

Duluth Independent School
District No. 709
Duluth, Minnesota

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012
And Independent Auditors' Report

Prepared by the Finance Department



COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2012

DULUTH
INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

215 North First Avenue East
Duluth, MN 55802

Prepared by the
Finance Department

Bill Hanson • CFO/Executive Director of Business Services

Jody LeBlanc • Finance Manager

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

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

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INTRODUCTORY SECTION

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

ORGANIZATION
JUNE 30, 2012

School Board Directors

Term Expires

Ann Wasson	Chairperson	12/31/2013
Tom Kasper	Vice Chairperson	12/31/2013
Judy Seliga Punyko	Clerk of the Board	12/31/2015
Mary Cameron	Treasurer	12/31/2013
Art Johnston		12/31/2013
Mike Miernicki		12/31/2015
William Westholm		12/31/2015

Ex Officio Members

Superintendent
William Gronseth, Appointed February, 2012
Deputy Clerk
William Hanson, Appointed July, 2003

Dean R. Ager, CPA
Michael S. Altman, CPA
Deborah J. Medlin, CPA
Darla R. Benoit, CPA
Ronald E. Peterson, CPA / ABV
Thomas J. Eling, CPA
Thomas L. Sykes, CPA of Counsel

Independent Auditor's Report

November 30, 2012

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 709, Duluth, Minnesota (District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pages 4 through 10, budgetary comparison information, page 56, and the information about the District's other postemployment benefits, page 57, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining and individual fund financial statements and schedules, and other supplementary information, pages 58 through 64, are presented for the purpose of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements and schedules, and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional audit procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the financial statements taken as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States, the District's basic financial statements for the year ended June 30, 2011, which are not presented with the accompanying financial statements. In our report dated December 6, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining and individual fund financial statements and schedules, pages 58 through 63, related to the 2011 comparative actual amounts are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2011 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2011 individual fund schedules are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Eileen A. Schilling Ltd.

FINANCIAL SECTION

**REQUIRED SUPPLEMENTARY
INFORMATION**

INDEPENDENT SCHOOL DISTRICT NO. 709 – DULUTH PUBLIC SCHOOLS
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012

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, 2012.

FINANCIAL HIGHLIGHTS

- The District’s total net assets of governmental activities increased approximately \$8.0 million, versus 2011, primarily due to an increase in capital assets related to our facilities plan.
- General revenues accounted for 88.9 million, or 69% of all fiscal year 2012 revenues. This represents an increase of \$2.2 million versus the prior year. Program specific revenues of \$39.9 million (charges for services, grants and contributions) accounted for 31% of total fiscal 2012 revenues. This represents a decrease of \$3.6 million versus the prior year.
- The District spent approximately \$120.8 million on governmental activities. This represents a decrease of \$6.5 million (equal to 5.1%) versus prior year. The decrease results from significant reductions in operating expenses which were partially offset by expenses related to long-term debt related to the Long Range Facilities Plan (LRFP).
- Among major funds, the General fund had \$99.6 million in revenues, consisting mainly of state aids and local property taxes, and \$100.6 million in expenditures. This deficit of \$1.0 million was \$4.0 million less than the prior year.
- General Fund spending was \$0.8 million more than the revised budget of \$99.8 million. This is due to open purchase orders, school budgets and referendum spending that was carried over from FY 2011.

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 assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 two categories: governmental funds and fiduciary funds.

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

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

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$12.4 million as of June 30, 2012. This increase of \$8.0 marks the seventh gain in the past nine years.

Duluth Public Schools Statement of Net Assets As of June 30,

	2012	2011	Total Percentage Change 2011- 2012
Current and Other Assets	\$121,491,653	\$169,673,158	(28.4)%
Capital Assets	<u>289,129,981</u>	<u>236,146,482</u>	22.4%
Total Assets	410,621,634	\$405,819,640	1.2%
Long-term Liabilities	325,695,144	323,988,963	0.5%
Other Liabilities	<u>72,516,158</u>	<u>77,467,695</u>	(6.4)%
Total Liabilities	398,211,302	\$401,456,658	(0.8)%
Net Assets/(Liabilities)			
Invested in capital assets, net of related debt	34,753,674	\$29,258,467	18.8%
Restricted	5,364,281	10,530,320	(49.1)%
Unrestricted	<u>(27,707,623)</u>	<u>(35,425,805)</u>	(21.8)%
Total Net Assets	<u>12,410,332</u>	<u>\$4,362,982</u>	184.4%

District Assets of \$410.6 million include, \$2.5 million in other assets, \$23.1 million in unrestricted cash, property tax and state aid receivables of \$48.8 million capital assets being depreciated of \$200.5 million, \$47.1 million in restricted cash (for the facilities plan) and \$88.6 million in undepreciated capital assets.

District Liabilities of \$398.2 million include \$312.3 million in Long-term Debt (facilities plan), \$13.4 million for the current portion of long-term debt, \$26.8 million due to employees and vendors for expenditures incurred but not paid as of fiscal year-end, \$22.6 million for a short term loan, 21.8 million for revenues collected for future fiscal years and \$1.3 million in other liabilities.

**Duluth Public Schools
Change in Net Assets
For the Year ended June 30,**

Revenues:	<u>2012</u>	<u>2011</u>	Total % Change 2011- <u>2012</u>
Program Revenues:			
Charges for Services	\$ 8,453,941	\$ 10,542,295	(19.8)%
Operating grants and contributions	31,461,420	32,983,290	(4.6)%
General Revenues:			
Property taxes	22,788,388	21,411,978	6.4%
State aids	63,438,608	58,681,608	8.1%
Other	<u>2,701,125</u>	<u>6,595,075</u>	(59.0)%
Total Revenues	\$ 128,843,482	\$ 130,214,246	(1.1)%
Expenses:			
Administration	\$ 4,468,499	\$5,599,964	(20.2)%
District support services	2,737,883	3,795,391	(27.9)%
Elementary and secondary regular instruction	41,115,756	49,441,123	(16.8)%
Vocational education instruction	1,247,424	1,502,716	(17.0)%
Special education instruction	22,309,071	22,947,007	(2.8)%
Instructional support services	3,034,297	3,958,788	(23.4)%
Pupil support services	8,387,588	8,757,974	(4.2)%
Sites and buildings	17,125,831	9,897,874	73.0%
Fiscal and other fixed cost programs	381,596	269,564	41.6%
Food service	3,030,019	3,110,688	(2.6)%
Community service	8,036,613	7,881,769	2.0%
Interest and fiscal charges on long-term debt	8,921,555	<u>10,170,870</u>	(12.3)%
Total expenses	<u>120,796,132</u>	<u>\$127,333,728</u>	(5.1)%
Change in net assets	<u>8,047,350</u>	<u>2,880,518</u>	<u>179.4%</u>
Beginning of year net assets	<u>4,362,982</u>	<u>\$1,482,464</u>	<u>194.3%</u>
End of year net assets	<u>12,410,332</u>	<u>\$4,362,982</u>	<u>184.4%</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

GENERAL FUND

The General Fund fund balance decreased \$3.2 million to a total of \$3.6 million as follows:

Unassigned fund balance increased by \$1.1 million to \$0.8 million. Unrealized property sales of \$2.5 million, an adopted budget deficit of \$0.4 million and miscellaneous spending variances of \$0.1 million were offset by a \$4.1 million increase from committed fund balance as described below.

Committed fund balance is zero, a decrease of \$4.1 million, as there is no current board resolution for this classification.

Assigned fund balances of \$1.9 million decreased by \$0.1 million from the prior year.

Restricted fund balances were unchanged at \$0.6 million. A \$0.1 increase in operating capital funds was offset by a \$0.1 million decrease in staff development funds.

Non-spendable fund balances were unchanged at \$0.2 million.

BUDGET REVISIONS

General fund (which includes the District's general, transportation and capital funds) adopted revenue budget of \$94.0 million was revised upward to \$97.7 million as a result of a \$1.5 million increase in Title program budgets and Federal stimulus monies, \$1.0 million in additional state aid passed by the legislature after our budget was adopted, and a \$1.2 million increase for grants related to student and curriculum support.

General fund adopted expenditure budget of \$94.5 million was increased by \$5.3 million to \$99.8 million. In addition to the \$3.7 million of items identified in the preceding paragraph, there was \$1.6 million of budget carryover from the prior year.

VARIANCES TO FINAL REVISED BUDGET

General fund revenues were \$1.9 million more than the revised budget (a difference of 1.97%). This represents grant and federal program revenues that were realized in FY 2012 rather than FY 2011.

General fund spending was \$0.8 million more than the revised budget. This was due to some additional spending related to the additional revenues noted above.

CAPITAL ASSETS

In fiscal 2012, the District acquired \$57.9 million of new capital assets, reflecting the impact of our Long Range Facilities Plan. Large items included ongoing facilities improvements, school bus purchases, and technology equipment. Depreciation of \$3.2 million was taken on existing items. As of June 30, 2012, the district had capital items costing \$322.7 million, which had an undepreciated value of \$289.1 million. Most of the capital investment is in buildings and equipment.

LONG-TERM LIABILITIES

At year-end, the district had \$295.8 million of outstanding bonds payable and certificates of participation. This reflects an increase of \$7.9 million versus the principal amount of \$287.9 million due in 2011. 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 \$869.4 million as of June 30, 2012.

The remainder of long-term liabilities is the \$29.9 million recognized for severance benefits and other post-employment benefits (OPEB). This represents a decrease of \$6.2 million versus prior year.

ECONOMIC AND BUDGETARY FACTORS

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.

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 – the current economic forecast for the state of Minnesota continues to be more negative than in the recent past. Since K-12 education makes up over 40% of state spending and because State revenues account for over 71% of the District's General revenues, the District will be impacted by decisions made relative to education spending. The District anticipates that state aid payment delays will continue, perpetuating the need for short-term borrowing.

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.

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.

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:

Bill Hanson, CFO/Executive Director of Business Services, ISD #709
215 N. 1st Avenue East, Duluth, MN 55802
or call 218-336-8704

Basic Financial Statements

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

Exhibit 1

**Statement of Net Assets
June 30, 2012**

	<u>Governmental Activities</u>
Assets	
Cash and temporary investments	\$ 23,123,979
Receivables	
Taxes	16,155,400
Accounts and interest receivable	1,719,108
Due from other governmental units	30,898,615
Early recognition of general education aid	850,266
Inventory	220,364
Assets held for resale	1,351,106
Prepayments	83,022
Property tax shift adjustment	14,314
Restricted assets	
Cash and investments for capital projects	47,075,479
Capital assets, net of depreciation	
Capital assets not being depreciated	88,591,721
Capital assets being depreciated	<u>200,538,260</u>
Total assets	<u><u>\$ 410,621,634</u></u>
Liabilities	
Salaries payable	\$ 13,157,205
Accounts and contracts payable	8,766,373
Short-term loan	22,610,000
Accrued interest payable	4,864,680
Due to other funds	227,734
Due to other governmental units	83,379
Compensated absences	395,801
Unearned revenue	1,834,772
Taxes levied for subsequent years' expenditures	19,985,384
Unamortized premium and discount, net	590,830
Long term liabilities	
Due within one year	13,392,969
Due in more than one year	<u>312,302,175</u>
Total liabilities	<u><u>\$ 398,211,302</u></u>
Net Assets	
Invested in capital assets, net of related debt	\$ 34,753,674
Restricted for:	
State Restrictions	636,294
Food Service	902,315
Community Service	559,281
Debt Service	3,266,421
Unrestricted	<u>(27,707,653)</u>
Total Assets	<u><u>\$ 12,410,332</u></u>
Total liabilities and net assets	<u><u>\$ 410,621,634</u></u>

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

**Statement of Activities
For the Year Ended June 30, 2012**

Functions/Programs	Expenses
Government Activities	
Administration	\$ 4,468,499
District Support Services	2,737,883
Regular Instruction	41,115,756
Vocational Education Instruction	1,247,424
Special Education Instruction	22,309,071
Instructional Support Services	3,034,297
Pupil Support Services	8,387,588
Sites and Buildings	17,125,831
Fiscal and Other Fixed Cost Programs	381,596
Food Service	3,030,019
Community Service	8,036,613
Interest and Fiscal Charges on Long Term Debt	8,921,555
Total Governmental Activities	<u>\$ 120,796,132</u>

Exhibit 2

Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
\$	\$ 111,077	\$	\$ (4,357,422)
300			(2,737,583)
2,941,500	5,724,682		(32,449,574)
14,994	332,186		(900,244)
658,970	11,731,165		(9,918,936)
25,662	1,730,809		(1,277,826)
6,530	2,218,352		(6,162,706)
2,607,239	410,757		(14,107,835)
			(381,596)
1,095,188	2,221,739		286,908
1,103,558	5,208,727		(1,724,328)
	1,771,926		(7,149,629)
<u>\$ 8,453,941</u>	<u>\$ 31,461,420</u>	<u>\$</u>	<u>\$ (80,880,771)</u>
General Revenues			
Taxes			
Property Taxes, levied for General Purposes			\$ 11,347,644
Property Taxes, levied for Community Service			987,211
Property Taxes, levied for Debt Service			10,453,533
State aid-formula grants			63,438,608
Other general revenues			1,839,183
Investments Earnings			861,942
Total General Revenues			<u>\$ 88,928,121</u>
Change in net assets			\$ 8,047,350
Net liabilities - beginning			<u>4,362,982</u>
Net assets - ending			<u>\$ 12,410,332</u>

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2012

	<u>General</u>	<u>Capital Projects</u>
<u>Assets</u>		
Cash and investments	\$ 9,317,990	\$ 47,075,479
Taxes and credits receivable	7,570,717	
Accounts and interest receivable	90,079	1,616,681
Due from		
Other Minnesota school districts	994,533	
Department of Education	25,827,049	59,999
Federal through Department of Education	1,673,993	
Federal - direct	84,606	
Other governmental units	89,157	
Early recognition of general education aid	850,266	
Property tax shift adjustment		
Inventory	131,188	
Assets held for resale	1,351,106	
Prepayments	79,464	
	<hr/>	<hr/>
Total Assets	<u>\$ 48,060,148</u>	<u>\$ 48,752,159</u>

Exhibit 3

Debt Service	Other Funds	Total Government Funds
\$ 12,661,289	\$ 1,144,700	\$ 70,199,458
7,955,262	629,421	16,155,400
1,312	11,036	1,719,108
		994,533
965,079	739,597	27,591,724
	45,544	1,719,537
	414,353	498,959
	4,705	93,862
		850,266
	14,314	14,314
	89,176	220,364
		1,351,106
	3,558	83,022
\$ 21,582,942	\$ 3,096,404	\$ 121,491,653

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2012

	<u>General</u>	<u>Capital Projects</u>
<u>Liabilities</u>		
Salaries payable	\$ 12,565,358	\$ 11,108
Accounts payable	1,171,498	
Short term loan	22,610,000	
Due to		
Other funds	171,010	
Other Minnesota school districts	83,005	
Other governmental units	374	
Claims payable	178,482	
Construction contracts		7,291,933
Deferred revenue	1,623,817	
Delinquent taxes	589,002	
Taxes levied for subsequent years' expenditures	5,461,317	
Total Liabilities	<u>\$ 44,453,863</u>	<u>\$ 7,303,041</u>

**Exhibit 3
(Continued)**

<u>Debt Service</u>	<u>Other Funds</u>	<u>Total Government Funds</u>
\$	\$ 580,739	\$ 13,157,205
	124,460	1,295,958
		22,610,000
	56,724	227,734
		83,005
		374
		178,482
		7,291,933
	210,955	1,834,772
602,349	60,226	1,251,577
13,954,871	569,196	19,985,384
<u>\$ 14,557,220</u>	<u>\$ 1,602,300</u>	<u>\$ 67,916,424</u>

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

**Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2012**

	<u>General</u>	<u>Capital Projects</u>
Fund Balance (Deficit)		
NonSpendable:		
Inventory	\$ 131,188	\$
Prepayments	79,464	
Restricted for:		
Basic skills programs	305,115	
Operating capital	95,292	
Staff development	235,887	
Alternative facilities		13,560,798
Projects funded by COP		27,888,320
Debt service		
Food service		
Community education		
Early childhood family education		
School readiness		
Adult basic education		
Community service		
Assigned for:		
Textbooks	273,247	
School carryover	327,972	
Student activities	1,122,343	
Desegregation	210,542	
Unassigned		
General	825,235	
Total Fund Balance	\$ 3,606,285	\$ 41,449,118
Total Liabilities and Fund Balance	\$ 48,060,148	\$ 48,752,159

**Exhibit 3
(Continued)**

Debt Service	Other Funds	Total Governmental Funds
\$	\$ 89,176	\$ 220,364
	3,558	83,022
		305,115
		95,292
		235,887
		13,560,798
		27,888,320
7,025,722		7,025,722
	902,315	902,315
	143,816	143,816
	190,534	190,534
	19,373	19,373
	117,974	117,974
	27,358	27,358
		273,247
		327,972
		1,122,343
		210,542
		825,235
<u>\$ 7,025,722</u>	<u>\$ 1,494,104</u>	<u>\$ 53,575,229</u>
<u><u>\$ 21,582,942</u></u>	<u><u>\$ 3,096,404</u></u>	<u><u>\$ 121,491,653</u></u>

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

Exhibit 4

**Reconciliation of the Balance Sheet to the
Statement of Net Assets
Governmental Funds
June 30, 2012**

Total fund balances - governmental funds	\$ 53,575,229
--	---------------

Amounts reported for governmental activities in the statement
of activities 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	322,714,184
Less: accumulated depreciation	(33,584,203)

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	(63,720,000)
Certificates of participation	(232,105,425)

Long-term liabilities, including severance payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(26,619,971)
--	--------------

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.	(395,801)
---	-----------

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.	1,251,577
---	-----------

Governmental funds do not report a liability for accrued interest until due and payable.	(4,864,680)
---	-------------

Changes in net other post-employment benefits obligations are reported only in the statement of activities.	(3,249,748)
--	-------------

Governmental funds report debt issuance premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported as an unamortized asset or liability in the District-wide financial statements.	(590,830)
---	-----------

Total net assets (liabilities) - governmental activities	<u>\$ 12,410,332</u>
--	----------------------

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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, 2012**

	General	Capital Projects
Revenues		
Local property tax levies	\$ 10,959,283	\$ 168,936
Interest income	45,332	811,418
Other local and county	4,694,564	43,180
State sources	74,659,787	168,064
Federal sources	8,605,890	
Sales and other conversions of assets	620,630	
Total Revenues	\$ 99,585,486	\$ 1,191,598
Expenditures		
Administration	\$ 4,440,358	\$
District support services	2,264,814	
Regular instruction	46,967,805	
Vocational instruction	1,243,565	
Special education instruction	22,271,731	
Community education and services		
Instructional support services	3,022,358	
Pupil support services	8,054,207	
Sites, buildings and equipment	7,798,021	525,232
Fiscal and other fixed cost programs	381,596	
Debt service		
Principal		
Interest and fiscal charges		
Capital outlay	4,190,243	58,896,170
Total Expenditures	\$ 100,634,698	\$ 59,421,402
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,049,212)	\$ (58,229,804)
Other Financing Sources (Uses)		
Sale of equipment	\$ 300	\$
Sale of property	2,250,855	
Proceeds from bonds and loans, net	192,298	18,691,937
Transfer In		
Transfer Out	(4,587,733)	
Total Other Financing Sources (Uses)	\$ (2,144,280)	\$ 18,691,937
Net change in fund balance	\$ (3,193,492)	\$ (39,537,867)
Fund Balance		
Beginning of Year	6,799,777	80,986,985
End of Year	\$ 3,606,285	\$ 41,449,118

Exhibit 5

Debt Service	Other Funds	Total Governmental Funds
\$ 10,263,776	\$ 963,798	\$ 22,355,793
5,192		861,942
	1,848,576	6,586,320
2,703,457	2,213,415	79,744,723
1,162,926	5,400,402	15,169,218
	1,077,296	1,697,926
<u>\$ 14,135,351</u>	<u>\$ 11,503,487</u>	<u>\$ 126,415,922</u>
\$	\$	\$ 4,440,358
		2,264,814
		46,967,805
		1,243,565
		22,271,731
	7,996,290	7,996,290
		3,022,358
	3,022,809	11,077,016
		8,323,253
		381,596
9,825,000		9,825,000
10,806,457		10,806,457
	15,082	63,101,495
<u>\$ 20,631,457</u>	<u>\$ 11,034,181</u>	<u>\$ 191,721,738</u>
<u>\$ (6,496,106)</u>	<u>\$ 469,306</u>	<u>\$ (65,305,816)</u>
\$	\$	\$ 300
		2,250,855
		18,884,235
4,587,733		4,587,733
		(4,587,733)
<u>\$ 4,587,733</u>	<u>\$</u>	<u>\$ 21,135,390</u>
\$ (1,908,373)	\$ 469,306	\$ (44,170,426)
<u>8,934,095</u>	<u>1,024,798</u>	<u>97,745,655</u>
<u><u>\$ 7,025,722</u></u>	<u><u>\$ 1,494,104</u></u>	<u><u>\$ 53,575,229</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 6

Reconciliation of the Statement of
Revenues, Expenditures, and Changes in Fund Balance
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2012

Total net changes in fund balances - governmental funds	\$ (44,170,426)
---	-----------------

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	56,919,157
Disposal of capital assets	(713,330)
Depreciation expense	(3,222,328)

The amount of bond proceeds used to finance the acquisition of capital assets is reported in the governmental funds as source of financing. Bond proceeds are not revenues in the statement of activities, but rather constitute long-term liabilities	(19,140,425)
--	--------------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	11,190,000
--	------------

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.	226,715
--	---------

Net amortization of premiums and discounts.	293,187
---	---------

Change in severance and post-employment benefits is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	6,244,244
---	-----------

Payment of compensated absences is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	(12,039)
--	----------

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.	432,595
--	---------

Change in net assets - governmental activities	<u>\$ 8,047,350</u>
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INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 7

STATEMENT OF NET ASSETS
DENTAL INTERNAL SERVICE FUND
JUNE 30, 2012

	<u>2012</u>
<u>Assets</u>	
Current Assets	
Cash and investments	\$ 68,875
Accounts and interest receivable	<u>898</u>
Total Assets	<u>\$ 69,773</u>
<u>Liabilities</u>	
Current Liabilities	
Claims payable	\$ 74,461
Unearned revenue	<u>89,711</u>
Total Liabilities	<u>\$ 164,172</u>
<u>Net Assets</u>	
Unrestricted	<u>\$ (94,399)</u>
Total Net Assets	<u>\$ (94,399)</u>
Total Liabilities and Net Assets	<u>\$ 69,773</u>

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
DENTAL INTERNAL SERVICE FUND
JUNE 30, 2012

	<u>2012</u>
Operating revenues	
Charges for Premiums, Net of Refunds	\$ 672,655
	<u> </u>
Total Operating Revenues	\$ 672,655
	<u> </u>
Operating expenses	
Employee benefits	\$ 759,664
Services, supplies, and fees	55,320
	<u> </u>
Total Operating Expenses	\$ 814,984
	<u> </u>
Operating Income (Loss)	\$ (142,329)
	<u> </u>
Nonoperating revenues	
Transfer in	47,930
	<u> </u>
Change in net assets	\$ (94,399)
	<u> </u>
Total Net Assets - Beginning	<u>0</u>
Total Net Assets - Ending	<u><u>\$ (94,399)</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 9

STATEMENT OF CASH FLOWS
DENTAL INTERNAL SERVICE FUND
JUNE 30, 2012

	<u>2012</u>
Cash Flows from Operating Activities	
Receipts from Interfund Services Provided	\$ 557,893
Receipts from retirees	203,575
Payments for administrative costs	(55,320)
Payments for claims	<u>(685,203)</u>
Net Cash Provided by Operating Activities	\$ 20,945
Cash Flows from Nonoperating Activities	
Transfer In	<u>47,930</u>
Net Increase in Cash and Cash Equivalents	\$ 68,875
Cash and Cash Equivalents - Beginning	<u>0</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 68,875</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (loss)	\$ (90,278)
Provided by Operating Activities	
(Increase) Decrease in Account Receivable	\$ (898)
Increase (Decrease) in Accounts Payable	70,339
Increase (Decrease) in Unearned Revenue	<u>89,712</u>
Total Adjustments	<u>\$ 159,153</u>
Net Cash Provided by Operating Activities	<u><u>\$ 68,875</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 10

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Federal Employee Benefit Trust	Private- Purpose Funds	Agency Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	\$ 1,526,505	\$ 146,824	\$ 23
Interest receivable	13,078		
Due from other funds	<u>227,734</u>		
Total Assets	<u><u>\$ 1,767,317</u></u>	<u><u>\$ 146,824</u></u>	<u><u>\$ 23</u></u>
Liabilities			
Deferred revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23</u>
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23</u>
Net Assets			
Reserved for endowment	\$ -	\$ 128,908	\$ -
Reserved for clock tower		17,916	
Reserved for retirees	<u>1,767,317</u>		
Total Net Assets	<u><u>\$ 1,767,317</u></u>	<u><u>\$ 146,824</u></u>	<u><u>\$ -</u></u>
Total Liabilities and Net Assets	<u><u>\$ 1,767,317</u></u>	<u><u>\$ 146,824</u></u>	<u><u>\$ 23</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 11

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012

	Federal Employee Benefit Trust	Private- Purpose Funds
	<u> </u>	<u> </u>
Additions		
Miscellaneous	\$ 227,734	\$
Investment earnings		
Interest	<u>10,289</u>	<u>1,588</u>
Total Additions	<u>\$ 238,023</u>	<u>\$ 1,588</u>
Deductions		
Benefits	\$ 200,000	\$
Pupil support services		
Total Deductions	<u>\$ 200,000</u>	<u>\$</u>
Changes in Net Assets	\$ 38,023	\$ 1,588
Net Assets - Beginning	<u>1,729,294</u>	<u>145,236</u>
Net Assets - Ending	<u><u>\$ 1,767,317</u></u>	<u><u>\$ 146,824</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the 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.

B. 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.

C. Basic Financial Statement Presentation

The district-wide financial statements (i.e., the Statement of Net Assets 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 Assets at the fund financial statement level.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

1. Summary of Significant Accounting Policies (continued)

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

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 appropriate functional activity.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

1. Summary of Significant Accounting Policies (continued)

D. 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:

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 is both 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:

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

1. Summary of Significant Accounting Policies (continued)

Major Governmental Funds

The General Fund of the District 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 Redemption 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.

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. In reporting the financial activity of the Proprietary Fund, the District applies all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989. 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 and severance benefits for employees eligible for those benefits in accordance with employment and bargaining unit agreements.

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 accounts for employees' severance for federally funded programs.

The Agency Funds account for assets held for employees and other agencies.

E. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

1. Summary of Significant Accounting Policies (continued)

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 of America.

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.

F. Cash and 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.

For purposes of the Proprietary Fund statement of cash flows, the District considers all legal investments authorized by Minnesota statutes with a maturity of three months or less to be cash equivalents.

G. 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, 2012, the allowance for uncollectible accounts was \$45,862. The only receivables not expected to be collected within one year are current and delinquent property taxes receivable.

H. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

1. Summary of Significant Accounting Policies (continued)

I. 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 an expenditure at the time of consumption.

J. Restricted Assets

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the district-wide financial statements.

K. Capital Assets

Capital assets are capitalized 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 fair market 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 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.

L. 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.

M. 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

1. Summary of Significant Accounting Policies (continued)

N. Fund Balances

In the fund financial statements, governmental funds report fund balance amounts within one of the following fund balance categories: non-spendable, restricted, committed, assigned or unassigned. Non-spendable fund balance is either (a) not in spendable form, or (b) legally or contractually required to remain intact. Restricted fund balance includes amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the School Board. Assigned fund balance includes amounts intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. The portion of the fund balance not non-spendable, restricted, committed or assigned is reported as unassigned fund balance. 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.

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.

O. Net Assets

Net assets represent the difference between assets and liabilities in the district-wide financial statements. Net assets invested in capital assets, net of related debt, 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 assets 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.

P. Property Taxes

The property tax calendar in Minnesota follows the calendar year. Taxes are levied in December of the year prior to collections and become a lien on January 1 based on the School Board's certification and property values as of the previous January 1. Taxes are due May 15 and October 15 to the county as agent for the District. The county remits taxes to the District in June, November, and January.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

2. Cash and Investments

A. Deposits

Minn. Stat. § 118A.04 authorizes the District to deposit its cash and to invest in financial institutions designated by the District's Board. Minnesota Statutes require that all District deposits be covered by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes: treasury bills, notes and bonds; issues of U.S. Government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District requires collateral for deposits over FDIC insurance coverage. At June 30, 2012, the District's deposits were not exposed to custodial credit risk.

B. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

2. Cash and Investments (continued)

Investments (continued)

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

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, 2012:

Investment Type	Fair Value	Less than 1 Yr	1-3 Years	Over 3 Years
Government Securities	\$ 7,451,130	\$ 3,241,579	\$ -	\$ 4,209,551
External Investment Pool	35,324,002	35,324,002		
Commercial Paper	1,361,608	1,361,608		
Money Market Funds	12,674,124	12,674,124		
Negotiable CD's	12,831,105	12,423,994	209,660	197,451
Government Time Deposits	807,245	807,245		
Total Investments	<u>\$ 70,449,214</u>	<u>\$ 65,832,552</u>	<u>\$ 209,660</u>	<u>\$ 4,407,002</u>

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, 2012 is as follows:

<u>S & P or Moody's Rating</u>	<u>Fair Value</u>
AAA	\$ 7,451,130
AAAm	35,324,002
Not rated	<u>27,674,082</u>
Total	<u>\$ 70,449,214</u>

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, 2012, none of the District's investments were subject to custodial credit risk.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

2. Cash and Investments (continued)

Investments (continued)

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 any one issuer. Investments in any one issuer (excluding mutual funds and external investment pools) that represents five percent or more of the District's investments are as follows:

<u>Issuer</u>	<u>Amount</u>
Key Bank	\$ 6,617,136

The District's total cash and investments as of June 30, 2012 are as follows:

Petty Cash	\$ 5,280
Deposits	1,487,191
Investments	<u>70,449,214</u>
	<u>\$ 71,941,685</u>

The District's total cash and investments as of June 30, 2012 are presented in the basic financial statements as follows:

Statement of Net Assets	
Cash and temporary investments	\$ 23,123,979
Restricted Assets:	
Cash and investments for capital projects	47,075,479
Statement of Fiduciary Net Assets	
Cash and Cash Equivalents	
Dental Insurance fund	68,875
Federal Employee Benefit Trust	1,526,505
Private Purpose Funds	146,824
Agency Funds	<u>23</u>
Total Cash and Investments	<u>\$ 71,941,685</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

3. Taxes and Credits Receivable

Current taxes and credits receivable represent the uncollected balance of the 2011 levy, collectible in 2012, including related state property tax relief aid. Delinquent taxes receivable represent taxes due from levies of the prior six years. At June 30, 2012, property taxes and credits receivable consisted of:

<u>Fund</u>	<u>Current</u>	<u>Delinquent</u>	<u>Total</u>
General	\$ 6,981,715	\$ 589,002	\$ 7,570,717
Community Services Fund	569,195	60,226	629,421
Debt Redemption Debt Service	7,352,913	602,349	7,955,262
Total	<u>\$ 14,903,823</u>	<u>\$ 1,251,577</u>	<u>\$ 16,155,400</u>

4. Inventory

Inventory at June 30, 2012, consisted of:

General Fund - Supplies	\$ 131,188
Food Service Fund - food	89,176
Total	<u>\$ 220,364</u>

5. Capital Assets

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

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2012</u>
Capital assets, not being depreciated				
Land	\$ 2,362,839	\$ 6,720,407	\$ (1,036,404)	\$ 8,046,842
Constr. work in proc.	192,344,357	58,922,595	(170,722,073)	80,544,879
Total capital assets, not being depreciated	<u>\$ 194,707,196</u>	<u>\$ 65,643,002</u>	<u>\$ (171,758,477)</u>	<u>\$ 88,591,721</u>
Capital assets, being depreciated				
Land improvements	\$ 3,313,584	\$ -	\$ (215,152)	\$ 3,098,432
Buildings	61,914,145	162,078,499	(1,091,105)	222,901,539
Furniture & Equipment	7,830,891	956,133	(664,532)	8,122,492
Total capital assets, being depreciated	<u>\$ 73,058,620</u>	<u>\$ 163,034,632</u>	<u>\$ (1,970,789)</u>	<u>\$ 234,122,463</u>
Less: Accumulated Depreciation	<u>(31,619,334)</u>	<u>(3,222,328)</u>	<u>1,257,459</u>	<u>(33,584,203)</u>
Capital assets, being depreciated, net	<u>\$ 41,439,286</u>	<u>\$ 159,812,304</u>	<u>\$ (713,330)</u>	<u>\$ 200,538,260</u>
Total capital assets, net of depreciation	<u>\$ 236,146,482</u>	<u>\$ 225,455,306</u>	<u>\$ (172,471,807)</u>	<u>\$ 289,129,981</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

5. Capital Assets

Depreciation expense was charged to governmental functions as follows:

Administration	5,236
District Support Service	219,467
Elem/Sec Regular Instruction	33,369
Vocational Education Instruction	3,859
Special Education Instruction	2,356
Community Education and Service	32,451
Instructional Support Services	2,837
Pupil Support Services	204,520
Sites and Buildings	2,718,233
Total	\$ 3,222,328

Included in amounts reported for fixed assets are land, buildings, and equipment related to closure hearings conducted by the School Board in May and June of 2011. The closure hearings included Central High School, Secondary Technical Center, Lincoln Park Elementary, Lester Park Elementary (315 N. 54th Ave E.), Laura MacArthur Elementary (727 N. Central Ave.), and Rockridge Elementary. The net book value of these assets total \$7,913,834.

6. 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, 2012, was \$492,391.

Future minimum lease payments under operating leases, which are not reflected in these financial statements, consist of the following at June 30, 2012:

<u>Year Ending June 30</u>	
2013	\$ 370,209
2014	64,520
Total	\$ 434,729

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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. \$ 102,520,000

\$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. 68,495,000

\$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. 34,100,000

\$2,620,000 Full Term Refunding Certificates of Participation, Series 2010B due in annual installments of \$500,000 to \$550,000 plus 1.50 to 2.30 percent interest from September 1, 2010 through March 1, 2015. 1,610,000

\$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. 4,790,000

\$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. 1,450,000

\$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. 6,340,000

Total \$ 232,105,425

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

7. Long-Term Liabilities – (continued)

The annual requirements to amortize the principal and interest are:

Year Ended June 30	Total	Principal	Interest
2013	\$ 18,048,400	\$ 8,420,000	\$ 9,628,400
2014	\$ 18,610,270	9,155,000	9,455,270
2015	\$ 18,804,368	9,665,000	9,139,368
2016	\$ 18,436,368	9,650,000	8,786,368
2017	\$ 18,623,355	10,215,000	8,408,355
2018-2022	\$ 98,399,661	63,210,239	35,189,422
2023-2027	\$ 111,834,435	92,165,781	19,668,654
2028-2032	\$ 31,667,936	29,624,405	2,043,531
Total	<u>\$ 334,424,793</u>	<u>\$ 232,105,425</u>	<u>\$ 102,319,368</u>

Bonds Payable

\$4,180,000 General Obligation Refunding Bonds (Series 2007) due in annual installments of \$620,000 to \$770,000 plus 3.300 to 3.625 percent interest from August 1, 2008 through February 1, 2014. 1,510,000

\$59,235,000 General Obligation Alternative Facilities Bonds (Series 2008A) due in annual installments of \$590,000 to \$5,200,000 plus 3.500 to 4.625 percent interest from February 1, 2009 through February 1, 2028 57,035,000

\$8,785,000 General Obligation School Building Refunding Bonds (Series 2010A) due in annual installments of \$1,635,000 to \$550,000 plus 2.00 to 3.00 percent interest from August 1, 2010 through February 1, 2016. 5,175,000

Total \$ 63,720,000

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

7. Long-Term Liabilities – (continued)

The annual requirements to amortize the principal and interest are:

Year Ended June 30	Total	Principal	Interest
2013	\$ 5,892,827	\$ 3,345,000	\$ 2,547,827
2014	5,880,463	3,420,000	2,460,463
2015	5,750,700	3,380,000	2,370,700
2016	5,842,750	3,585,000	2,257,750
2017	5,445,025	3,310,000	2,135,025
2018-2023	27,211,700	18,600,000	8,611,700
2024-2028	27,192,900	22,880,000	4,312,900
2029	5,440,500	5,200,000	240,500
Total	<u>\$ 88,656,865</u>	<u>\$ 63,720,000</u>	<u>\$ 24,936,865</u>

Changes in long-term debt for the year ended June 30, 2012, are:

	Balance June 30, 2011	Increase	Payments/ Adjustments	Balance June 30, 2012
Certificates of participation	\$ 220,915,000	\$ 19,140,425	\$ 7,950,000	\$ 232,105,425
Bonds payable	66,960,000		3,240,000	63,720,000
Total bond obligations	287,875,000	19,140,425	11,190,000	295,825,425
OPEB	2,794,532	705,188	249,972	3,249,748
Severance	33,319,431		6,699,460	26,619,971
Total	<u>\$ 323,988,963</u>	<u>\$ 19,845,613</u>	<u>\$ 18,139,432</u>	<u>\$ 325,695,144</u>

Certificates of Participation and bonds are paid from the General and Debt Service Funds. OPEB and severance obligations 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 \$1,162,926.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

7. Long-Term Liabilities – (continued)

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, 2012.

	Current Portion	Long-term Portion	Total
Certificates of participation	\$ 8,420,000	\$ 223,685,425	\$ 232,105,425
Bonds payable	3,345,000	60,375,000	63,720,000
OPEB		3,249,748	3,249,748
Severance obligation	1,627,969	24,992,002	26,619,971
 Total	 \$ 13,392,969	 \$ 312,302,175	 \$ 325,695,144

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, 2012 is approximately \$869,398,792.

8. Short -Term Liabilities

Certificates of Indebtedness

On March 29, 2011 the District issued \$19,375,000 General Obligation Tax and Aid Anticipation Certificates of Indebtedness, Series 2011A in anticipation of aids to be received from or through the Department of Education of the State of Minnesota, as well as taxes levied in the year 2010 for collection in 2011, including any amounts payable to the District by the State of Minnesota to replace such taxes. Proceeds will be used to provide moneys to meet current expenses of the District's operating funds and to cover a cash flow deficit. Principal plus interest of \$139,125 were repaid on 09/29/2011.

On December 14, 2011, the District issued \$22,610,000 General Obligation Tax and Aid Anticipation Certificates of Indebtedness, Series 2011 in anticipation of aids to be received from or through the Department of Education of the State of Minnesota, as well as taxes levied in the year 2011 for collection in 2012, including any amounts payable to the District by the State of Minnesota to replace such taxes. Proceeds will be used to provide moneys to meet current expenses of the District's operating funds and to cover a cash flow deficit. Principal plus interest of \$178,368 are due on 09/28/12.

Balance 7/1/2011	Issued	Payments	Balance 6/30/2012
\$ 19,375,000	\$ 22,610,000	\$ 19,375,000	\$ 22,610,000

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

9. 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, 2012, \$395,801 has been included in the district-wide financial statements.

10. 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 is 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 2012, 141 retirees received a total benefit of \$3,134,152. 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	\$ 2,728,980
Retained severance benefit obligations for qualified employees	25,658,008
Total termination benefits payable	<u>\$ 28,386,988</u>
Amount deposited in Federal Employee Benefit Trust Fund	<u>(1,767,317)</u>
Total	<u><u>\$ 26,619,671</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

11. Interfund Transactions

Individual fund receivable and payable balances at June 30, 2012:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ -	\$ 171,010
Community Service		56,724
Fiduciary Funds		
Federal Employee Benefit Trust	227,734	
Total Funds	<u>\$ 227,734</u>	<u>\$ 227,734</u>

These amounts represent federal severance calculation and interest due and to eliminate deficit cash balance in the Community Service Fund.

Individual fund transfers during the year ended June 30, 2012 were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General fund	\$ -	\$ 4,587,733
Debt redemption fund	4,587,733	
Dental Internal Service fund	47,930	
Total Funds	<u>\$ 4,635,663</u>	<u>\$ 4,587,733</u>

The amounts transferred between the General Fund and Debt Redemption Fund are in accordance with the District's long range facilities plan. The amount transferred in the Dental Internal Service Fund during the year was held as an accounts payable liability within the General Fund for the period ended June 30, 2011 and therefore does not have an offsetting transfer out.

12. Restricted Fund Balance

Below is a detail description of the restricted net asset amount reported on the Statement of Net Assets.

Basic skills program	\$ 305,115
Operating capital	95,292
Staff development	235,887
Debt service	3,266,421
Food Service	902,315
Community Education	143,816
Early childhood family education	190,534
School Readiness	19,373
Adult basic education	117,974
Community service	87,584
Total Restricted Net Assets	<u>\$ 5,364,311</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

13. 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. 45, 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.

Plan Description – Duluth Public Schools administers a single-employer defined benefit OPEB plan which allows retired employees to remain on the District's plan after severing from the District (implicit rate subsidy) at the retirees' expense. The District has no contractual liability to contribute financially toward the retiree's premium.

Funding – Employer contribution requirements are established and may be amended as set forth in the applicable employment and bargaining unit agreements. The plan is financed on a pay-as-you-go basis. As of July 1, 2011 the date of the latest actuarial valuation, approximately 1,087 retirees and their dependents were receiving postemployment health insurance benefits and an estimated 1,184 active employees are eligible to receive future benefits under the plan.

Annual OPEB Cost and Net OPEB Obligation – Duluth Public School's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of Duluth Public Schools' annual OPEB cost for the year, the amount actually contributed to the plan, and changes in Duluth Public Schools' net OPEB obligation as of June 30, 2012:

Annual Required Contribution (ARC)/Annual OPEB Cost	
Annual Required Contribution (ARC)	\$ 755,015
Interest on net OPEB obligation	111,781
Adjustment to ARC	(161,608)
Annual OPEB Cost	<u>\$ 705,188</u>
Estimated Employer contributions	
Implicit subsidy benefits	<u>\$ 249,972</u>
Total	<u>\$ 249,972</u>
Increase (decrease) in Net OPEB Obligation	455,216
Net OPEB obligation, June 30, 2011	<u>2,794,532</u>
Net OPEB obligation, June 30, 2012	<u><u>\$ 3,249,748</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

13. Post-Employment Healthcare Plan – (continued)

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Estimated Employer Contribution	% of Annual OPEB Cost Contribution	Net OPEB Obligation
June 30, 2010	\$ 1,637,206	\$ 958,322	58.5%	\$ 2,240,321
June 30, 2011	1,754,660	1,200,449	68.4%	2,794,532
June 30, 2012	705,188	249,972	35.4%	3,249,748

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date, the plan was 100 percent unfunded. The actuarial accrued liability and the unfunded actuarial accrued liability (UAAL) for benefits was \$6,574,768. The covered payroll (annual payroll of active employees covered by the plan) was \$46,802,003, and the ratio of the UAAL to the covered payroll was 14.0 percent.

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

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

In the July 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 4 percent, inflation rate of 3.0 percent, health care trend rates ranging from 9.5 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after ten years. The UAAL is being amortized as a level dollar amount over thirty years.

14. Pension Plans

Substantially all employees of the District are required by State law to belong to pension plans administered by the Duluth Teachers' Retirement Fund Association (DTRFA) or the Public Employees Retirement Association (PERA).

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

14. Pension Plans (continued)

1. Duluth Teachers' Retirement Fund Association

a. Plan Description

Certified employees of the District are covered by defined benefit plans administered by the DTRFA. DTRFA administers cost sharing, multiple employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 354A, 356, 356A, 317A and the Articles of Incorporation and bylaws of the Association.

DTRFA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits vest after three years of credited service and are established by Articles of Incorporation and bylaws, and by State Statute. The defined retirement benefits are based on a member's highest 5-year average salary, age, and years of credit at termination of service.

Association members may be eligible for benefits under three different plans depending on year of hire. Members in all three plans are covered by Social Security.

Old Plan: Covers Association members hired prior to July 1, 1981. Normal retirement benefits are earned at age 60, or age plus service totals 90. Retirement benefits vest after 10 years or age 60. The annual normal retirement benefit is equal to 1.45 percent of the member's high five-year average salary multiplied by the number of years of credited service. Early retirement benefits are available at age 55 with 10 or more years of credited service with a .25 percent per month early retirement deduction under age 60. Old plan members may elect Tier I or Tier II plans if they produce a higher annual retirement benefit.

Tier I Plan: Covers Association members hired or rehired before July 1, 1989. Normal retirement benefits are earned at age 65, or at age 62 with at least 30 years of service, or if age plus service totals 90. Retirement benefits vest after 3 years of service or at age 65. The annual retirement benefit is equal to 1.20 percent for each of the first ten years of service credit and 1.70 percent for each subsequent year of service credit multiplied by the high five successive years average salary. Early retirement benefits are available at age 55 with three or more years of credited service or at any age with 30 or more years of credited service with a .25 percent per month early retirement deduction under the normal retirement age. Tier I Plan members may elect the Tier II Plan if it produces a higher annual retirement benefit.

Tier II Plan: Covers Association members hired or rehired after June 30, 1989. Normal retirement benefits are tied to the Social Security normal retirement age, but in no event is normal retirement age higher than age 66. Retirement benefits vest after 3 years or age 65. The annual normal retirement benefit is equal to 1.70 percent for all years of credited service multiplied by the high five successive years of average salary. Benefits are available as early as age 55 with three or more years of credited service with an actuarial equivalence early retirement reduction under normal retirement age.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

14. Pension Plans – (continued)

a. Plan Description (continued)

Under all plans, members may elect to receive their pension benefits in the form of a single-life annuity, a joint and survivor annuity or a life and term certain annuity, and have the option of electing Social Security actuarial income leveling. Terminating members may receive a refund of their contributions with interest computed at 6 percent or may elect an augmented deferred retirement benefit if retirement benefits have vested.

If active members die prior to the receipt of their first retirement allowance payment, death benefits are payable under each of the three plans. Active members who have not reached normal retirement age and have at least three years of credited service may receive a disability benefit upon becoming permanently disabled.

A guaranteed 2% cost-of-living adjustment (COLA) is payable to eligible benefit recipients each January 1. An additional percentage increase is added to the guaranteed 2% COLA to the extent that five-year annualized investment returns exceed the plans 8.5% actuarially assumed rate of interest, and to the extent that contribution rates are determined to be actuarially sufficient.

DTRFA issues a financial report that includes financial statements and required supplementary information and makes it available to the public by written request to DTRFA, 625 East Central Entrance, Duluth, MN 55811 or by calling (218) 722-2894.

b. Funding Policy

Minnesota Statutes Chapter 354A.12 sets the rates for employers and employee contributions. These statutes are established and amended by the state legislature. The District contributions to the pension plans are equal to the amount required by state statutes. DTRFA members are required to contribute 6.00% for FY 2012 and 6.50% for FY 2013. The District is required to contribute 6.29% of annual covered payroll in FY 2012 and 6.79% in FY 2013. The District's contributions for the years ending June 30, 2012, 2011, 2010 were \$2,805,041, \$2,713,091, and \$2,773,309, respectively equal to the contractually required contributions for each year as set by state statute.

2. Public Employees Retirement Association

a. Plan Description

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

14. Pension Plans – (continued)

2. Public Employees Retirement Association (continued)

a. Plan Description (continued)

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

14. Pension Plans – (continued)

2. Public Employees Retirement Association (continued)

b. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by the statutes. Effective PERA Basic Plan members are required to contribute 9.10% of their annual covered salary. Coordinated Plan members were required to contribute 6.25% for the calendar year. The District is required to contribute 11.78% of the annual covered salary for Basic Plan GERS members. The required District contribution percentages for Coordinated Plan GERS members is 7.25%. The District contributions for the years ending June 30, 2012, 2011 and 2010 were \$1,098,380, \$1,123,898, and \$1,151,046 respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

15. Expenditures Over Budget

The following funds had expenditures in excess of appropriations for the year ended June 30, 2012:

<u>Fiscal Year Ended</u>	<u>Final Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 99,818,369	\$ 100,634,698	\$ (816,329)
Capital Projects Fund	58,683,914	59,421,402	(737,488)

16. Fund Balances

The following fund had a fund balance deficit at June 30, 2012:

Dental Internal Service Fund	
Unrestricted	\$ (94,399)

17. 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 are insured through participation in the Minnesota School Boards Association Insurance Trust. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

17. Risk Management - (continued)

The Minnesota School Boards Association Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for member school districts. The District pays an annual premium based on annual payroll rates and an experience modification factor for workers' compensation coverage.

The District handles reemployment costs through a self-insurance plan. The District retains the risks associated with reemployment claims.

There were no significant reductions in insurance from coverage in the prior year, and claims did not exceed insurance coverage in any of the past three years.

The District self-insures dental benefits provide to retirees and active employees. The plan is funded by employee and employer contributions. The maximum benefit is \$500 per participant per year. The plan is administered by a third party administrator.

The plan liabilities for claims incurred but not reported are estimated based on subsequent claims activity.

An analysis of claims activities is presented below:

Fiscal Year Ended	Claim Liability		Claims Incurred	Claims Paid	Claim Liability End of Year
	Beginning of Year				
June 30, 2011	\$ 68,951	\$	816,829	\$ 812,807	\$ 72,973
June 30, 2012	72,973		759,664	758,176	74,461

18. Commitments

At June 30, 2012, the District had commitments under various construction and service contracts totaling \$15,367,541. The construction commitments will be paid by the Capital Projects Fund.

19. 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 of the financial conditions of the District.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

20. Subsequent Events

On September 20, 2012 the District issued \$23,000,000 General Obligation Aid Anticipation Certificates of Indebtedness, Series 2012C. The certificates were issued at an interest rate of 1.50 % and mature September 20, 2013. The debt was issued to finance current operational costs of the General Fund.

**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, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	Budget			Over (Under)	Prior Year
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local property tax levies	\$ 9,497,258	\$ 9,509,258	\$ 10,959,283	\$ 1,450,025	\$ 11,036,584
Interest income	55,326	55,326	45,332	(9,994)	61,153
Other local and county	2,734,075	3,157,030	4,694,564	1,537,534	4,861,024
State sources	73,597,605	74,735,220	74,659,787	(75,433)	74,443,715
Federal sources	7,587,905	9,536,352	8,605,890	(930,462)	9,950,566
Sales and other conversions of assets	484,210	667,211	620,630	(46,581)	399,513
Total Revenues	\$ 93,956,379	\$ 97,660,397	\$ 99,585,486	\$ 1,925,089	\$ 100,752,555
Expenditures					
Administration	\$ 4,285,484	\$ 4,331,274	\$ 4,440,358	\$ 109,084	\$ 5,586,829
District support services	4,422,345	4,770,960	2,264,814	(2,506,146)	2,649,414
Regular instruction	38,227,795	41,263,849	46,967,805	5,703,956	48,777,597
Vocational instruction	1,353,575	1,443,355	1,243,565	(199,790)	1,495,399
Special education instruction	21,119,443	21,172,076	22,271,731	1,099,655	22,807,509
Instructional support services	3,154,406	3,902,174	3,022,358	(879,816)	3,809,696
Pupil support services	7,505,477	7,599,338	8,054,207	454,869	8,460,095
Sites, buildings and equipment	7,335,901	7,699,630	7,798,021	98,391	8,102,812
Fiscal and other fixed cost programs	3,050,000	3,110,203	381,596	(2,728,607)	269,564
Capital outlay	4,054,378	4,525,510	4,190,243	(335,267)	3,823,772
Total Expenditures	\$ 94,508,804	\$ 99,818,369	\$ 100,634,698	\$ 816,329	\$ 105,782,687
Excess (Deficiency) of Revenues Over Expenditures	\$ (552,425)	\$ (2,157,972)	\$ (1,049,212)	\$ 1,108,760	\$ (5,030,132)
Other Financing Sources (Uses)					
Sale of equipment	\$	\$	\$ 300	\$ 300	\$ 5,546
Sale of property	4,774,000	4,774,000	2,250,855	(2,523,145)	448,085
Proceeds from bonds and loans, net			192,298	192,298	3,180
Operating transfers out	(4,587,733)	(4,587,733)	(4,587,733)		(3,344,250)
Total Other Financing Sources (Uses)	\$ 186,267	\$ 186,267	\$ (2,144,280)	\$ (2,330,547)	\$ (2,887,439)
Net change in fund balance	\$ (366,158)	\$ (1,971,705)	\$ (3,193,492)	\$ (1,221,787)	\$ (7,917,571)
Fund Balance					
Beginning of Year			\$ 6,799,777		\$ 14,717,348
End of Year			<u>\$ 3,606,285</u>		<u>\$ 6,799,777</u>

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S OTHER POST EMPLOYMENT
HEALTH CARE PLAN
June 30, 2012

Statement A-2

A. Schedule of Employer Contributions

Fiscal Year Ending	Annual OPEB Cost	Annual Employer Contributions	% of Annual OPEB Cost Contribution	Covered Payroll (c)
2010	\$ 1,637,206	\$ 958,322	58.5%	\$ 2,240,321
2011	1,754,660	1,200,449	68.4%	2,794,532
2012	705,188	249,972	35.4%	3,249,748

B. Funded Status

(a) Actuarial Valuation Date	(b) Actuarial Value of Assets	(c) Actuarial Accrued Liability	(d)=(c)-(b) Unfunded Actuarial Accrued Liability	(e)=(b)/(c) Funded Ratio	(f) Estimated Covered Payroll	(g)=(d)/(f) UAAL as Percentage of Covered Payroll
July 1, 2009	\$ -	\$ 15,477,010	\$ 15,477,010	0%	\$ 57,987,820	26.7%
July 1, 2011		6,574,768	6,574,768	0%	46,802,003	14.0%

**SUPPLEMENTARY
INFORMATION**

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement B-1

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
CAPITAL PROJECTS FUND
BUDGET AND ACTUAL
Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	Budget			Over (Under) Final Budget	Prior Year Actual
	Original	Final	Actual		
Revenues					
Local property tax levies	\$ 168,064	\$ 168,064	\$ 168,936	\$ 872	\$ 168,450
Interest income		775,000	811,418	36,418	4,466,237
Other local and county			43,180	43,180	4,579
State sources	168,450	168,450	168,064	(386)	168,063
Total Revenues	\$ 336,514	\$ 1,111,514	\$ 1,191,598	\$ 80,084	\$ 4,807,329
Expenditures					
Sites, buildings and equipment	\$ 327,941	\$ 437,505	\$ 525,232	\$ 87,727	\$ 841,574
Capital Outlay	57,815,973	58,246,409	58,896,170	649,761	120,292,591
Total Expenditures	\$ 58,143,914	\$ 58,683,914	\$ 59,421,402	\$ 737,488	\$ 121,134,165
Excess (Deficiency) of Revenues Over Expenditures	\$ (57,807,400)	\$ (57,572,400)	\$ (58,229,804)	\$ (657,404)	\$ (116,326,836)
Other Financing Sources (Uses)					
Proceeds from bonds and loans, net		18,691,937	18,691,937	0	6,522,753
Transfer Out					(3,209,284)
Total Other Financing sources (Uses)		18,691,937	18,691,937	0	3,313,469
Net change in fund balance	\$ (57,807,400)	\$ (38,880,463)	\$ (39,537,867)	\$ (657,404)	\$ (113,013,367)
Fund Balance					
Beginning of Year			80,986,985		194,000,352
End of Year			<u>\$ 41,449,118</u>		<u>\$ 80,986,985</u>

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement C-1

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
DEBT REDEMPTION DEBT SERVICE FUND
BUDGET AND ACTUAL

Year Ended June 30, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	Budget			Over (Under)	Prior Year
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local property tax levies	\$ 11,139,461	\$ 11,139,461	\$ 10,263,776	\$ (875,685)	\$ 9,491,165
Interest income			5,192	5,192	13,637
State sources	2,817,450	2,817,450	2,703,457	(113,993)	2,683,716
Federal sources	1,164,015	1,164,015	1,162,926	(1,089)	1,164,016
Total Revenues	\$ 15,120,926	\$ 15,120,926	\$ 14,135,351	\$ (985,575)	\$ 13,352,534
Expenditures					
Principal	\$ 9,000,000	\$ 9,825,000	\$ 9,825,000	\$ 0	\$ 5,475,000
Interest and fiscal charges	10,893,518	10,893,518	10,806,457	(87,061)	10,746,852
Total Expenditures	\$ 19,893,518	\$ 20,718,518	\$ 20,631,457	\$ (87,061)	\$ 16,221,852
Excess (Deficiency) of Revenues Over Expenditures	\$ (4,772,592)	\$ (5,597,592)	\$ (6,496,106)	\$ (898,514)	\$ (2,869,318)
Other Financing Sources (Uses)					
Proceeds from bonds and loans, net	\$	\$	\$	\$	\$ 42,412
Transfer In	4,587,733	4,587,733	4,587,733	0	6,553,534
Total Other Financing Sources (Uses)	\$ 4,587,733	\$ 4,587,733	\$ 4,587,733	\$ 0	\$ 6,595,946
Net change in fund balance	\$ (184,859)	\$ (1,009,859)	\$ (1,908,373)	\$ (898,514)	\$ 3,726,628
Fund Balance					
Beginning of Year			8,934,095		5,207,467
End of Year			\$ 7,025,722		\$ 8,934,095

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement D-1

COMBINING BALANCE SHEET
OTHER FUNDS
JUNE 30, 2012
With Comparative Amounts at June 30, 2011

	Food Service	Community Services	Totals	
			2012	2011
<u>Assets</u>				
Cash and investments	\$ 933,193	\$ 211,507	\$ 1,144,700	\$ 628,939
Taxes and credits receivable		629,421	629,421	642,387
Accounts and interest receivable	1,581	9,455	11,036	7,993
Due from				
Department of Education	34,658	704,939	739,597	627,131
Federal through Department of Education		45,544	45,544	126,894
Federal - direct		414,353	414,353	346,442
Other governmental units		4,705	4,705	4,861
Property tax shift		14,314	14,314	
Inventory	89,176		89,176	83,033
Prepayments	1,464	2,094	3,558	
Total Assets	<u>\$ 1,060,072</u>	<u>\$ 2,036,332</u>	<u>\$ 3,096,404</u>	<u>\$ 2,467,680</u>
<u>Liabilities</u>				
Salaries payable	\$ 17,447	\$ 563,292	\$ 580,739	\$ 556,616
Accounts payable	49,670	74,790	124,460	87,396
Due to				
Other funds		56,724	56,724	130,258
Deferred revenue		210,955	210,955	3,715
Delinquent taxes		60,226	60,226	
Property tax shift				36,813
Taxes levied for subsequent year's expenditures		569,196	569,196	628,084
Total Liabilities	<u>\$ 67,117</u>	<u>\$ 1,535,183</u>	<u>\$ 1,602,300</u>	<u>\$ 1,442,882</u>
Fund Balance				
NonSpendable:				
Inventory	\$ 89,176	\$	\$ 89,176	\$ 83,033
Prepayments	1,464	2,094	3,558	
Restricted for:				
Community education		143,816	143,816	69,770
Early childhood family education		190,534	190,534	160,099
School readiness		19,373	19,373	
Adult basic education		117,974	117,974	61,524
Community service		27,358	27,358	
Fund balance	902,315		902,315	650,372
Total Fund Balance	<u>\$ 992,955</u>	<u>\$ 501,149</u>	<u>\$ 1,494,104</u>	<u>\$ 1,024,798</u>
End of Year	<u>\$ 1,060,072</u>	<u>\$ 2,036,332</u>	<u>\$ 3,096,404</u>	<u>\$ 2,467,680</u>

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, 2012

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

	Food Service	Community Services	Totals	
			2012	2011
Revenues				
Local property tax levies	\$	\$ 963,798	\$ 963,798	\$ 862,952
Other local and county	17,892	1,830,684	1,848,576	1,742,544
State sources	159,262	2,054,153	2,213,415	2,148,213
Federal sources	2,062,477	3,337,925	5,400,402	5,200,474
Sales and other conversions of assets	1,077,296		1,077,296	1,077,841
Total Revenues	\$ 3,316,927	\$ 8,186,560	\$ 11,503,487	\$ 11,032,024
Expenditures				
Community education and services	\$	\$ 7,996,290	\$ 7,996,290	\$ 7,814,752
Pupil support services	3,022,809		3,022,809	3,104,564
Capital outlay	7,210	7,872	15,082	41,682
Total Expenditures	\$ 3,030,019	\$ 8,004,162	\$ 11,034,181	\$ 10,960,998
Excess of Revenues Over Expenditures	\$ 286,908	\$ 182,398	\$ 469,306	\$ 71,026
Fund Balance				
Beginning of Year	706,047	318,751	1,024,798	953,772
End of Year	\$ 992,955	\$ 501,149	\$ 1,494,104	\$ 1,024,798

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, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	Budget			Over (Under)	Prior Year
	Original	Final	Actual	Final Budget	Actual
Revenues					
Other local and county	\$ 18,970	\$ 18,970	\$ 17,892	\$ (1,078)	\$ 8,795
State sources	148,000	148,000	159,262	11,262	155,041
Federal sources	2,015,000	2,015,000	2,062,477	47,477	1,976,523
Sales and other conversions of assets	1,124,003	1,124,003	1,077,296	(46,707)	1,077,841
Total Revenues	\$ 3,305,973	\$ 3,305,973	\$ 3,316,927	\$ 10,954	\$ 3,218,200
Expenditures					
Pupil support services	\$ 3,295,591	\$ 3,295,591	\$ 3,022,809	\$ (272,782)	\$ 3,104,564
Capital outlay	10,382	10,382	7,210	(3,172)	6,124
Total Expenditures	\$ 3,305,973	\$ 3,305,973	\$ 3,030,019	\$ (275,954)	\$ 3,110,688
Excess of Revenues Over Expenditures	\$ -	\$ -	\$ 286,908	\$ (286,908)	\$ 107,512
Fund Balance					
Beginning of Year			706,047		598,535
End of Year			\$ 992,955		\$ 706,047

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, 2012
With Comparative Actual Amounts for the Year Ended June 30, 2011

	Budget			Over (Under)	Prior Year
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local property tax levies	\$ 892,534	\$ 892,534	\$ 963,798	\$ 71,264	\$ 862,952
Other local and county	1,636,332	2,138,307	1,830,684	(307,623)	1,733,749
State sources	2,159,037	2,163,708	2,054,153	(109,555)	1,993,172
Federal sources	3,233,731	3,681,115	3,337,925	(343,190)	3,223,951
Total Revenues	\$ 7,921,634	\$ 8,875,664	\$ 8,186,560	\$ (689,104)	\$ 7,813,824
Expenditures					
Community education and services	\$ 7,839,335	\$ 8,860,083	\$ 7,996,290	\$ (863,793)	\$ 7,814,752
Capital outlay	33,198	15,374	7,872	(7,502)	35,558
Total Expenditures	\$ 7,872,533	\$ 8,875,457	\$ 8,004,162	\$ (871,295)	\$ 7,850,310
Net change in fund balance	\$ 49,101	\$ 207	\$ 182,398	\$ 182,191	\$ (36,486)
Fund Balance					
Beginning of Year			318,751		355,237
End of Year			\$ 501,149		\$ 318,751

**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, 2012**

Activity	Cash Balance 6/30/2011	Receipts and Transfers In	Disbursements and Transfers Out	Cash Balance 6/30/2012
High Schools				
Central	\$ 355,089	\$ -	\$ 355,089	\$ -
Denfeld	-	907,470	514,040	393,430
East	249,588	872,678	862,456	259,810
Secondary Technical Center	80,792	-	80,792	-
Total High Schools	\$ 685,469	\$ 1,780,148	\$ 1,812,377	\$ 653,240
Middle Schools				
Morgan Park	\$ 75,266	\$ 70,949	\$ 60,405	\$ 85,810
Woodland	123,573	68,060	78,402	113,231
Total Middle Schools	\$ 198,839	\$ 139,009	\$ 138,807	\$ 199,041
Elementary Schools				
Congdon Park	\$ 9,087	\$ 30,375	\$ 31,015	\$ 8,447
Homecroft	32,779	23,503	16,983	39,299
Lakewood	9,642	21,249	14,456	16,435
Laura MacArthur	19,929	24,637	24,085	20,481
Lester Park	28,000	30,132	35,806	22,326
Lincoln Park	7,707	-	7,707	-
Lowell	26,945	3,222	12,233	17,934
Nettleton	51,619	20,815	18,887	53,547
Piedmont	-	23,510	14,509	9,001
Stowe	36,059	25,859	18,201	43,717
Total Elementary Schools	\$ 221,767	\$ 203,302	\$ 193,882	\$ 231,187
ALC	\$ 9	\$ -	\$ 9	\$ -
Barnes Early Childhood	2,877	5,775	6,041	2,611
Merritt Creek Academy	3,015	349	1,292	2,072
Public School Stadium	1,065	23,250	22,599	1,716
Unity	33,299	2,288	6,732	28,855
Woodland Hills	3,243	588	210	3,621
Total Student Activities	\$ 1,149,583	\$ 2,154,709	\$ 2,181,949	\$ 1,122,343
District Funds				
Co-curricular	\$ 998,200	\$ 1,445,615	\$ 1,502,122	\$ 941,693
Extra-curricular	151,383	266,556	237,289	180,650
Total Funds	\$ 1,149,583	\$ 1,712,171	\$ 1,739,411	\$ 1,122,343

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

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

FISCAL COMPLIANCE TABLE
JUNE 30, 2012

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$99,585,486	<u>\$99,585,486</u>	\$0	Total Revenue	\$1,191,598	<u>\$1,191,597</u>	\$1
Total Expenditures	\$100,834,698	<u>\$100,834,698</u>	\$0	Total Expenditures	\$59,421,402	<u>\$59,421,403</u>	(\$1)
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$210,652	<u>\$210,652</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
Restricted / Reserved:				Restricted / Reserved:			
4.03 Staff Development	\$235,887	<u>\$235,887</u>	\$0	4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0
4.05 Deferred Maintenance	\$0	<u>\$0</u>	\$0	4.09 Alternative Facility Program	\$13,560,798	<u>\$13,560,797</u>	\$1
4.06 Health and Safety	\$0	<u>\$0</u>	\$0	4.13 Project Funded by COP	\$27,888,320	<u>\$27,888,320</u>	\$0
4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0	Restricted:			
4.08 Cooperative Revenue	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0
4.14 Operating Debt	\$0	<u>\$0</u>	\$0	Unassigned:			
4.16 Levy Reduction	\$0	<u>\$0</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.17 Taconite Building Maint.	\$0	<u>\$0</u>	\$0				
4.23 Certain Teacher Programs	\$0	<u>\$0</u>	\$0	07 DEBT SERVICE			
4.24 Operating Capital	\$95,292	<u>\$95,292</u>	\$0	Total Revenue	\$14,135,351	<u>\$14,135,351</u>	\$0
4.26 S25 Taconite	\$0	<u>\$0</u>	\$0	Total Expenditures	\$20,631,457	<u>\$20,631,457</u>	\$0
4.27 Disabled Accessibility	\$0	<u>\$0</u>	\$0	Non Spendable:			
4.28 Learning & Development	\$0	<u>\$0</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
4.34 Area Learning Center	\$0	<u>\$0</u>	\$0	Restricted / Reserved:			
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	\$0	4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	\$0	4.51 QZAB Payments	\$0	<u>\$0</u>	\$0
4.39 Gifted & Talented	\$0	<u>\$0</u>	\$0	Restricted:			
4.41 Basic Skills Programs	\$305,115	<u>\$305,115</u>	\$0	4.64 Restricted Fund Balance	\$7,025,722	<u>\$7,025,722</u>	\$0
4.45 Career Tech Programs	\$0	<u>\$0</u>	\$0	Unassigned:			
4.49 Safe School Crime	\$0	<u>\$0</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	\$0				
4.51 QZAB Payments	\$0	<u>\$0</u>	\$0	08 TRUST			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	Total Revenue	\$239,610	<u>\$239,611</u>	(\$1)
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	\$0	Total Expenditures	\$200,000	<u>\$200,000</u>	\$0
Restricted:				4.22 Unassigned Fund Balance (Net Assets)	\$1,914,140	<u>\$1,914,141</u>	(\$1)
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0				
Committed:				20 INTERNAL SERVICE			
4.18 Committed for Separation	\$0	<u>\$0</u>	\$0	Total Revenue	\$720,585	<u>\$720,585</u>	\$0
4.61 Committed Fund Balance	\$0	<u>\$0</u>	\$0	Total Expenditures	\$814,984	<u>\$814,984</u>	\$0
Assigned:				4.22 Unassigned Fund Balance (Net Assets)	(\$94,399)	<u>(\$94,399)</u>	\$0
4.62 Assigned Fund Balance	\$1,934,104	<u>\$1,934,104</u>	\$0				
Unassigned:				25 OPEB REVOCABLE TRUST			
4.22 Unassigned Fund Balance	\$825,235	<u>\$825,235</u>	(\$1)	Total Revenue	\$0	<u>\$0</u>	\$0
				Total Expenditures	\$0	<u>\$0</u>	\$0
02 FOOD SERVICES				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
Total Revenue	\$3,316,927	<u>\$3,316,926</u>	\$1				
Total Expenditures	\$3,030,019	<u>\$3,030,019</u>	\$0	45 OPEB IRREVOCABLE TRUST			
Non Spendable:				Total Revenue	\$0	<u>\$0</u>	\$0
4.60 Non Spendable Fund Balance	\$90,640	<u>\$90,640</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
Restricted / Reserved:				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0				
Restricted:				47 OPEB DEBT SERVICE			
4.64 Restricted Fund Balance	\$902,315	<u>\$902,314</u>	\$1	Total Revenue	\$0	<u>\$0</u>	\$0
Unassigned:				Total Expenditures	\$0	<u>\$0</u>	\$0
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0	Non Spendable:			
				4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
04 COMMUNITY SERVICE				Restricted:			
Total Revenue	\$8,186,560	<u>\$8,186,560</u>	\$0	4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
Total Expenditures	\$8,004,162	<u>\$8,004,162</u>	\$0	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0
Non Spendable:				Unassigned:			
4.60 Non Spendable Fund Balance	\$2,094	<u>\$2,094</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
Restricted / Reserved:							
4.26 S25 Taconite	\$0	<u>\$0</u>	\$0				
4.31 Community Education	\$143,816	<u>\$143,816</u>	\$0				
4.32 E.C.F.E	\$190,534	<u>\$190,534</u>	\$0				
4.44 School Readiness	\$19,373	<u>\$19,373</u>	\$0				
4.47 Adult Basic Education	\$117,974	<u>\$117,974</u>	\$0				
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0				
Restricted:							
4.64 Restricted Fund Balance	\$27,358	<u>\$27,358</u>	\$0				
Unassigned:							
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0				