPEB Liability - end of year	\$ 17,046,631
 Covered payroll	 \$ 55,080,812
 Total OPEB liability as a percentage of covered payroll	 30.9%

For Fiscal Year 2019, GASB 75 was followed which establishes uniform standards of financial reporting by state and local governmental entities for postemployment benefit plans other than pension benefits (OPEB plans). The District elected to use the GASB 75 "lookback" method where assets and liabilities are measured as of the prior fiscal year-end, but applied to the current fiscal year. The measurement date is June 30, 2018. There are no assets accumulated in a trust that meets the criteria of GASB No. 75, paragraph 4, to pay related benefits.

Since the last valuation the following other changes have been made:

- Healthcare cost trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost insurance plans.
- The discount rate was updated from 3.56% to 3.62% based on updated 20-year municipal bond rates.

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S NET PENSION LIABILITY  
June 30, 2019

Statement A-3

Schedule of Employer Share of Net Pension Liability

Teacher's Retirement Association (TRA)

Measurement Date	Employer's Proportion (%) of Net Pension Liability	Employer's Proportionate Share (Amt) of Net Pension Liability (a)	State's Proportionate Share of Net Pension Liability associated with District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of Net Pension Liability (Asset) as a % of Covered Payroll (a/b)	Plan Fiduciary Net Position as a % of Total Pension Liability
June 30, 2018	0.8293%	\$ 52,088,203	\$ 4,893,712	\$ 56,981,915	\$ 46,816,146	109.0%	78.07%
June 30, 2017	0.8874%	\$ 177,141,137	\$ 17,123,980	\$ 194,265,117	\$ 47,767,591	370.8%	51.57%
June 30, 2016	0.8681%	\$ 207,062,563	\$ 20,782,926	\$ 227,845,489	\$ 45,155,373	458.6%	44.88%
June 30, 2015	0.7225%	\$ 44,693,771	\$ 5,481,972	\$ 50,175,743	\$ 36,668,947	121.9%	76.80%

Duluth Teacher's Retirement Fund Association (DTRFA)

Measurement Date	Employer's Proportion (%) of Net Pension Liability	Employer's Proportionate Share (Amt) of Net Pension Liability (a)	State's Proportionate Share of Net Pension Liability associated with District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of Net Pension Liability (Asset) as a % of Covered Payroll (a/b)	Plan Fiduciary Net Position as a % of Total Pension Liability
June 30, 2014	31.6004%	\$ 81,187,076		\$ 81,187,076	\$ 42,238,042	192.2%	46.80%

Public Employees Retirement Association (PERA)

Measurement Date	Employer's Proportion (%) of Net Pension Liability	Employer's Proportionate Share (Amt) of Net Pension Liability (a)	State's Proportionate Share of Net Pension Liability associated with District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of Net Pension Liability (Asset) as a % of Covered Payroll (a/b)	Plan Fiduciary Net Position as a % of Total Pension Liability
June 30, 2018	0.2357%	\$ 13,075,670	\$ 428,850	\$ 13,504,520	\$ 15,809,497	82.0%	79.53%
June 30, 2017	0.2588%	\$ 16,521,821	\$ 207,740	\$ 16,729,361	\$ 16,672,067	99.0%	75.90%
June 30, 2016	0.2547%	\$ 20,680,377	\$ 270,170	\$ 20,950,547	\$ 15,804,347	130.9%	68.90%
June 30, 2015	0.2582%	\$ 13,381,264		\$ 13,381,264	\$ 14,926,453	89.6%	78.20%
June 30, 2014	0.2272%	\$ 12,772,500		\$ 12,772,500	\$ 14,262,165	89.6%	78.70%

Schedule of Employer Contributions

Teacher's Retirement Association (TRA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2019	\$ 3,639,786	\$ 3,639,786	\$ -	\$ 47,690,576	7.63%
June 30, 2018	\$ 3,436,211	\$ 3,436,211	\$ -	\$ 46,816,146	7.50%
June 30, 2017	\$ 3,582,569	\$ 3,582,569	\$ -	\$ 47,767,591	7.50%
June 30, 2016	\$ 3,386,653	\$ 3,386,653	\$ -	\$ 45,155,373	7.50%

Duluth Teacher's Retirement Fund Association (DTRFA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2015	\$ 2,750,171	\$ 2,750,171	\$ -	\$ 36,668,947	7.50%

Public Employees Retirement Association (PERA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2019	\$ 1,042,135	\$ 1,042,135	\$ -	\$ 13,896,137	7.50%
June 30, 2018	\$ 1,185,712	\$ 1,185,712	\$ -	\$ 15,809,497	7.50%
June 30, 2017	\$ 1,250,406	\$ 1,250,406	\$ -	\$ 16,672,067	7.50%
June 30, 2016	\$ 1,185,326	\$ 1,185,326	\$ -	\$ 15,804,347	7.50%
June 30, 2015	\$ 1,119,484	\$ 1,119,484	\$ -	\$ 14,926,453	7.26%

**SUPPLEMENTARY  
INFORMATION**

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Statement B-1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
CAPITAL PROJECTS FUND  
BUDGET AND ACTUAL  
Year Ended June 30, 2019  
With Comparative Actual Amounts for the Year Ended June 30, 2018

	Budget		Actual	Over (Under) Final Budget	Prior Year Actual
	Original	Final			
<b>Revenues</b>					
Interest income	\$ -	\$ -	\$ 12,016	\$ 12,016	\$ 20,271
<b>Expenditures</b>					
Capital Outlay		\$ 642,690	\$ 490,671	\$ (152,019)	\$ 3,030,698
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ (642,690)	\$ (478,655)	\$ (140,003)	\$ (3,010,427)
<b>Other Financing Sources (Uses)</b>					
Issuance of bonds	\$	\$	\$	\$ -	\$ 3,640,000
Premium on bonds				-	16,955
Transfer Out				-	(4,000)
Total Other Financing sources (Uses)	\$ -	\$ -	\$ -	\$ -	\$ 3,652,955
Net change in fund balance	\$ -	\$ (642,690)	\$ (478,655)	\$ (140,003)	\$ 642,528
<b>Fund Balance</b>					
Beginning of Year			642,715		187
End of Year			\$ 164,060		\$ 642,715



INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Statement C-1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
DEBT SERVICE FUND  
BUDGET AND ACTUAL  
Year Ended June 30, 2019  
With Comparative Actual Amounts for the Year Ended June 30, 2018

	Budget		Actual	Over	Prior Year
	Original	Final		(Under)	
<b>Revenues</b>					
Local property tax levies	\$ 18,274,130	\$ 18,274,130	\$ 16,711,647	\$ (1,562,483)	\$ 17,073,780
Interest income	1,000,000	1,000,000	346,597	(653,403)	748,155
State sources	2,198,818	2,198,818	2,221,808	22,990	2,215,181
Federal sources	833,957	833,957	835,743	1,786	885,637
<b>Total Revenues</b>	<b>\$ 22,306,905</b>	<b>\$ 22,306,905</b>	<b>\$ 20,115,795</b>	<b>\$ (2,191,110)</b>	<b>\$ 20,922,753</b>
<b>Expenditures</b>					
Principal	\$ 22,124,900	\$ 13,100,000	\$ 13,700,000	\$	\$ 13,100,000
Interest and fiscal charges	6,270,213	7,977,671	7,914,906	(62,765)	7,968,466
<b>Total Expenditures</b>	<b>\$ 28,395,113</b>	<b>\$ 21,077,671</b>	<b>\$ 21,614,906</b>	<b>\$ (62,765)</b>	<b>\$ 21,068,466</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (6,088,208)	\$ 1,229,234	\$ (1,499,111)	\$ (2,128,345)	\$ (145,713)
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$	\$	\$	\$ -	\$ 143,467
Issuance of bonds			44,425,000	44,425,000	
Principal refunding payments from escrow	(77,165,000)	(77,165,000)	(125,690,000)	(48,525,000)	(48,305,000)
Interest refunding payments from escrow			(4,305,094)	4,305,094	(5,575,263)
Premium on bonds			5,239,444	(5,239,444)	
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (77,165,000)</b>	<b>\$ (77,165,000)</b>	<b>\$ (80,330,650)</b>	<b>\$ (4,305,094)</b>	<b>\$ (53,736,796)</b>
Net change in fund balance	\$ (83,253,208)	\$ (75,935,766)	\$ (81,829,761)	\$ (6,433,439)	\$ (53,882,509)
<b>Fund Balance</b>					
Beginning of Year			84,715,346		138,597,855
End of Year			\$ 2,885,585		\$ 84,715,346

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Statement D-1

COMBINING BALANCE SHEET  
OTHER FUNDS  
JUNE 30, 2019

With Comparative Amounts at June 30, 2018

	Food Service Fund	Community Services Fund	Totals	
			2019	2018
<b>Assets</b>				
Cash and temporary investments	\$ 1,061,387	\$ 1,134,855	\$ 2,196,242	\$ 2,573,751
Taxes and credits receivable		598,209	598,209	590,969
Accounts and interest receivable	15,325	10,500.00	25,825	6,287
Due from				
Department of Education		379,625	379,625	290,002
Federal through Department of Education	42,736	11,968	54,704	80,916
Federal - direct		946,423	946,423	414,853
Inventory	92,232		92,232	101,777
Prepayments	1,008	2,763	3,771	15,288
<b>Total Assets</b>	<b>\$ 1,212,688</b>	<b>\$ 3,084,343</b>	<b>\$ 4,297,031</b>	<b>\$ 4,073,843</b>
<b>Liabilities</b>				
Salaries payable	\$ 6,665	\$ 248,146	\$ 254,811	\$ 403,277
Accounts payable	55,567	357,637	413,204	245,081
Due to				
Other funds		86,519	86,519	102,825
Unearned revenue		5,685	5,685	5,735
<b>Total Liabilities</b>	<b>\$ 62,232</b>	<b>\$ 697,987</b>	<b>\$ 760,219</b>	<b>\$ 756,918</b>
<b>Deferred inflows of Resources</b>				
Property taxes levied for subsequent year's expenditures	\$	\$ 1,045,279	\$ 1,045,279	\$ 1,047,800
Unavailable revenue - delinquent property taxes		68,632	68,632	68,054
<b>Total Deferred Inflows of Resources</b>	<b>\$</b>	<b>\$ 1,113,911</b>	<b>\$ 1,113,911</b>	<b>\$ 1,115,854</b>
<b>Fund Balances</b>				
NonSpendable:				
Inventory	\$ 92,232	\$ 2,763	\$ 92,232	\$ 101,777
Prepayments	1,008		3,771	15,288
Restricted for:				
Community education		919,855	919,855	873,996
Early childhood family education		103,488	103,488	100,048
School readiness		79,941	79,941	124,391
Adult basic education		163,480	163,480	85,439
Community service		2,918	2,918	30,005
Food service	1,057,216		1,057,216	870,127
<b>Total Fund Balance</b>	<b>\$ 1,150,456</b>	<b>\$ 1,272,445</b>	<b>\$ 2,422,901</b>	<b>\$ 2,201,071</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 1,212,688</b>	<b>\$ 3,084,343</b>	<b>\$ 4,297,031</b>	<b>\$ 4,073,843</b>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Statement D-2

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
OTHER FUNDS

Year Ended June 30, 2019

With Comparative Actual Amounts for the Year Ended June 30, 2018

	Food Service Fund	Community Services Fund	Totals	
			2019	2018
<b>Revenues</b>				
Local property tax levies	\$	\$ 960,906	\$ 960,906	\$ 947,397
Other local and county	12,968	2,152,737	2,165,705	2,037,630
State sources	227,601	2,539,375	2,766,976	2,798,803
Federal sources	2,577,167	2,367,044	4,944,211	4,998,528
Sales and other conversions of assets	1,534,543		1,534,543	1,378,836
<b>Total Revenues</b>	<b>\$ 4,352,279</b>	<b>\$ 8,020,062</b>	<b>\$ 12,372,341</b>	<b>\$ 12,161,194</b>
<b>Expenditures</b>				
Community education and services	\$	\$ 7,946,398	\$ 7,946,398	\$ 7,937,058
Pupil support services	4,105,776		4,105,776	4,187,218
Capital outlay	69,766	28,571	98,337	25,757
<b>Total Expenditures</b>	<b>\$ 4,175,542</b>	<b>\$ 7,974,969</b>	<b>\$ 12,150,511</b>	<b>\$ 12,150,033</b>
<b>Net change in fund balances</b>	<b>\$ 176,737</b>	<b>\$ 45,093</b>	<b>\$ 221,830</b>	<b>\$ 11,161</b>
<b>Fund Balances</b>				
<b>Beginning of Year</b>	<u>973,719</u>	<u>1,227,352</u>	<u>2,201,071</u>	<u>2,189,910</u>
<b>End of Year</b>	<u>\$ 1,150,456</u>	<u>\$ 1,272,445</u>	<u>\$ 2,422,901</u>	<u>\$ 2,201,071</u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Schedule E - 1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOOD SERVICE FUND  
BUDGET AND ACTUAL  
Year Ended June 30, 2019  
With Comparative Actual Amounts for the Year Ended June 30, 2018

	Budget		Actual	Over (Under)	Prior Year Actual
	Original	Final		Final Budget	
<b>Revenues</b>					
Other local and county	\$ 6,000	\$ 6,000	\$ 12,968	\$ 6,968	\$ 7,908
State sources	220,000	220,000	227,601	7,601	238,049
Federal sources	2,617,000	2,633,320	2,577,167	(56,153)	2,644,169
Sales and other conversions of assets	1,259,500	1,259,500	1,534,543	275,043	1,378,836
<b>Total Revenues</b>	<b>\$ 4,102,500</b>	<b>\$ 4,118,820</b>	<b>\$ 4,352,279</b>	<b>\$ 233,459</b>	<b>\$ 4,268,962</b>
<b>Expenditures</b>					
Pupil support services	\$ 4,158,661	\$ 4,174,981	\$ 4,105,776	\$ (69,205)	\$ 4,187,218
Capital outlay	24,000	84,000	69,766	(14,234)	10,073
<b>Total Expenditures</b>	<b>\$ 4,182,661</b>	<b>\$ 4,258,981</b>	<b>\$ 4,175,542</b>	<b>\$ (83,439)</b>	<b>\$ 4,197,291</b>
<b>Net change in fund balances</b>	<b>\$ (80,161)</b>	<b>\$ (140,161)</b>	<b>\$ 176,737</b>	<b>\$ 316,898</b>	<b>\$ 71,671</b>
<b>Fund Balance</b>					
<b>Beginning of Year</b>			973,719		902,048
<b>End of Year</b>			<b>\$ 1,150,456</b>		<b>\$ 973,719</b>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Schedule F-1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
COMMUNITY SERVICES FUND  
BUDGET AND ACTUAL  
Year Ended June 30, 2019  
With Comparative Actual Amounts for the Year Ended June 30, 2018

	Budget		Actual	Over (Under)	Prior Year Actual
	Original	Final		Final Budget	
<b>Revenues</b>					
Local property tax levies	\$ 972,504	\$ 972,504	\$ 960,906	\$ (11,598)	\$ 947,397
Other local and county	1,787,700	1,890,954	2,152,737	261,783	2,029,722
State sources	2,548,537	2,556,176	2,539,375	(16,801)	2,560,754
Federal sources	2,093,958	2,048,620	2,367,044		2,354,359
<b>Total Revenues</b>	<b>\$ 7,402,699</b>	<b>\$ 7,468,254</b>	<b>\$ 8,020,062</b>	<b>\$ 233,384</b>	<b>\$ 7,892,232</b>
<b>Expenditures</b>					
Community education and services	\$ 7,658,284	\$ 7,709,995	\$ 7,946,398	\$ 236,403	\$ 7,937,058
Capital outlay	15,900	46,244	28,571	(17,673)	15,684
<b>Total Expenditures</b>	<b>\$ 7,674,184</b>	<b>\$ 7,756,239</b>	<b>\$ 7,974,969</b>	<b>\$ 218,730</b>	<b>\$ 7,952,742</b>
<b>Net change in fund balance</b>	<b>\$ (271,485)</b>	<b>\$ (287,985)</b>	<b>\$ 45,093</b>	<b>\$ 14,654</b>	<b>\$ (60,510)</b>
<b>Fund Balance</b>					
<b>Beginning of Year</b>			1,227,352		1,287,862
<b>End of Year</b>			<b>\$ 1,272,445</b>		<b>\$ 1,227,352</b>

INDEPENDENT SCHOOL DISTRICT 709  
DULUTH, MINNESOTA

Schedule G-1

COMBINED SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CASH BALANCES  
STUDENT ACTIVITIES ACCOUNTS AND CERTAIN CURRICULAR AND CO-CURRICULAR ACCOUNTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Activity	Cash Balance 6/30/2018	Receipts and Transfers In	Disbursements and Transfers Out	Cash Balance 6/30/2019
<b>High Schools</b>				
Denfeld	\$ 300,304	\$ 518,120	\$ 523,819	\$ 294,605
East	336,431	632,410	677,816	291,025
<b>Total High Schools</b>	<b>\$ 636,735</b>	<b>\$ 1,150,530</b>	<b>\$ 1,201,635</b>	<b>\$ 585,630</b>
<b>Middle Schools</b>				
Lincoln Park	\$ 43,632	\$ 45,889	\$ 51,137	\$ 38,384
Ordean East	134,502	81,457	86,889	129,070
<b>Total Middle Schools</b>	<b>\$ 178,134</b>	<b>\$ 127,346</b>	<b>\$ 138,026</b>	<b>\$ 167,454</b>
<b>Elementary Schools</b>				
Congdon Park	\$ 23,366	\$ 47,188	\$ 47,702	\$ 22,852
Homecroft	18,974	34,771	24,857	28,888
Lakewood	28,113	12,795	9,257	31,651
Laura MacArthur	18,961	27,219	27,212	18,968
Lester Park	23,223	62,952	57,909	28,266
Lowell	35,389	7,902	14,069	29,222
Myers-Wilkins	58,140	5,788	5,387	58,541
Piedmont	10,351	42,738	43,422	9,667
Stowe	37,441	20,069	20,677	36,833
<b>Total Elementary Schools</b>	<b>\$ 253,958</b>	<b>\$ 261,422</b>	<b>\$ 250,492</b>	<b>\$ 264,888</b>
<b>ALC/Unity</b>	<b>\$ 12,869</b>	<b>\$ 1,651</b>	<b>\$ 3,916</b>	<b>\$ 10,604</b>
<b>Barnes Early Childhood</b>	<b>4,086</b>	<b>6,482</b>	<b>3,359</b>	<b>7,209</b>
<b>Merritt Creek Academy</b>	<b>787</b>	<b>110</b>	<b>150</b>	<b>747</b>
<b>Rockridge</b>	<b>604</b>	<b>400</b>	<b>653</b>	<b>351</b>
<b>Total Student Activities</b>	<b>\$ 1,087,173</b>	<b>\$ 1,547,941</b>	<b>\$ 1,598,231</b>	<b>\$ 1,036,883</b>
<b>District Funds</b>				
Co-curricular	\$ 896,939	\$ 1,303,840	\$ 1,364,728	\$ 836,051
Extra-curricular	190,234	244,101	233,503	200,832
<b>Total Funds</b>	<b>\$ 1,087,173</b>	<b>\$ 1,547,941</b>	<b>\$ 1,598,231</b>	<b>\$ 1,036,883</b>

**UNIFORM FINANCIAL ACCOUNTING  
AND REPORTING STANDARDS  
COMPLIANCE TABLE**

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

FISCAL COMPLIANCE TABLE  
FOR THE YEAR ENDED JUNE 30, 2019

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total revenues	\$ 111,939,967	\$ 111,939,967	\$	Total revenues	\$ 12,016	\$ 12,016	\$
Total expenditures	133,788,351	133,788,351		Total expenditures	490,871	490,671	
Non spendable				Non spendable			
460 Non spendable fund balance	178,353	178,353		460 Non spendable fund balance			
Restricted/Reserve				Restricted/Reserve			
403 Staff development	22,184	22,184		407 Down payment levy			
406 Health and safety				413 Projects funded by COP			
407 Capital Projects Levy				467 LTFM	164,051	164,051	
408 Cooperative revenue				Restricted			
413 Project funded by COP				464 Restricted fund balance			
414 Operating debt				Unassigned			
416 Levy reduction				463 Unassigned fund balance			
417 Taconite building maintenance							
424 Operating capital	57,718	57,718		<b>07 DEBT SERVICE</b>			
426 \$25 Taconite				Total revenues	20,115,795	20,115,795	
427 Disabled accessibility				Total expenditures	21,614,906	21,614,906	
428 Learning and development				Non spendable			
434 Area learning center	168,449	168,449		460 Non spendable fund balance			
435 Contracted alt. Programs				Restricted/Reserve			
436 St. approved alt. Program				425 Bond refundings	6,744	6,744	
438 Gifted & talented				433 Maximum Effort Loan Aid			
440 Teacher Development and Eval	47,135	47,135		451 QZAB payments			
441 Basic skills program				467 LTFM			
445 Career and technical Programs				Restricted			
448 Achievement and Integration				464 Restricted fund balance	2,878,841	2,878,841	
449 Safe schools levy				Unassigned			
450 Prekindergarten				463 Unassigned fund balance			
451 QZAB payments							
452 OPEB liability not in trust				<b>08 TRUST</b>			
453 Unfunded sev & retirement levy				Total revenues	265,060	265,060	
459 Basic skills extended time				Total expenditures	861,157	861,157	
467 LTFM	848,766	848,766		422 Net position	1,422,073	1,422,073	
472 Medical Assistance	439,848	439,848					
Restricted				<b>20 INTERNAL SERVICE</b>			
464 Restricted fund balance				Total revenues	856,813	856,813	
475 Title VII Impact Aid				Total expenditures	777,047	777,047	
476 Payments in lieu of taxes				422 Net position	158,523	158,523	
Committed							
418 Committed for separation				<b>25 OPEB REVOCABLE TRUST FUND</b>			
461 Committed fund balance				Total revenues			
Assigned				Total expenditures			
462 Assigned fund balance	1,947,492	1,947,492		422 Net position			
Unassigned							
422 Unassigned fund balance	688,511	688,511		<b>45 OPEB IRREVOCABLE TRUST FUND</b>			
				Total revenues			
<b>02 FOOD SERVICE</b>				Total expenditures			
Total revenues	4,352,278	4,352,278		422 Net position			
Total expenditures	4,175,542	4,175,542					
Non spendable				<b>47 OPEB DEBT SERVICE FUND</b>			
460 Non spendable fund balance	93,240	93,240		Total revenues			
Restricted				Total expenditures			
452 OPEB liability not in trust				Non spendable			
464 Restricted fund balance	1,057,216	1,057,216		460 Non spendable fund balance			
Unassigned				Restricted			
463 Unassigned fund balance				425 Bond refundings			
				464 Restricted fund balance			
<b>04 COMMUNITY SERVICE</b>				Unassigned			
Total revenues	8,020,062	8,020,062		463 Unassigned fund balance			
Total expenditures	7,974,969	7,974,969					
Non spendable							
460 Non spendable fund balance	2,764	2,764					
Restricted/Reserve							
426 \$25 Taconite							
431 Community education	919,856	919,856					
432 ECFE	103,488	103,488					
440 Teacher dev and evaluation							
444 School readiness	79,941	79,941					
447 Adult Basic Education	163,480	163,480					
452 OPEB liability not in trust							
Restricted							
464 Restricted fund balance	2,918	2,918					
Unassigned							
463 Unassigned fund balance							



**INDEPENDENT AUDITOR'S REPORT ON LEGAL  
COMPLIANCE FOR THE STATE OF MINNESOTA**