


December 5, 2018

TO: School Board, Superintendent, and Director of Business Services

FROM: Peggy Blalock, Finance Manager 

Enclosed is a draft copy of the audit report for Fiscal Year ended June 30, 2018. The audit firm, Wipfli, is still reviewing the report, but they approved us to submit audited data to Minnesota Department of Education. We submitted the audited data before the November 30 deadline.

A representative from Wipfli will make a presentation at the December 11, 2018 Business Committee meeting.

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Independent School
District No. 709
Duluth, Minnesota

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018
And Independent Auditors' Report

Prepared by the Finance Department



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COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2018

DULUTH
INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

215 North First Avenue East
Duluth, MN 55802

Prepared by the
Finance Department

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INDEPENDENT SCHOOL DISTRICT NO. 709 DULUTH, MINNESOTA

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INTRODUCTORY SECTION

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INDEPENDENT SCHOOL DISTRICT NO. 709 DULUTH, MINNESOTA

ORGANIZATION
JUNE 30, 2018

School Board Directors

Term Expires

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

Ex Officio Members

Superintendent
William Gronseth, Appointed February, 2012
Deputy Clerk
Douglas Hasler, November, 2016-June, 2018

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FINANCIAL SECTION

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**REQUIRED SUPPLEMENTARY
INFORMATION**

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INDEPENDENT SCHOOL DISTRICT NO. 709 – DULUTH PUBLIC SCHOOLS MANAGEMENT’S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2018

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, 2018.

FINANCIAL HIGHLIGHTS

- The District’s total net position of governmental activities decreased approximately \$34 million versus 2017 to \$(61,756,909) primarily due to an increase in deferred outflows of resources related to our financial presentation of pension expenses and a restatement of beginning net position due to the implementation of GASB 75 in valuing other postemployment benefits.
- Overall program and general revenues were \$138.1 million, \$2.5 million less than related expenses of \$140.5 million excluding pension expense of \$38.8 million.
- General revenues accounted for \$100.7 million, or 73% of all fiscal year 2018 revenues. This amount is approximately the same percentage of total revenues as the prior year. Program specific revenues of \$37.4 million (related to services, grants and contributions) accounted for 27% of total fiscal 2018 revenues. This represents an increase of \$1.7 million versus the prior year.
- The District spent approximately \$160.4 million on governmental activities that includes \$38.8 million in pension expense. Excluding the pension expense, this represents a decrease of \$18 million (equal to 10%) versus prior year. Decreases of \$10 million in sites and buildings, interest and fiscal charges, and a reduction in regular and secondary instruction related to changes in pension related expenses, had the primary impact on this change.
- Among major funds, the General fund had \$105.6 million in revenues, consisting mainly of state aids and local property taxes, and \$104.3 million in expenditures. This resulted in a surplus of \$1.3 million. As a result, the fund balance was increased to \$1.4 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* 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*. Over time, increases or decreases in net position 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 changed during the most recent fiscal year. All changes in net position 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.

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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

Net position 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*.

Duluth Public Schools			
Statement of Net Position			
As of June 30,			
	2018	2017	Total Percentage Change
Current and Other Assets	\$136,122,879	\$188,206,821	-28%
Capital Assets	<u>\$294,363,164</u>	<u>\$294,153,701</u>	0
Total Assets	\$430,486,043	\$171,890,098	-11%
Total Deferred Outflows of Resources	\$100,803,701	\$171,890,098	-42%
Total Assets and Deferred Outflows of Resources	\$531,289,744	\$654,250,620	-19%
Long-term Liabilities	\$535,852,037	\$625,210,115	-14%
Other Liabilities	<u>\$23,675,376</u>	<u>\$24,050,467</u>	-2%
Total Liabilities	\$559,527,413	\$649,260,582	-14%
Total Deferred Inflows of Resources	\$33,519,240	\$32,714,316	2%
Net Position/(Liabilities)			
Net investment in capital assets	\$117,462,005	\$62,473,463	88%
Restricted	38,889,627	\$80,609,731	-52%
Unrestricted (deficit)	<u>\$(218,108,541)</u>	<u>\$(170,807,473)</u>	28%
Total Net Position/(Liability)	<u>\$(61,756,909)</u>	<u>\$(27,724,279)</u>	127%

District Assets of \$430.4 million include, \$23 million in unrestricted cash, receivables of \$31 million, nearly all of which is made up of property tax and state aid receivables, capital assets being depreciated of \$283.5 million, \$81.7 million in restricted cash (for debt service and capital projects), \$10.9 million in undepreciated capital assets, and \$0.3 million in other assets.

Deferred outflows of resources includes approximately \$99.5 million for pension related items and \$1.3 million for OPEB related items.

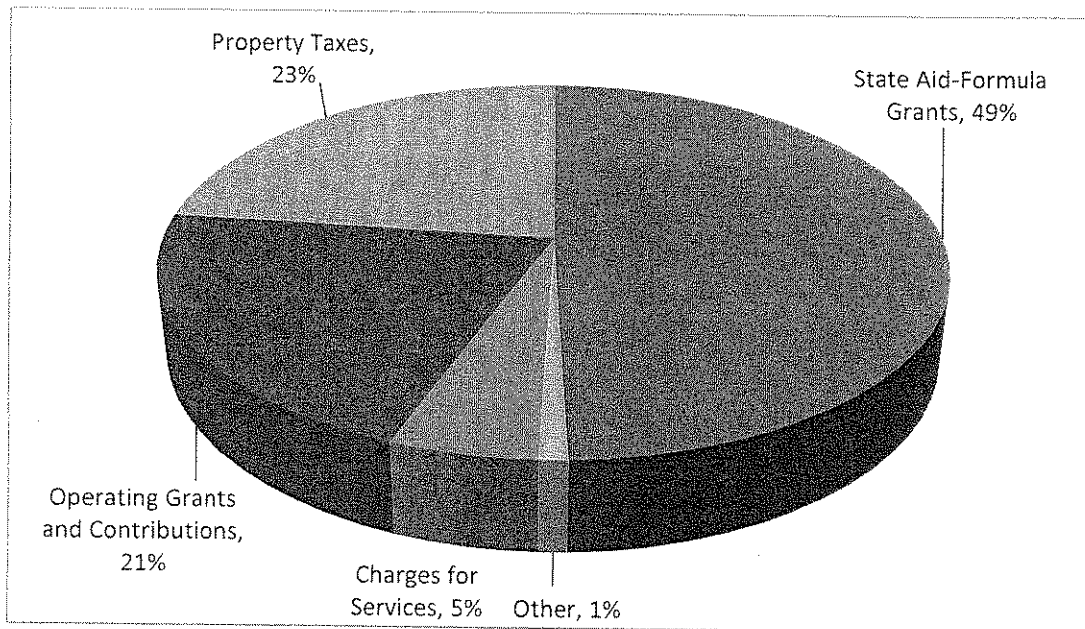
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District Liabilities of \$559.5 million include \$522.8 million in Long-term Debt (facilities plan and future pension liabilities), \$22.6 million due to employees and vendors for expenditures incurred but not paid as of fiscal year-end, and \$14.1 million in other liabilities.

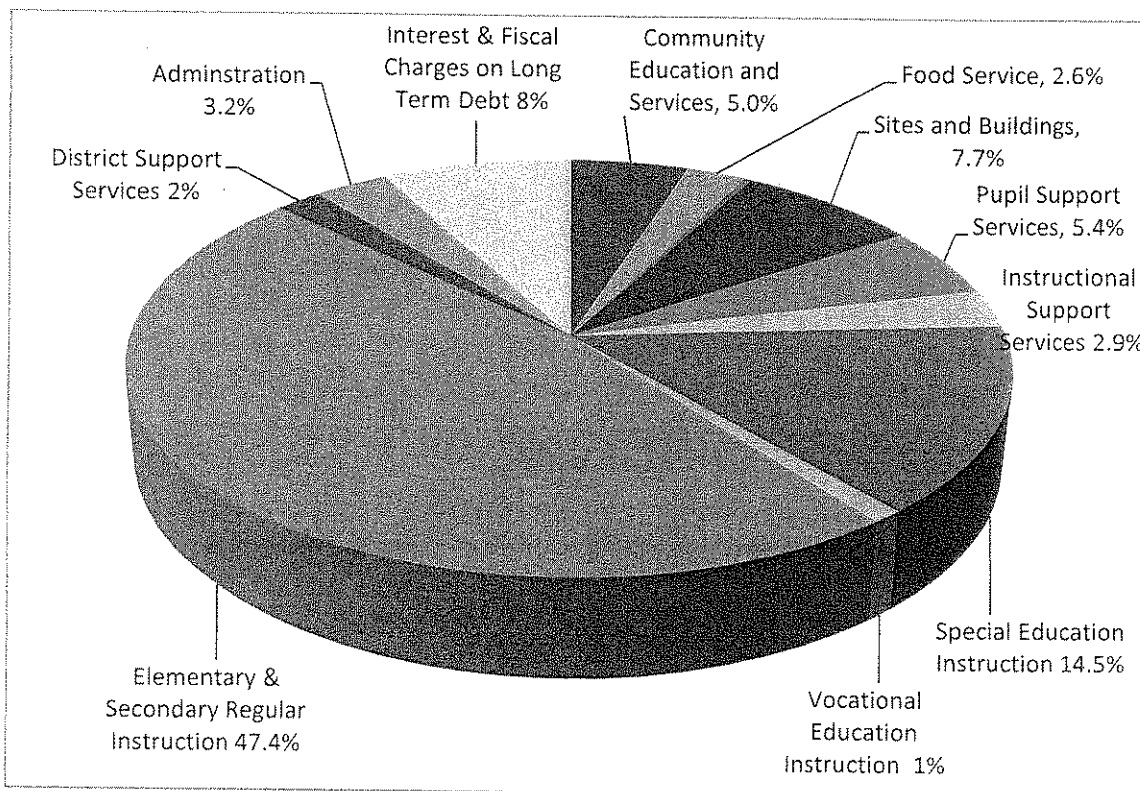
Deferred Inflows of Resources of \$33.5 million includes \$30.5 million of property taxes levied for subsequent years' expenditures and \$3 million for pension related items.

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

Source of Revenues for Fiscal Year 2018



Expenses for Fiscal Year 2018



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Changes in Net Position

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			
For the Year ended June 30,			
	2018	2017	Total % Change
Revenues:			
Program revenues:			
Charges for Services	\$7,196,302	\$6,952,313	3.5%
Operating grants and contributions	\$30,247,880	\$28,757,404	5.2%
General revenues:			
Property taxes	\$30,752,432	\$31,724,863	-3.1%
State aids	\$68,022,872	\$66,232,983	2.7%
Other	\$1,891,811	\$1,769,441	6.9%
Total Revenues	\$138,111,297	\$135,437,004	2.0%
Expenses:			
Administration	\$5,127,921	\$5,026,374	2.0%
District support services	\$3,122,948	\$3,340,170	-6.5%
Elementary and secondary regular instruction	\$76,357,900	\$85,009,159	-10.2%
Vocational education instruction	\$1,585,531	\$1,466,868	8.1%
Special education instruction	\$23,143,086	\$23,221,114	-0.3%
Instructional support services	\$4,632,083	\$5,328,829	-13.1%
Pupil support services	\$8,612,179	\$8,373,414	2.9%
Sites and buildings	\$12,379,545	\$19,294,425	-35.8%
Fiscal and other fixed program costs	\$436,404	\$299,573	45.7%
Food service	\$4,197,291	\$4,030,346	4.1%
Community Service	\$8,045,536	\$7,561,786	6.4%
Interest and fiscal charges on long-term debt	\$12,742,182	\$15,424,000	-17.4%
Total Expenses	\$160,382,606	\$178,376,058	-10.1%
Change in net position	\$(22,271,309)	\$(42,939,054)	-48.1%
Beginning of year net position	\$(27,724,279)	\$(27,724,279)	0.0%
Implementation of New Standard	\$(11,761,321)		
Net position restated	\$(39,485,600)		
End of year net position (deficit)	\$(61,756,909)	\$(27,724,279)	122.8%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

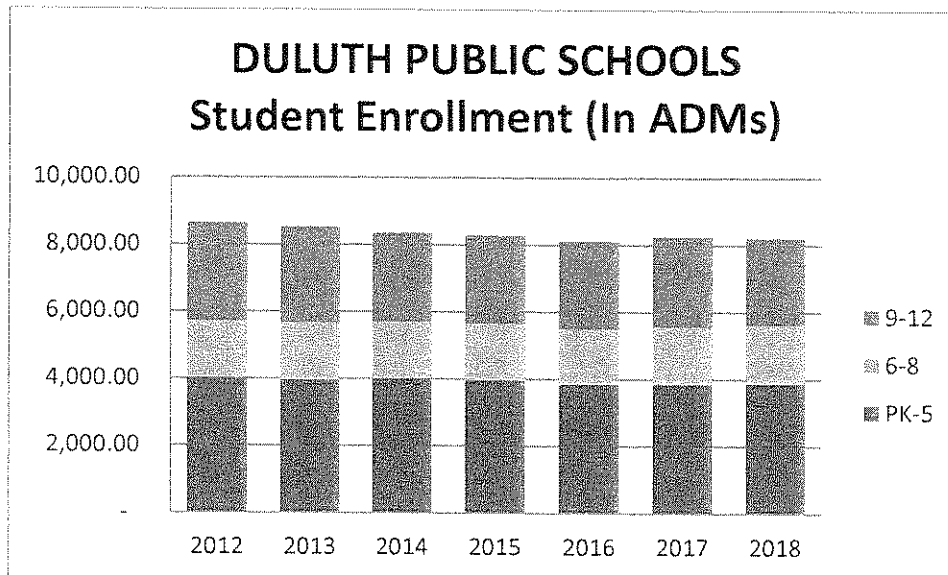
At the end of the 2017-18 fiscal year, the District's governmental funds reported a combined fund balance of \$89 million, a decrease of \$51.9 million from the prior year combined fund balance of \$140.9 million. This resulted from the use of escrow funds to pay General Obligation Bond Series 2008A on the February 1, 2018 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 is facing declining enrollment. These declines have largely stabilized at the Elementary and Middle School levels. The following chart reflects that the number of students has decreased over the last five years with a small increase in 2017 and a small decrease in 2018.

Student Enrollment
Average Daily Membership (ADM)



General Fund Budgetary Highlights

General fund adopted revenue budget of \$104.7 million was revised upward to \$105.1 million due to a \$.6 million increase for grants and donations related to student and curriculum support, a \$.5 million decrease from state aids, and \$0.3 million in miscellaneous revenues.

General fund adopted expenditure budget of \$105 million was increased by \$.1 million to \$105.1 million. This resulted in a balanced budget with the changes in revenues from the preceding paragraph.

General fund revenues were \$.7 million less than the revised budget (a difference of .6%). This was in part due to a reduction in enrollment and underspent Title funds. There were other sources of financing in the amount of \$.6 million.

General fund spending was \$4 million less than the revised budget, a difference of 3.7%. Spending was reduced to try to offset the reduction in revenues and reflects the Title spending level.

The General Fund balance increased \$1.3 million to a total of \$1.4 million as follows:

- Unassigned fund balance increased by \$.9 million.
- Restricted fund balances increased by \$304,363 to a total of \$773,236.
- Non-spendable fund balances increased by \$108,138 to a total of \$236,547.

Food Service Fund

The Food Service Fund revenues for 2017-18 totaled \$4,268,962 or \$482,562 more than the final budget. Expenditures were \$4,197,291 or \$18,687 more than the final budget. The resulting surplus of \$71,671 increased the year-end fund balance to \$973,719.

Community Service Fund

The Community Service Fund revenues for 2017-18 totaled \$7,892,232 or \$195,739 more than the final budget. Expenditures were \$7,952,742 or \$5,636 less than the final budget. The resulting deficit of \$60,510 decreased the year-end fund balance to \$1,227,352.

Capital Projects Fund

The Capital Projects Fund revenues for 2017-18 totaled \$20,271 or \$20,271 more than the final budget. Expenditures totaled \$3,030,698 or \$589,573 less than the final budget. There were other sources and uses of financing totaling \$3,652,955 that contributed to the fund balance. This resulted in the fund balance increasing by \$642,528 to \$642,715.

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 2017-18 totaled \$20,922,753 or \$1,763,946 less than the final budget. Expenditures totaled \$21,068,466 or \$9,205 less than the final budget. Other Financing Sources and Uses included and bond refunding payments from escrow accounts as a use of \$53,880,263. The resulting deficit of \$53,882,509 decreased the fund balance to \$84,715,346.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal 2018, 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 \$67.7 million has been taken on existing items. As of June 30, 2018, the District had capital items, which had a depreciated value of \$294.3 million. Most of the capital investment is in buildings and equipment.

ISD 709 CAPITAL ASSETS			
	2018	2017	% Change
Land	\$10,870,821	\$10,021,409	8%
Land Improvement	\$2,496,033	\$2,496,358	0%
Buildings and Improvements	\$340,939,760	\$335,178,420	2%
Equipment	\$7,747,809	\$7,364,660	5%
Less: Accumulated Depreciation	\$(67,691,259)	\$(60,907,147)	100%
TOTAL	\$294,363,164	\$294,153,700	0%

Long-Term Liabilities

At year-end, the District had \$294.5 million of outstanding bonds payable and certificates of participation. This reflects a decrease of \$59 million versus the principal amount of \$353.5 million outstanding at June 30, 2017. 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 \$965.5 million as of June 30, 2018.

The remainder of long-term liabilities is the \$34.5 million recognized for capital lease, severance benefits and other post-employment benefits (OPEB). During 2018, the District adopted GASB 75 in the valuation of other post-employment benefits. This resulted in a restatement of beginning OPEB as an increase of \$11,761,321. After restatement, the change from 2017 to 2018 was a decrease of \$7.7 million. The final item represents the net pension liability of \$193.7 million, a decrease of \$34 million versus 2017 due to a change in proportionate share for TRA.

ISD 709 LONG-TERM LIABILITIES			
	2018	2017	% Change
Certificates of Participation	\$247,430,425	\$263,135,425	-6%
General Obligation Bonds	\$47,100,000	\$90,445,000	-48%
Capital Lease	\$18,449	\$0	100%
Other Postemployment Benefits	\$16,985,845	\$17,479,620	-3%
Severance Obligation	\$17,567,541	\$24,803,441	-29%
Net Pension Liability	\$193,662,758	\$227,742,940	-15%
TOTAL	\$522,746,569	\$623,606,426	-16%
Long-Term Liabilities			
Due within one year	\$94,174,915	\$20,509,926	359%
Due in more than one year	\$428,571,654	\$589,827,555	-27%
TOTAL	\$522,746,569	\$610,337,481	-14%

ECONOMIC AND BUDGETARY FACTORS BEARING ON THE DISTRICT'S FUTURE

In November, 2013, the District presented two operating referendum questions for the consideration of the voters. Both referendum questions passed, and will be in place through FY19. As a result, the District will realize approximately \$1.8 million annually in new tax revenues, along with \$1.1 million annually in new equalization aid from the State of Minnesota. In November, 2018, the referendum was renewed for a period of ten (10) years along with an increase of approximately \$5 million annually.

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 2015 session. These increases are spread between FY16, FY17, FY18 and FY19.

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

Declining enrollment – 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 projects slight declines in enrollment for the next five years.

School choice – in addition to 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 76% 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. As a result of these efforts, the District has realized a reduction of 8% in premiums for FY12, and an additional reduction of 5% for FY 13 with subsequent increases being reasonable at 5.4%, 1.7% and 0.7% from FY14 through FY16. The increase for FY17 was 6.8%. The increase for FY18 was 4.8%.

Retiree benefits (severance) – this large liability exceeds the amounts currently set aside to pay these benefits upon retirements. This may impact the General fund, as interest earned on any invested funds will accrue to the trust for severance and not be available as General fund revenue.

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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. 1st 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

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BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement of Net Position
June 30, 2018

Exhibit 1

	Governmental Activities
Assets	
Cash and temporary investments	\$ 22,913,479
Receivables	
Taxes	19,192,551
Accounts and interest receivable	352,555
Due from other governmental units	11,534,804
Inventory	159,429
Prepayments	194,183
Restricted assets	
Cash and investments for debt service	80,069,866
Cash and investments for capital projects	1,706,012
Capital assets, net of depreciation	
Capital assets not being depreciated	10,870,821
Capital assets being depreciated	283,492,343
	\$ 430,486,043
Deferred Outflows of Resources	
Pension related items	99,476,041
OPEB related items	1,327,660
	\$ 100,803,701
	\$ 531,289,744
Liabilities	
Salaries payable	\$ 10,912,686
Accounts and contracts payable	3,304,359
Accrued interest payable	8,415,027
Due to other funds	243,489
Due to other governmental units	116,835
Compensated absences	426,238
Unearned revenue	256,742
Long term liabilities	
Due within one year	94,179,343
Due in more than one year	428,585,675
Unamortized premium and discount, net	13,087,019
	\$ 559,527,413
Deferred inflows of resources	
Property taxes levied for subsequent years' expenditures	30,533,601
OPEB related items	466,205
Pension related items	2,519,434
	\$ 33,519,240
Net Position (Deficit)	
Net investment in capital assets	\$ 117,462,005
Restricted for:	
State Restrictions	773,236
Food Service	870,127
Community Service	1,281,933
Debt Service	35,964,331
Unrestricted (Deficit)	(218,108,541)
Total net position (deficit)	\$ (61,756,909)
Total liabilities, deferred inflows of resources and net position (deficit)	\$ 531,289,744

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

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses
Governmental Activities	
Administration	\$ 5,127,921
District Support Services	3,122,948
Regular Instruction	76,357,900
Vocational Education Instruction	1,585,531
Special Education Instruction	23,143,086
Instructional Support Services	4,632,083
Pupil Support Services	8,612,179
Sites and Buildings	12,379,545
Fiscal and Other Fixed Cost Programs	436,404
Food Service	4,197,291
Community Service	8,045,536
Interest and Fiscal Charges on Long Term Debt	12,742,182
Total Governmental Activities	<u>\$ 160,382,606</u>

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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
\$	\$	\$	\$
	491,814		(4,636,107)
	143,152		(2,979,796)
2,996,016	3,164,752		(70,197,132)
-	137,502		(1,448,029)
700,195	12,442,232		(10,000,659)
21,408	1,790,114		(2,820,561)
-	2,621,515		(5,990,664)
177,476	-		(12,202,069)
			(436,404)
1,378,836	2,882,218		63,763
1,922,371	4,896,338		(1,226,827)
	1,678,243		(11,063,939)
\$ 7,196,302	\$ 30,247,880	\$	\$ (122,938,424)
General Revenues			
Taxes			
Property Taxes, levied for General Purposes			\$ 12,798,710
Property Taxes, levied for Community Service			944,944
Property Taxes, levied for Debt Service			17,008,778
State aid-formula grants			68,022,872
Other general revenues			936,483
Investments Earnings			955,328
Total General Revenues			\$ 100,667,115
Change in net position			\$ (22,271,309)
Net position - beginning			(27,724,279)
Implementation of New Standards - Note 1			(11,761,321)
Restated net position - beginning			\$ (39,485,600)
Net position (deficit) - ending			\$ (61,756,909)

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Capital Projects Fund
	<u> </u>	<u> </u>
Assets		
Cash and temporary investments	\$ 6,608,907	\$ 1,706,012
Cash and investments with fiscal agent		
Taxes and credits receivable	8,478,195	
Accounts and interest receivable	103,419	
Due from		
Other funds	13,998	
Other Minnesota school districts	1,233,038	
Department of Education	8,019,857	
Federal through Department of Education	1,223,642	
Federal - direct	9,885	
Other governmental units	43,424	
Inventory	57,652	
Prepayments	<u>178,895</u>	
Total Assets	\$ 25,970,912	\$ 1,706,012
Deferred Outflows of Resources		
Total Assets and deferred outflows of resources	<u>\$ 25,970,912</u>	<u>\$ 1,706,012</u>

Debt Service Fund	Other Funds	Total Governmental Funds
\$ 13,304,482	\$ 2,573,751	\$ 24,193,152
80,069,866		80,069,866
10,123,387	590,969	19,192,551
241,461	6,287	351,167
		13,998
		1,233,038
219,187	290,002	8,529,046
	80,916	1,304,558
	414,853	424,738
		43,424
	101,777	159,429
	15,288	194,183
\$ 103,958,383	\$ 4,073,843	\$ 135,709,150
\$ 103,958,383	\$ 4,073,843	\$ 135,709,150

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Capital Projects Fund
Liabilities		
Salaries payable	\$ 10,509,409	\$
Accounts and interest payable	1,587,109	893,284
Due to		
Other funds	154,662	
Other governmental units	116,835	
Claims payable	129,717	
Construction contracts	48,075	170,013
Unearned revenue	133,117	
	\$ 12,678,924	\$ 1,063,297
Deferred inflows of resources		
Property taxes levied for subsequent year's expenditures	\$ 11,218,170	
Unavailable revenue - delinquent property taxes	664,869	
	\$ 11,883,039	\$

Debt Service Fund	Other Funds	Total Governmental Funds
\$	\$ 403,277 245,081	\$ 10,912,686 2,725,474
	102,825	257,487 116,835 129,717 218,088
	5,735	138,852
\$	\$ 756,918	\$ 14,499,139
\$ 18,267,631 975,406	\$ 1,047,800 68,054	\$ 30,533,601 1,708,329
\$ 19,243,037	\$ 1,115,854	\$ 32,241,930

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Capital Projects Fund
Fund Balance		
NonSpendable:		
Inventory	\$ 57,652	\$
Prepayments	178,895	
Restricted for:		
Bond refunding		
Staff development	12,479	
Teacher Development & Evaluation	75,636	
Long Term Facilities Maintenance	343,062	642,690
Projects funded by COP		25
ALC	342,059	
Debt service		
Food service		
Community education		
Early childhood family education		
School readiness		
Adult basic education		
Community service		
Unassigned		
General	399,166	
Total Fund Balance	\$ 1,408,949	\$ 642,715
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	 \$ 25,970,912	 \$ 1,706,012

Debt Service Fund	Other Funds	Total Governmental Funds
\$	\$ 101,777	\$ 159,429
	15,288	194,183
80,069,866		80,069,866
		12,479
		75,636
		985,752
		25
		342,059
4,645,480		4,645,480
	870,127	870,127
	873,996	873,996
	100,048	100,048
	124,391	124,391
	85,439	85,439
	30,005	30,005
		399,166
<u>\$ 84,715,346</u>	<u>\$ 2,201,071</u>	<u>\$ 88,968,081</u>
<u>\$ 103,958,383</u>	<u>\$ 4,073,843</u>	<u>\$ 135,709,150</u>

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 4

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Activities
June 30, 2018

Total fund balances - governmental funds	\$ 88,968,081
Amounts reported for governmental activities in the statement of net position 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	362,054,423
Less: accumulated depreciation	(67,691,259)
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	(47,100,000)
Certificates of participation	(247,430,425)
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.	
	(18,449)
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.	
	(17,567,541)
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.	
	(426,238)
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.	
	1,708,329
Governmental funds do not report a liability for accrued interest until due and payable	
	(8,415,027)
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	(193,662,758)
Deferred inflows of resources related to pensions	(2,519,434)
Deferred outflows of resources related to pensions	99,476,041
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	(16,985,845)
Deferred inflows of resources related to OPEB	(466,205)
Deferred outflows of resources related to OPEB	1,327,660
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.	
	(13,087,019)
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>78,757</u>
Total net position (deficit) - governmental activities	<u>\$ (61,756,909)</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 Balance
GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	General Fund	Capital Projects Fund
Revenues		
Local property tax levies	\$ 12,829,419	\$ -
Interest income	186,902	20,271
Other local and county	3,863,690	-
State sources	81,532,066	-
Federal sources	5,840,535	-
Insurance/Judgement recovery	80	-
Sales and other conversions of assets	675,155	-
Total Revenues	\$ 104,927,847	\$ 20,271
Expenditures		
Administration	\$ 5,091,704	\$ -
District support services	2,801,448	-
Regular instruction	44,634,867	-
Vocational instruction	1,541,147	-
Special education instruction	23,128,596	-
Community education and services	58,829	-
Instructional support services	4,578,607	-
Pupil support services	8,184,343	-
Sites, buildings and equipment	7,785,096	-
Fiscal and other fixed cost programs	349,086	-
Debt service	-	-
Principal	1,900,000	-
Interest and fiscal charges	1,471,085	-
Capital outlay	2,763,620	3,030,698
Total Expenditures	\$ 104,288,428	\$ 3,030,698
Excess (Deficiency) of Revenues Over Expenditures	\$ 639,419	\$ (3,010,427)
Other Financing Sources (Uses)		
Sale of property	\$ 157,571	\$ -
Issuance of bonds	615,000	3,640,000
Transfer In	-	-
Transfer Out	(139,467)	(4,000)
Principal refunding payments from escrow	-	-
Interest refunding payments from escrow	-	-
Premium on bonds	2,870	16,955
Issuance of capital lease	22,138	-
Total Other Financing Sources (Uses)	\$ 658,112	\$ 3,652,955
Net change in fund balance	\$ 1,297,531	\$ 642,528
Fund Balance		
Beginning of Year	111,418	187
End of Year	\$ 1,408,949	\$ 642,715

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

Debt Service Fund	Other Funds	Total Governmental Funds
\$ 17,073,780	\$ 947,397	\$ 30,850,596
748,155		955,328
	2,037,630	5,901,320
2,215,181	2,798,803	86,546,050
885,637	4,998,528	11,724,700
	-	80
	1,378,836	2,053,991
\$ 20,922,753	\$ 12,161,194	\$ 138,032,065
\$	\$	\$ 5,091,704
		2,801,448
		44,634,867
		1,541,147
		23,128,596
	7,937,058	7,995,887
		4,578,607
	4,187,218	12,371,561
		7,785,096
		349,086
13,100,000		15,000,000
7,968,466		9,439,551
	25,757	5,820,075
\$ 21,068,466	\$ 12,150,033	\$ 140,537,625
\$ (145,713)	\$ 11,161	\$ (2,505,560)
\$	\$	\$ 157,571
		4,255,000
143,467		143,467
		(143,467)
(48,305,000)		(48,305,000)
(5,575,263)		(5,575,263)
		19,825
		22,138
\$ (53,736,796)	\$	\$ (49,425,729)
\$ (53,882,509)	\$ 11,161	\$ (51,931,289)
138,597,855	2,189,910	140,899,370
\$ 84,715,346	\$ 2,201,071	\$ 88,968,081

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, 2018

Total net changes in fund balances - governmental funds \$ (51,931,289)

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	7,503,828
Disposal of capital assets	(47,021)
Depreciation expense	(7,247,343)

Issuance of capital lease is a source of financing. Capital leases are not revenues, but rather constitute a long-term liability. (18,449)

The amount of bond proceeds is 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. (4,255,000)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 63,305,000

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. 487,017

Net amortization of premiums and discounts. 1,785,615

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	7,235,900
Change in total OPEB liability	493,775
Change in deferred inflows related to OPEB	(466,205)
Change in deferred outflows related to OPEB	(179,964)

Payment of compensated absences is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 20,852

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	(72,414,057)
Change in deferred inflows of resources related to pensions	(440,882)
Change in net pension liability	34,080,182

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. (98,164)

The change in net position of the internal service fund is reported with governmental activities. (85,104)

Change in net position (deficit) - governmental activities \$ (22,271,309)

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 7

STATEMENT OF NET POSITION
INTERNAL SERVICE FUND - DENTAL PLAN
PROPRIETARY FUND
JUNE 30, 2018

Assets	
Current Assets	
Cash and Cash Equivalents	\$ 426,339
Accounts and interest receivable	1,388
	<hr/>
Total Assets	\$ 427,727
Deferred Outflows of Resources	
	<hr/>
Total Assets and Deferred Outflows of Resources	<u>\$ 427,727</u>
Liabilities	
Current Liabilities	
Claims payable	\$ 231,080
Unearned revenue	117,890
	<hr/>
Total Liabilities	<u>\$ 348,970</u>
Deferred Inflows of Resources	
	<hr/>
Net Position	
Unrestricted	\$ 78,757
	<hr/>
Total Net Position	<u>\$ 78,757</u>
	<hr/>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 427,727</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, 2018

Operating revenues	
Charges for Premiums, Net of Refunds	\$ 853,031
Operating expenses	
Employee benefits	\$ 880,580
Services, supplies, and fees	<u>57,555</u>
Total Operating Expenses	<u>\$ 938,135</u>
Operating income (loss)	\$ (85,104)
Total Net Position - Beginning	<u>163,861</u>
Total Net Position - Ending	<u><u>\$ 78,757</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 9

STATEMENT OF CASH FLOW
INTERNAL SERVICE FUND - DENTAL PLAN
PROPRIETARY FUND
For the Year Ended June 30, 2018

Cash Flows from Operating Activities

Receipts from Interfund Services Provided	\$	527,595
Receipts from retirees		329,719
Payments for administrative costs		(57,555)
Payments for claims		<u>(752,375)</u>
Net Cash Provided by Operating Activities	\$	47,384
Cash and Cash Equivalents - Beginning		<u>378,955</u>
Cash and Cash Equivalents - Ending	\$	<u><u>426,339</u></u>

Reconciliation of Operating Income (Loss) to Net Cash**Provided by Operating Activities**

Operating income (loss)	\$	<u>(85,104)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
(Increase) in Account Receivable	\$	(29)
Increase in Accounts Payable		128,205
Increase in Unearned Revenue		<u>4,312</u>
Total Adjustments	\$	<u>132,488</u>
Net Cash Provided by Operating Activities	\$	<u><u>47,384</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 10

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Federal Employee Benefit Trust Fund	Private- Purpose Funds
	<u> </u>	<u> </u>
Assets		
Cash and temporary investments	\$ 1,623,070	\$ 151,612
Due from other funds	257,487	
	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,880,557</u>	<u>\$ 151,612</u>
Liabilities		
Due to other funds	\$	\$ 13,998
	<u> </u>	<u> </u>
Net Position		
Restricted for endowment	\$	\$ 118,528
Restricted for clock tower		19,086
Restricted for retirees	1,880,557	
	<u> </u>	<u> </u>
Total Net Position	<u>\$ 1,880,557</u>	<u>\$ 137,614</u>
Total Liabilities and Net Position	<u>\$ 1,880,557</u>	<u>\$ 151,612</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, 2018

	Federal Employee Benefit Trust Fund	Private- Purpose Funds
	<u> </u>	<u> </u>
Additions		
Interfund contribution	\$ 257,487	\$
Interest	21,005	574
	<u> </u>	<u> </u>
Total Additions	\$ 278,492	\$ 574
	<u> </u>	<u> </u>
Deductions		
Benefits	\$ 250,000	\$
Pupil support services		13,998
	<u> </u>	<u> </u>
Total Deductions	\$ 250,000	\$ 13,998
	<u> </u>	<u> </u>
Change in Net Position	\$ 28,492	\$ (13,424)
Net Position - Beginning	<u>1,852,065</u>	<u>151,038</u>
Net Position - Ending	<u>\$ 1,880,557</u>	<u>\$ 137,614</u>

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTANOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**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 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 is 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, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate Fund financial statements are provided for governmental and proprietary 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 appropriated 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 revenue of the District's internal service fund is charges to customers for service. Operating expenses for the internal service fund include the cost of services. 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.

Separate fund financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund 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 agency). 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 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:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, 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

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 basis of accounting principles generally accepted in the United States.

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018, the allowance for uncollectible accounts was \$6,018. The only receivables not expected to be collected within one year are current and 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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. Restricted assets are reported only in the district-wide financial statements.

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 financial position 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 of collective net pension liability.

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. 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. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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).

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 purpose 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, and/or the severance-insurance restricted amount, equal to ten percent of the combined budgetary unrestricted expenditures from the general fund, food service fund, community services fund, capital fund, and debt service fund. The minimum fund balance was not achieved at June 30, 2018.

Net Position

Net position 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 are 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.

Implementation of New Standards

During fiscal year 2018, the District adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension*. The adoption resulted in the restatement of governmental activities net position at July 1, 2017 as follows:

Net Position, as previously reported, at July 1, 2017	\$ (27,724,278)
Net OPEB liability previously reported under GASB Statement No. 45	4,210,675
Total OPEB liability reported under GASB Statement No. 75	(17,479,620)
Deferred outflows of resources related to OPEB under GASB Statement No. 75	1,507,624
Net Position, as restated, at July 1, 2017	<u>\$ (39,485,599)</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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.

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 seeks to maintain a constant net asset value (NAV) per share of \$1.00.

**INDEPENDENT SCHOOL DISTRICT NO. 709
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates that 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, 2018:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 Yr</u>	<u>1-3 Years</u>	<u>Over 3 Years</u>
US Government Securities	\$ 81,063,859	\$ 81,063,859	\$ -	\$ -
External Investment Pools	20,896,816	20,896,816		
Negotiable CD's	2,872,479	2,872,479		
Total Investments	\$ 104,833,154	\$ 104,833,154	\$ -	\$ -

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, 2018 is as follows:

<u>S & P or Moody's Rating</u>	<u>Fair Value</u>
AAAm	\$ 17,896,816
AA+	994,414
Not Rated	85,941,924
Total Investments	\$ 104,833,154

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, 2018, 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, 2018 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018:

Investments by fair value level	Total	Active Markets	Significant Other	
		of Identical Assets	Observable Inputs	Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Negotiable certificates of deposit	\$ 2,872,479	\$	\$ 2,872,479	\$
U.S. Gov Securities	81,063,859		81,063,859	
	<u>83,936,338</u>	<u>\$</u>	<u>\$ 83,936,338</u>	<u>\$</u>
Investments measured at the net asset value (NAV)				
External investment pools	20,896,816			
	<u>\$ 104,833,154</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, 2018:

	Amount	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - MSDLAF	\$ 1,794,625	\$	14 days*	24-hour notice
External Investment Pool - MNTrust	19,102,191	\$	None	None
	<u>\$ 20,896,816</u>			

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

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

The District's total cash and investments as of June 30, 2018 are as follows:

Petty Cash	\$ 2,605
Deposits	1,628,280
Investments	<u>104,833,154</u>
	<u>\$ 106,464,039</u>

The District's total cash and investments as of June 30, 2018 are presented in the basic financial statements as follows:

Statement of Net Position	
Cash and Temporary Investments	\$ 22,913,479
Restricted Assets	
Cash and Investments for Debt Service	80,069,866
Cash and Investments for Capital Projects	1,706,012
Statement of Fiduciary Net Position	
Cash and Cash Equivalents	
Federal Employee Benefit Trust Fund	1,623,070
Private Purpose Funds	<u>151,612</u>
Total Cash and Investments	<u>\$ 106,464,039</u>

NOTE 3 – TAXES AND CREDITS RECEIVABLE

Current taxes and credits receivable represent the uncollected balance of the 2017 levy, collectible in 2018, including related state property tax relief aid. Delinquent taxes receivable represent taxes due from levies of the prior six years. At June 30, 2018, property taxes and credits receivable consisted of:

<u>Fund</u>	<u>Current</u>	<u>Delinquent</u>	<u>Total</u>
General Fund	\$ 7,813,327	\$ 664,869	\$ 8,478,196
Community Services Fund	522,915	68,054	590,969
Debt Services Fund	<u>9,147,981</u>	<u>975,406</u>	<u>10,123,387</u>
Total	<u>\$ 17,484,223</u>	<u>\$ 1,708,329</u>	<u>\$ 19,192,552</u>

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 - INVENTORY

Inventory at June 30, 2018, consisted of:

General Fund - Supplies	\$ 57,652
Food Service Fund - Food	<u>101,777</u>
Total	<u>\$ 159,429</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, 2018, was \$444,155.

Future minimum lease payments under operating leases, which are not reflected in these financial statements, consist of the following at June 30, 2018:

<u>Year Ending June 30</u>	
2019	\$311,029
2020	299,498
2021	132,231
2022	<u>45,311</u>
Total	<u>\$788,069</u>

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – CAPITAL ASSETS

A summary of the changes in capital assets in fiscal year 2018 is as follows:

Capital Assets Not	Balance			Balance
Depreciated	<u>6/30/2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>6/30/2018</u>
Land	\$ 10,021,409		\$ (43,873)	\$ 9,977,536
Construction Work in Process		893,285		\$ 893,285
Total Capital Assets Not Depreciated	<u>\$ 10,021,409</u>	<u>\$ 893,285</u>	<u>\$ (43,873)</u>	<u>\$ 10,870,821</u>
Capital Assets				
Depreciated				
Land Improvements	\$ 2,496,359	\$ 7,465	\$ (7,791)	\$ 2,496,033
Buildings	335,178,419	6,050,992	(289,651)	340,939,760
Furniture & Equipment	7,364,660	552,086	(168,937)	7,747,809
Total Capital Assets Depreciated	\$ 345,039,438	\$ 6,610,543	\$ (466,379)	\$ 351,183,602
Less Accumulated Depreciation	(60,907,147)	(7,247,343)	463,231	(67,691,259)
Capital assets, being depreciated, net	\$ 284,132,291	\$ (636,800)	\$ (3,148)	\$ 283,492,343
Total capital assts, net of depreciation	<u>\$ 294,153,700</u>	<u>\$ 256,485</u>	<u>\$ (47,021)</u>	<u>\$ 294,363,164</u>

Depreciation expense was charged to governmental functions as follows:

<u>Program</u>	<u>2018</u>
<u>Program</u>	<u>Depreciation</u>
Administration	10,255
District Support Service	90,227
Elem/Sec Regular Instruction	13,889
Vocational Education Instruction	22,320
Special Education Instruction	4,712
Community Education and Service	32,125
Instructional Support Services	1,387
Pupil Support Services	187,454
Sites and Buildings	6,884,974
Total	<u><u>7,247,343</u></u>

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, Secondary Technical Center, and Nettleton Elementary. Nettleton Elementary was sold in June, 2018. The net book value of the remaining assets total \$3,222,308.

NOTE 7 – LONG-TERM LIABILITIES

Certificates of Participation

\$111,440,000 Full Term Refunding Certificates of Participation, Series 2008B due in annual installments of \$2,440,000 to \$10,385,000 plus 3.50 to 5.00 percent interest from February 1, 2009 through February 1, 2028.	\$ 77,165,000
\$71,170,000 Taxable Full Term Certificates of Participation, Series 2009A (Build America Bonds - Direct Pay) due in annual installments of \$2,675,000 to \$6,265,000 plus 2.250 to 5.600 percent interest from February 1, 2010 through February 1, 2028.	49,400,000
\$35,400,000 Certificates of Participation, Series 2009B due in annual installments of \$1,300,000 to \$2,770,000 plus 4.00 to 5.00 percent interest from March 1, 2012 through March 1, 2030.	25,520,000
\$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.	3,215,000
\$1,605,000 Certificates of Participation, Series 2010D due in annual installments of \$90,000 to \$110,000 plus 2.50 to 4.65 percent interest from March 1, 2011 through March 1, 2030.	1,055,000
\$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.	5,000,000
\$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.	73,275,000
Total	\$ 247,430,425

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – LONG-TERM LIABILITIES (Continued)

The annual requirements to amortize the principal and interest are:

Year Ended			
June 30	Total	Principal	Interest
2019	\$ 99,102,480	\$ 88,430,000	\$ 10,672,480
2020	18,686,893	11,920,000	6,766,893
2021	19,674,422	13,151,344	6,523,078
2022	20,995,285	14,603,895	6,391,390
2023	21,458,283	15,583,340	5,874,943
2024-2028	118,480,480	96,416,846	22,063,634
2029-2032	7,978,075	7,325,000	653,075
Total	\$ 306,375,918	\$ 247,430,425	\$ 58,945,493

August 17, 2016, the District issued \$82,605,000 in Full Term Refunding Certificates of Participation, Series 2016A, to refund the Full Term Certificates of Participation, Series 2008B. The proceeds were placed in escrow and invested in U. S. government securities. The proceeds plus interest earned will be sufficient to pay the 2018 through 2028 payments of the Full Term Certificates of Participation, Series 2008B callable on February 1, 2019. The refunding was undertaken to reduce total debt service payments in an average amount annually of \$571,686 over twelve years.

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.	\$ 43,730,000
\$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.	2,885,000
\$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.	485,000
Total	\$ 47,100,000

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – LONG-TERM LIABILITIES (Continued)

The annual requirements to amortize the principal and interest are:

Year Ended			
June 30	Total	Principal	Interest
2019	\$ 6,203,067	\$ 4,410,000	\$ 1,793,067
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
2024-2028	26,447,900	24,160,000	2,287,900
Total	<u>\$ 56,508,417</u>	<u>\$47,100,000</u>	<u>\$ 9,408,417</u>

Capital Leases

The District is committed under a capital lease for three (3) copiers. The term of the lease is for 60 months beginning September 1, 2017. At the end of the lease the District will purchase the copiers for one dollar.

The expense for the year ended June 30, 2018 was \$3,689. Future minimum lease payments, which are not reflected in these financial statements, consist of the following at June 30, 2018:

<u>Year Ending June 30</u>	
2019	\$ 4,428
2020	4,428
2021	4,428
2022	4,428
2023	737
	<u>\$ 18,449</u>

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Changes in long-term debt for the year ended June 30, 2018 are:

	Balance June 30, 2017	Increase	Payments/ Adjustments	Balance June 30, 2018
Certificates of participation	\$ 263,135,425		\$ 15,705,000	\$ 247,430,425
Bonds payable	90,445,000	4,255,000	47,600,000	47,100,000
Capital lease		22,138	3,689	18,449
OPEB, restated	17,479,620	1,545,257	2,039,032	16,985,845
Severance obligation	24,803,441	2,250,979	9,486,879	17,567,541
Net pension liability	227,742,940	4,943,435	39,023,617	193,662,758
Total	\$ 623,606,426	\$ 13,016,809	\$ 113,858,217	\$ 522,765,018

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 \$885,638.

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, 2018:

	Current Portion	Long-term Portion	Total
Certificates of participation	\$ 88,430,000	\$ 159,000,425	\$ 247,430,425
Bonds payable	4,410,000	42,690,000	47,100,000
Capital lease	4,428	14,021	18,449
OPEB		16,985,845	16,985,845
Severance obligation	1,334,915	16,232,626	17,567,541
Net pension liability		193,662,758	193,662,758
Total	\$ 94,179,343	\$ 428,585,675	\$ 522,765,018

INDEPENDENT SCHOOL DISTRICT NO. 709
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018 is approximately \$965,530,760.

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, 2018, \$426,238 has been included in the district-wide financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 2018, 118 retirees received a total benefit of \$2,468,190. 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	\$ 883,902
Retained severance benefit obligations for qualified employees	25,771,604
Total termination benefits payable	<u>\$26,655,506</u>
Amount available in Federal Employee Benefit Trust Fund	<u>(1,852,065)</u>
 Total	 <u><u>\$24,803,441</u></u>

NOTE 10 – INTERFUND TRANSACTIONS

Individual fund receivable and payable balances at June 30, 2018:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 13,998	\$ 154,662
Community Service Fund		102,825
Fiduciary Funds		
Federal Employee Benefit Trust Fund	\$ 257,487	
Private Purpose Funds		13,998
Total Funds	<u>\$ 271,485</u>	<u>\$ 271,485</u>

These amounts represent federal severance calculation and a donation match from an endowment, and are expected to be paid within one year.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018 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 2016A. The amounts in escrow are used for future payments of principal and interest on Bond Series 2008B until the bond callable date.
13. Restricted for Staff Development – This amount represents funds available for staff development expenses consisting of substitute costs, registrations, trainings, etc.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018.

Teacher Development & Eval	\$ 75,636
Staff Development	12,479
Bond Refunding	80,069,866
LTFM	985,752
Projects Funded by COP	25
Area Learning Center	342,059
Debt Service	4,645,480
Food Service	870,127
Community Education	873,996
Early Childhood Family Education	100,048
School Readiness	124,391
Adult Basic Education	85,439
Community Service	30,005
Total Restricted Fund Balance	<u><u>\$ 88,215,303</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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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
	<u>1,890</u>

The District's total OPEB liability of \$16,985,845 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2017 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	3.56%	
	Fiscal Year	
Healthcare trend rates	Beginning	Medical
	2017	6.80%
	2018	6.90%
	2019	6.30%
	2020	5.80%
	2021-2054	5.20%
		Transition
		ultimate
	2055-2073	rate
	2074	4.40%

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 - POST-EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

The discount rate was determined using the index rate for 20-Year, tax-exempt, municipal bonds.

Mortality rates were based on the 00 mortality tables with projected mortality improvements based on Scale AA and other adjustments.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balances at 6/30/2017	\$ 17,479,620
Changes for the year:	
Service cost	1,026,879
Interest	518,378
Changes of assumptions	(531,408)
Benefit payments	(1,507,624)
Net changes	<u>(493,775)</u>
Balances at 6/30/2018	<u>\$ 16,985,845</u>

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 (2.56%) or one percentage point higher (4.6%) than the current discount rate:

	1% Decrease <u>2.56%</u>	Discount Rate <u>3.56%</u>	1% Increase <u>4.56%</u>
Total OPEB Liability	\$ 17,819,696	\$ 16,985,845	\$ 16,174,127

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 <u> </u>	Discount Rate <u> </u>	1% Increase <u> </u>
Total OPEB Liability	\$ 16,506,568	\$ 16,985,845	\$ 17,534,836

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018 the District recognized OPEB expense of \$2,468,190. The District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$	\$ 466,205
Contribution subsequent to measurement date	1,327,660	
Total	\$ 1,327,660	\$ 466,205

The amount of \$1,327,660 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, 2019.

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

<u>Year ended June 30</u>	<u>Pension Expense Amount</u>
2019	\$ (65,203)
2020	(65,203)
2021	(65,203)
2022	(65,203)
2023	(65,203)
Thereafter	(140,190)
Total	\$ (466,205)

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 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.

Teachers employed in Minnesota's public elementary and secondary school, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members.

State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

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).

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2016, June 30, 2017, and June 30, 2018, were:

Basic

Employee	11.00%
Employer	11.50%

Coordinated

Employee	7.50%
Employer	7.50%

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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	\$367,791,000
Add employer contributions not related to future contribution efforts	810,000
Deduct TRA's contributions not included in allocation	<u>(456,000)</u>
Total employer contributions	\$368,145,000
Total non-employer contributions	<u>35,588,000</u>
Total contributions reported in Schedule of Employer and Non-Employer Allocations	<u><u>\$403,733,000</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

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2017, 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, 2017
Experience Study	June 5, 2015
Actuarial Cost Method	November 6, 2017 (economic assumptions)
Investment Rate of Return	Entry Age Normal
Price inflation rate	5.12%, from the Single Equivalent
Wage growth rate	Interest Rate calculation
Projected salary increase	2.50%
Cost of living adjustment	2.85% for 10 years, 3.25% thereafter
	2.85% - 8.85% for 10 years and
	3.25% to 9.25% thereafter
	2.0%

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Unallocated Cash	2%	0.00%
Total	100%	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The "Difference Between Expected and Actual Experience," "Changes of Assumptions," and "Changes in Proportion" use the amortization period of 6 years in the schedule presented. The amortization period for "Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of 5 years as required by GASB 68.

Changes in actuarial assumptions since the 2016 valuation:

1. The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
2. The COLA was not assumed to increase to 2.5%, but remain at 2.0% for all future years.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

3. Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
4. The investment return assumption was changed from 8.0% to 7.5%.
5. The price inflation assumption was lowered from 2.75% to 2.50%.
6. The payroll growth assumption was lowered from 3.50% to 3.00%
7. The general wage growth assumption was lowered from 3.50% to 2.85% for ten years followed by 3.25% thereafter.
8. The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

Discount Rate

The discount rate used to measure the total pension liability was 5.12%. This is an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 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 projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50%) was applied to all periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

Net Pension Liability

At June 30, 2018, the District reported a liability of \$177,141,137 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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 0.8874% at the end of the measurement period and 0.8681% 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	\$ 177,141,137
State's proportional share of net pension liability associated with the District	\$ 17,123,980

For the year ended June 30, 2018, the District recognized pension expense of \$38,320,407. It also recognized \$328,425 as an increase to pension expense for the support provided by direct aid.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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	\$ -	\$ 1,219,323
Net difference between projected and actual earnings on plan investments	1,132,499	
Changes in assumptions	69,023,985	
Contributions paid to TRA subsequent to the measurement period	3,436,211	
Changes in proportion	23,654,437	
Total	\$ 97,247,132	\$ 1,219,323

\$3,436,211 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, 2019.

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

Year Ended June 30	Pension Expense Amount
2019	\$ 29,202,881
2020	\$ 29,202,883
2021	\$ 20,989,569
2022	\$ 17,639,762
2023	\$ (4,443,527)
Total	\$ 92,591,568

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 5.12%, as well as the liability measured using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	4.12%	5.12%	6.12%
District's proportionate share of the TRA net pension liability	\$ 233,792,168	\$ 177,141,137	\$ 129,377,427

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, 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 plan 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 (accounted for in the General Employees Retirement Fund). General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

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 services. Two methods are used to compute benefits for PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit recipients will 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%, beginning January 1, 2019. 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 2018. 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, 2018 were \$1,185,712. The District's contribution was equal to the contractually required contribution for the year as set by state statute.

Pension Costs

At June 30, 2018, the District reported a liability of \$16,521,621 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 to the fund in 2018. 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 \$207,740.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 0.2588%, which was an increase of 0.0041% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$782,805 for its proportionate share of General Employees Plan's pension expense. In addition, the District recognized an additional \$6,000 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, 2018, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 504,585
Net difference between projected and actual earnings on plan investments		793,618
Changes in assumptions	1,043,197	
Contributions paid to PERA subsequent to the measurement period	1,185,712	
Changes in proportion		<u>1,908</u>
Total	<u>\$ 2,228,909</u>	<u>\$ 1,300,111</u>

\$1,185,712 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, 2019.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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:

<u>Year Ended June 30</u>	<u>Pension Expense Amount</u>
2019	\$ (281,240)
2020	967,311
2021	(241,674)
2022	(701,311)
2023	-
Total	<u>\$ (256,914)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the 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, retiree, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

1. The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for non-vested deferred member liability.
2. The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 – DEFINED BENEFIT PENSION PLANS (CONTINUED)

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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability in 2017 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	\$ 25,626,262	\$ 16,521,621	\$ 9,067,819

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.

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 2018 were as follows:

Fiscal Year Ended June 30	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	Claims Payments	Balance of Fiscal Year End
2017	\$ 76,547	\$ 816,625	\$ 790,297	\$ 102,875
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.

NOTE 16 - COMMITMENTS

At June 30, 2018, the District had commitments under various construction and service contracts totaling \$128,609. The construction commitments will be paid by the Capital Projects Fund.

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 31, 2018, the District sold some vacant land to the City of Duluth. The District realized property sale revenue of \$388,241. This will be reflected in Fiscal Year 2019 financial statements.

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**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, 2018

With Comparative Actual Amounts for the Year Ended June 30, 2017

	Budget		Actual	Over	Prior Year
	Original	Final		(Under)	
				Final Budget	Actual
Revenues					
Local property tax levies	\$ 12,754,843	\$ 12,754,843	\$ 12,829,419	\$ 74,576	\$ 12,459,353
Interest income	51,734	51,734	186,902	135,168	108,910
Other local and county	3,340,866	3,580,920	3,863,690	282,770	4,085,377
State sources	81,357,215	81,064,075	81,532,066	467,991	78,037,330
Federal sources	5,866,551	5,953,682	5,840,535	(113,147)	6,524,445
Insurance/Judgement recovery	-	-	80	80	84,785
Sales and other conversions of assets	796,505	796,505	675,155	(121,350)	657,415
Total Revenues	\$ 104,167,714	\$ 104,201,759	\$ 104,927,847	\$ 726,088	\$ 101,957,615
Expenditures					
Administration	\$ 5,158,575	\$ 4,970,544	\$ 5,091,704	\$ (121,160)	\$ 5,009,606
District support services	4,861,946	4,920,341	2,801,448	2,118,893	2,800,224
Regular instruction	40,990,602	41,230,273	44,634,867	(3,404,594)	45,613,382
Vocational instruction	1,766,278	1,764,422	1,541,147	223,275	1,420,996
Special education instruction	20,987,241	21,081,111	23,128,596	(2,047,485)	23,214,740
Community education and services	-	63,439	58,829	4,610	89,191
Instructional support services	3,823,918	4,165,534	4,578,607	(413,073)	5,279,209
Pupil support services	8,148,892	8,155,814	8,184,343	(28,529)	7,887,262
Sites, buildings and equipment	6,783,901	5,163,809	7,785,096	(2,621,287)	8,131,440
Fiscal and other fixed cost programs	3,980,000	7,156,085	349,086	6,806,999	330,174
Debt Service					
Principal	1,900,000	1,900,000	1,900,000	-	1,830,000
Interest	1,471,085	1,471,085	1,471,085	-	1,540,935
Capital outlay	5,156,366	6,293,708	2,763,620	3,530,088	1,796,687
Total Expenditures	\$ 105,028,804	\$ 108,336,165	\$ 104,288,428	\$ 4,047,737	\$ 104,943,846
Excess (Deficiency) of Revenues Over Expenditures	\$ (861,090.00)	\$ (4,134,406)	\$ 639,419	\$ 4,773,825	\$ (2,986,231)
Other Financing Sources (Uses)					
Sale of property	\$ -	\$ 300,000	\$ 157,571	\$ (142,429)	\$ 1,001
Proceeds from bonds and loans, net	600,000	600,000	615,000	(15,000)	
Premium on bonds			2,870	(2,870)	
Operating transfers out	-	(136,272)	(139,467)	3,195	-
Proceeds from capital lease			22,138	(22,138)	
Total Other Financing Sources (Uses)	\$ 600,000	\$ 763,728	\$ 658,112	\$ (179,242)	\$ 1,001
Net change in fund balance	\$ (261,090)	\$ (3,370,678)	\$ 1,297,531	\$ 4,668,209	\$ (2,985,230)
Fund Balance					
Beginning of Year			\$ 111,418		\$ 3,096,648
End of Year			\$ 1,408,949		\$ 111,418

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S OTHER POSTEMPLOYMENT
HEALTH CARE PLAN
June 30, 2018

Statement A- 2

Schedule of Changes in Total OPEB Liability and Related Ratios

	2018
Total OPEB Liability	
Service Cost	\$ 1,026,879
Interest	518,378
Changes in assumptions	(531,408)
Benefit payments	(1,507,624)
Net change in total OPEB liability	\$ (493,775)
Total OPEB Liability - beginning of year	17,479,620
Total OPEB Liability - end of year	<u>\$ 16,985,845</u>
 Covered payroll	 \$ 56,982,794
 Total OPEB liability as a percentage of covered payroll	 29.8%

For Fiscal Year 2018, 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, 2017. 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:

- Withdrawal, retirement, and mortality rates were updated from the rates used in the 7/1/2015 PERA General Employees Retirement Plan and 7/1/2015 Teachers Retirement Association valuations to the rates used in the 7/1/2017 valuations.
- 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 2.92% to 3.56% based on updated 20-year municipal bond rates.
- Medical per capita claims costs were updated to reflect recent experience.
- The actuarial cost method changed from using the Projected Unit Credit cost method the Entry Age Normal level percent of pay cost method due to new GASB 74/75 accounting rules.
- Salary scale increase assumption was updated from a flat \$.00% to rates used in the 7/1/2017 PERA General Employees Retirement Plan and 7/1/2017 Teachers Retirement Association valuations.
- The percent of future retirees assumed to elect coverage at retirement changed from 80% to 60% to reflect recent plan experience.
- The percent of retirees electing spouse coverage changed from 15% to 10% to reflect recent plan experience.

This schedule is intended to present information for the last 10 years. Additional information will be presented as it becomes available.

INFORMATION ABOUT THE DISTRICT'S NET PENSION LIABILITY
June 30, 2018

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, 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, 2017	0.2588%	\$ 16,521,621	\$ 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%	76.20%
June 30, 2014	0.2272%	\$ 12,772,500		\$ 12,772,500	\$ 14,262,165	89.6%	79.70%

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, 2018	\$ 3,436,211	\$ 3,436,211	\$ -	\$ 45,916,146	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, 2018	\$ 1,185,712	\$ 1,185,712	\$ -	\$ 15,809,497	7.50%
June 30, 2017	\$ 1,250,405	\$ 1,250,405	\$ -	\$ 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	7.25%

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**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, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

	Budget		Actual	Over (Under) Final Budget	Prior Year Actual
	Original	Final			
Revenues					
Interest income	\$ -	\$ -	\$ 20,271	\$ 20,271	\$ 1,432
Expenditures					
Capital Outlay	\$ 3,600,000	\$ 3,600,000	\$ 3,030,698	\$ 569,302	\$ 3,129,913
Excess (Deficiency) of Revenues Over Expenditures	\$ (3,600,000)	\$ (3,600,000)	\$ (3,010,427)	\$ 589,573	\$ (3,128,481)
Other Financing Sources (Uses)					
Proceeds from bonds and loans, net	\$ 3,600,000	\$ 3,600,000	\$ 3,640,000	\$ 40,000	\$
Premium on bonds			16,955	16,955	
Transfer Out			(4,000)	(4,000)	
Total Other Financing sources (Uses)	\$ 3,600,000	\$ 3,600,000	\$ 3,652,955	\$ 52,955	\$ -
Net change in fund balance	\$ -	\$ -	\$ 642,528	\$ 642,528	\$ (3,128,481)
Fund Balance					
Beginning of Year			187		3,128,668
End of Year			\$ 642,715		\$ 187

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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, 2018

With Comparative Actual Amounts for the Year Ended June 30, 2017

	Budget		Actual	Over (Under) Final Budget	Prior Year Actual
	Original	Final			
Revenues					
Local property tax levies	\$ 18,559,220	\$ 18,559,220	\$ 17,073,780	\$ (1,485,440)	\$ 18,407,310
Interest income	1,000,000	1,000,000	748,155	(251,845)	566,891
State sources	2,242,317	2,242,317	2,215,181	(27,136)	2,227,094
Federal sources	885,162	885,162	885,637	475	932,076
Total Revenues	\$ 22,686,699	\$ 22,686,699	\$ 20,922,753	\$ (1,763,946)	\$ 22,133,371
Expenditures					
Principal	\$ 17,275,000	\$ 13,100,000	\$ 13,100,000	\$ -	\$ 11,495,000
Interest and fiscal charges	13,533,971	7,977,671	7,968,466	9,205	8,663,280
Total Expenditures	\$ 30,808,971	\$ 21,077,671	\$ 21,068,466	\$ 9,205	\$ 20,158,280
Excess (Deficiency) of Revenues Over Expenditures	\$ (8,122,272)	\$ 1,609,028	\$ (145,713)	\$ (1,754,741)	\$ 1,975,091
Other Financing Sources (Uses)					
Operating transfers in	\$ -	\$ -	\$ 143,467	\$ 143,467	\$ -
Issuance of bonds	-	-	-	-	82,605,000
Principal refunding payments from escrow	-	(48,305,000)	(48,305,000)	-	(8,522,522)
Interest refunding payments from escrow	-	(5,613,894)	(5,575,263)	38,631	-
Premium on bonds	-	-	-	-	11,521,782
Total Other Financing Sources (Uses)	\$ -	\$ (53,918,894)	\$ (53,736,796)	\$ 182,098	\$ 85,604,260
Net change in fund balance	\$ (8,122,272)	\$ (52,309,866)	\$ (53,882,509)	\$ (1,572,643)	\$ 87,579,351
Fund Balance					
Beginning of Year			138,597,855		51,018,504
End of Year			\$ 84,715,346		\$ 138,597,855

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement D-1

COMBINING BALANCE SHEET
OTHER FUNDS
JUNE 30, 2018
With Comparative Amounts at June 30, 2017

	Food Service Fund	Community Services Fund	Totals	
			2018	2017
Assets				
Cash and investments	\$ 867,034	\$ 1,706,717	\$ 2,573,751	\$ 2,688,098
Taxes and credits receivable		590,969	590,969	597,845
Accounts and interest receivable	6,287		6,287	16,903
Due from				
Department of Education		290,002	290,002	342,635
Federal through Department of Education	50,950	29,966	80,916	72,587
Federal - direct		414,853	414,853	209,280
Inventory	101,777		101,777	123,829
Prepayments	1,815	13,473	15,288	5,001
Total Assets	\$ 1,027,863	\$ 3,045,980	\$ 4,073,843	\$ 4,056,178
Deferred Outflows of Resources				
Total assets and deferred outflows of resources	<u>\$ 1,027,863</u>	<u>\$ 3,045,980</u>	<u>\$ 4,073,843</u>	<u>\$ 4,056,178</u>
Liabilities				
Salaries payable	\$ 9,538	\$ 393,739	\$ 403,277	\$ 383,360
Accounts payable	44,606	200,475	245,081	277,597
Due to				
Other funds		102,825	102,825	96,433
Unearned revenue		5,735	5,735	9,529
Total Liabilities	\$ 54,144	\$ 702,774	\$ 756,918	\$ 766,919
Deferred Inflows of Resources				
Property taxes levied for subsequent year's expenditures	\$	\$ 1,047,800	\$ 1,047,800	\$ 1,028,842
Unavailable revenue - delinquent property taxes		68,054	68,054	70,507
Total Deferred Inflows of Resources	\$	\$ 1,115,854	\$ 1,115,854	\$ 1,099,349
Fund Balance				
NonSpendable:				
Inventory	\$ 101,777	\$	\$ 101,777	\$ 123,829
Prepayments	1,815	13,473	15,288	5,001
Restricted for:				
Community education		873,996	873,996	773,759
Early childhood family education		100,048	100,048	195,894
School readiness		124,391	124,391	260,060
Adult basic education		85,439	85,439	24,659
Community service		30,005	30,005	30,005
Food service	870,127		870,127	776,703
Total Fund Balance	\$ 973,719	\$ 1,227,352	\$ 2,201,071	\$ 2,189,910
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 1,027,863	\$ 3,045,980	\$ 4,073,843	\$ 4,056,178

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INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement D-2

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

Year Ended June 30, 2018

With Comparative Actual Amounts for the Year Ended June 30, 2017

	Food Service Fund	Community Services Fund	Totals	
			2018	2017
Revenues				
Local property tax levies	\$	\$ 947,397	\$ 947,397	\$ 944,390
Other local and county	7,908	2,029,722	2,037,630	1,955,132
State sources	238,049	2,560,754	2,798,803	2,770,333
Federal sources	2,644,169	2,354,359	4,998,528	4,499,109
Sales and other conversions of assets	1,378,836		1,378,836	1,260,811
Total Revenues	\$ 4,268,962	\$ 7,892,232	\$ 12,161,194	\$ 11,429,775
Expenditures				
Community education and services	\$	\$ 7,937,058	\$ 7,937,058	\$ 7,424,128
Pupil support services	4,187,218		4,187,218	3,977,037
Capital outlay	10,073	15,684	25,757	68,661
Total Expenditures	\$ 4,197,291	\$ 7,952,742	\$ 12,150,033	\$ 11,469,826
Net change in fund balance	\$ 71,671	\$ (60,510)	\$ 11,161	\$ (40,051)
Fund Balance				
Beginning of Year	902,048	1,287,862	2,189,910	2,229,961
End of Year	<u>\$ 973,719</u>	<u>\$ 1,227,352</u>	<u>\$ 2,201,071</u>	<u>\$ 2,189,910</u>

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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, 2018

With Comparative Actual Amounts for the Year Ended June 30, 2017

	Budget		Actual	Over (Under) Final Budget	Prior Year Actual
	Original	Final			
Revenues					
Other local and county	\$ 6,000	\$ 6,000	\$ 7,908	\$ 1,908	\$ 20,972
State sources	190,000	190,000	238,049	48,049	217,925
Federal sources	2,371,000	2,385,400	2,644,169	258,769	2,531,315
Sales and other conversions of assets	1,204,000	1,205,000	1,378,836	173,836	1,260,811
Total Revenues	<u>\$ 3,771,000</u>	<u>\$ 3,786,400</u>	<u>\$ 4,268,962</u>	<u>\$ 482,562</u>	<u>\$ 4,031,023</u>
Expenditures					
Pupil support services	\$ 4,142,362	\$ 4,160,762	\$ 4,187,218	\$ (26,456)	\$ 3,977,037
Capital outlay	14,000	17,842	10,073	7,769	53,309
Total Expenditures	<u>\$ 4,156,362</u>	<u>\$ 4,178,604</u>	<u>\$ 4,197,291</u>	<u>\$ (18,687)</u>	<u>\$ 4,030,346</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$</u>	<u>\$ (392,204)</u>	\$ 71,671	<u>\$ 463,875</u>	\$ 677
Fund Balance					
Beginning of Year			902,048		901,371
End of Year			<u>\$ 973,719</u>		<u>\$ 902,048</u>

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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, 2018
With Comparative Actual Amounts for the Year Ended June 30, 2017

	Budget		Actual	Over (Under) Final Budget	Prior Year Actual
	Original	Final			
Revenues					
Local property tax levies	\$ 953,547	\$ 953,547	\$ 947,397	\$ (6,150)	\$ 944,390
Other local and county	1,770,000	1,834,000	2,029,722	195,722	1,934,160
State sources	2,414,390	2,554,587	2,560,754	6,167	2,552,408
Federal sources	1,951,071	2,354,359	2,354,359	-	1,967,794
Total Revenues	\$ 7,089,008	\$ 7,696,493	\$ 7,892,232	\$ 195,739	\$ 7,398,752
Expenditures					
Community education and services	\$ 7,325,992	\$ 7,945,458	\$ 7,937,058	\$ 8,400	\$ 7,424,128
Capital outlay	4,900	12,920	15,684	(2,764)	15,352
Total Expenditures	\$ 7,330,892	\$ 7,958,378	\$ 7,952,742	\$ 5,636	\$ 7,439,480
Net change in fund balance	\$ (241,884)	\$ (261,885)	\$ (60,510)	\$ 201,375	\$ (40,728)
Fund Balance					
Beginning of Year			1,287,862		1,328,590
End of Year			\$ 1,227,352		\$ 1,287,862

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, 2018

Activity	Cash Balance 6/30/2017	Receipts and Transfers In	Disbursements and Transfers Out	Cash Balance 6/30/2018
High Schools				
Denfeld	\$ 313,850	\$ 438,053	\$ 451,599	\$ 300,304
East	251,066	757,553	672,188	336,431
Total High Schools	\$ 564,916	\$ 1,195,606	\$ 1,123,786	\$ 636,735
Middle Schools				
Lincoln Park	\$ 46,896	\$ 38,808	\$ 42,072	\$ 43,632
Ordean East	125,011	81,340	71,849	134,502
Total Middle Schools	\$ 171,906	\$ 120,148	\$ 113,921	\$ 178,134
Elementary Schools				
Congdon Park	\$ 15,698	\$ 44,951	\$ 37,283	\$ 23,366
Homecroft	18,510	30,808	30,344	18,973
Lakewood	26,522	15,902	14,311	28,113
Laura MacArthur	21,591	15,179	17,810	18,961
Lester Park	26,608	41,063	44,448	23,223
Lowell	44,872	6,466	15,949	35,389
Myers-Wilkins	64,609	8,549	15,017	58,141
Piedmont	7,584	52,054	49,287	10,351
Stowe	42,719	14,658	19,936	37,441
Total Elementary Schools	\$ 268,713	\$ 229,630	\$ 244,386	\$ 253,957
ALC/Unity	\$ 12,093	\$ 2,867	\$ 2,091	\$ 12,869
Barnes Early Childhood	4,935	4,897	5,747	4,086
Merritt Creek Academy	851	-	64	787
Rockridge	675	-	71	604
Total Student Activities	\$ 1,024,089	\$ 1,553,149	\$ 1,490,065	\$ 1,087,173
District Funds				
Co-curricular	\$ 856,367	\$ 1,319,833	\$ 1,279,262	\$ 896,939
Extra-curricular	167,722	233,315	210,803	190,234
Total Funds	\$ 1,024,089	\$ 1,553,149	\$ 1,490,065	\$ 1,087,173