

Independent School
District No. 709
Duluth, Minnesota

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2014
And Independent Auditors' Report

Prepared by the Finance Department



COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2014

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**

TABLE OF CONTENTS

| | <u>Reference</u> | <u>Page</u> |
|-----------------------------------------------------------------------------------------------------------------------------|------------------|-------------|
| <u>Introductory Section</u> | | |
| Board of Education and Administration | | 1 |
| <u>Financial Section</u> | | |
| Independent Auditor's Report | | 2 |
| Required Supplementary Information Management's Discussion and Analysis | | 5 |
| Basic Financial Statements | | |
| District-wide Financial Statements | | |
| Statement of Net Position | Exhibit 1 | 16 |
| Statement of Activities | Exhibit 2 | 17 |
| Fund Financial Statements | | |
| Governmental Funds | | |
| Balance Sheet | Exhibit 3 | 19 |
| Reconciliation of the Balance Sheet to the Statement of Net Position | Exhibit 4 | 25 |
| Statement of Revenues, Expenditures and Changes in Fund Balance | Exhibit 5 | 27 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities | Exhibit 6 | 29 |
| Proprietary Fund | | |
| Statement of Net Position | Exhibit 7 | 30 |
| Statement of Revenues, Expenses, and Changes In Net Postion | Exhibit 8 | 31 |
| Statement Cash Flows | Exhibit 9 | 32 |
| Fiduciary Funds | | |
| Statement of Fiduciary Net Position | Exhibit 10 | 33 |
| Statement of Changes in Fiduciary Net Position | Exhibit 11 | 34 |
| Notes to the Financial Statements | | 35 |

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

**TABLE OF CONTENTS
(Continued)**

| | <u>Reference</u> | <u>Page</u> |
|-----------------------------------------------------------------------------------------------------------------|------------------|-------------|
| Required Supplementary Information | | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual General Fund | Statement A-1 | 62 |
| Information About the District's Other Postemployment Health Care Plan | Statement A-2 | 63 |
| Supplementary Information | | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual Capital Projects Fund | Statement B-1 | 64 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual Capital Projects Fund | Statement C-1 | 65 |
| Other Funds | | |
| Combining Balance Sheet | Statement D-1 | 66 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balance | Statement D-2 | 67 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual Food Service Fund | Schedule E-1 | 68 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual Community Service Fund | Schedule F-1 | 69 |
| Student Activities | | |
| Combined Schedule of Cash Receipts, Cash Disbursements, and Cash Balances | Schedule G-1 | 70 |
| Uniform Financial Accounting and Reporting Standards Compliance Table | Schedule 1 | 71 |

INTRODUCTORY SECTION

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

ORGANIZATION
JUNE 30, 2014

School Board Directors

Term Expires

| | | |
|---------------------|--------------------|------------|
| Mike Miernicki | Chairperson | 12/31/2015 |
| William Westholm | Vice Chairperson | 12/31/2015 |
| Judy Seliga Punyko | Clerk of the Board | 12/31/2015 |
| Rosie Loeffler-Kemp | Treasurer | 12/31/2017 |
| Annie Harala | | 12/31/2017 |
| Art Johnston | | 12/31/2017 |
| Harry Welty | | 12/31/2017 |

Ex Officio Members

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



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 709, Duluth, Minnesota (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 5 through 15, the budgetary comparison information and information about the District's other postemployment health care plan, on pages 62 and 63, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

We have previously audited the District's 2013 supplementary information, and our report dated December 4, 2013, stated that in our opinion, the supplementary information was fairly stated in all material respects in relation to the 2013 financial statements as a whole. In our opinion, the 2013 summarized comparative information presented herein as supplementary information as of and for the year ended June 30, 2014, is consistent, in all material respects, with the 2013 audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

November 24, 2014
Duluth, Minnesota

FINANCIAL SECTION

**REQUIRED SUPPLEMENTARY
INFORMATION**

INDEPENDENT SCHOOL DISTRICT NO. 709 – DULUTH PUBLIC SCHOOLS
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014

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, 2014.

FINANCIAL HIGHLIGHTS

- The District’s total net assets of governmental activities decreased approximately \$2.2 million, versus 2013 to \$12,909,112, primarily due to a decrease in restricted assets related to our facilities plan, which were not fully offset by the growth in the net investment in capital assets
- Overall program and general revenues were \$126.7 million, \$2.2 million less than related expenses of \$128.9 million.
- General revenues accounted for \$90.8 million, or 71% of all fiscal year 2014 revenues. This represents an increase of \$0.8 million versus the prior year. Program specific revenues of \$35.9 million (related to services, grants and contributions) accounted for 29% of total fiscal 2014 revenues. This represents a decrease of \$2.0 million versus the prior year.
- The District spent approximately \$128.9 million on governmental activities. This represents an increase of \$3.8 million (equal to 3.1%) versus prior year. The increase results from an increased volume of retirement expenses in addition to increased energy prices for heating.
- Among major funds, the General fund had \$97.8 million in revenues, consisting mainly of state aids and local property taxes, and \$95.6 million in expenditures. This surplus of \$2.2 million was a significant improvement versus the prior year deficit of \$162,380.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

The *statement of net position* presents information on all of the District’s assets and deferred outflows of resources and liabilities and deferred inflow of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net 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 position 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 three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$12.9 million as of June 30, 2014. This decrease of \$2.2 million offsets a portion of the \$10.8 million in gains the past two years.

| Duluth Public Schools Statement of Net Position As of June 30, | | | |
|-------------------------------------------------------------------------------------------|----------------------------|----------------------------|---------------------------------------------|
| | 2014 | 2013 | Total Percentage Change 2013- 2014 |
| Current and Other Assets | 83,095,659 | \$85,130,955 | (2.4)% |
| Capital Assets | <u>312,361,461</u> | <u>315,628,381</u> | (1.0)% |
| Total Assets | 395,457,120 | 400,759,336 | (1.3)% |
| Long-term Liabilities | 307,875,060 | 314,221,041 | (2.0)% |
| Other Liabilities | <u>43,398,893</u> | <u>48,585,525</u> | (10.7)% |
| Total Liabilities | 351,273,953 | 362,806,566 | (3.2)% |
| Total Deferred Inflows of Resources | 31,274,055 | 22,818,364 | 37.1% |
| Net Position/(Liabilities) | | | |
| Net investment in capital assets | 47,107,172 | 41,422,111 | 13.7% |
| Restricted | 1,984,064 | 2,991,487 | (33.7)% |
| Unrestricted (deficit) | <u>(36,182,124)</u> | <u>(29,279,192)</u> | (23.6)% |
| Total Net Position | <u>\$12,909,112</u> | <u>\$15,134,406</u> | (14.7)% |

District Assets of \$395.5 million include, , \$42.6 million in unrestricted cash, receivables of \$33.6 million, nearly all of which is made up of property tax and state aid receivables, capital assets being depreciated of \$300.7 million, \$6.6 million in restricted cash (for the facilities plan), \$11.7 million in undepreciated capital assets, and \$0.3 million in other assets.

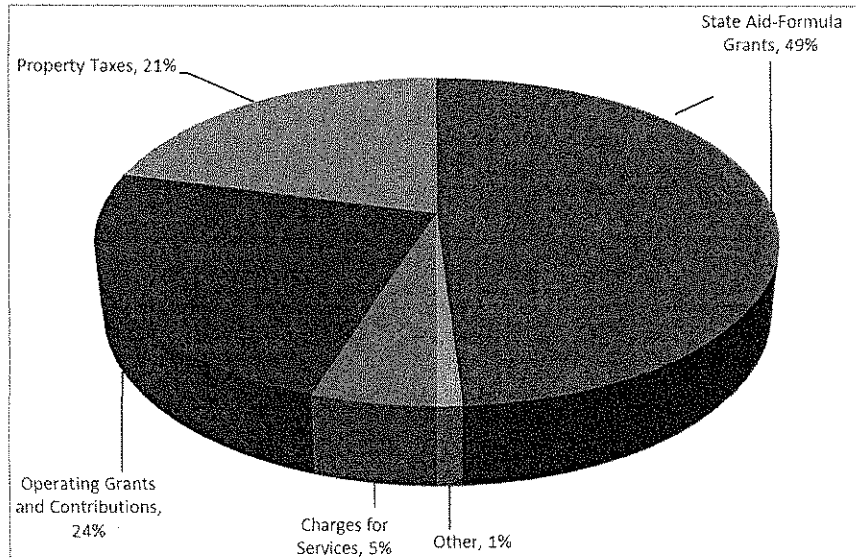
District Liabilities of \$351.3 million include \$292.9 million in Long-term Debt (facilities plan), \$15.0 million for the current portion of long-term debt, \$19.6 million due to employees and vendors for expenditures incurred but not paid as of fiscal year-end, \$22.0 million for a short term loan, and \$1.8 million in other liabilities.

Deferred Inflows of Resources includes \$31.3 million of property taxes levied for subsequent years' expenditures.

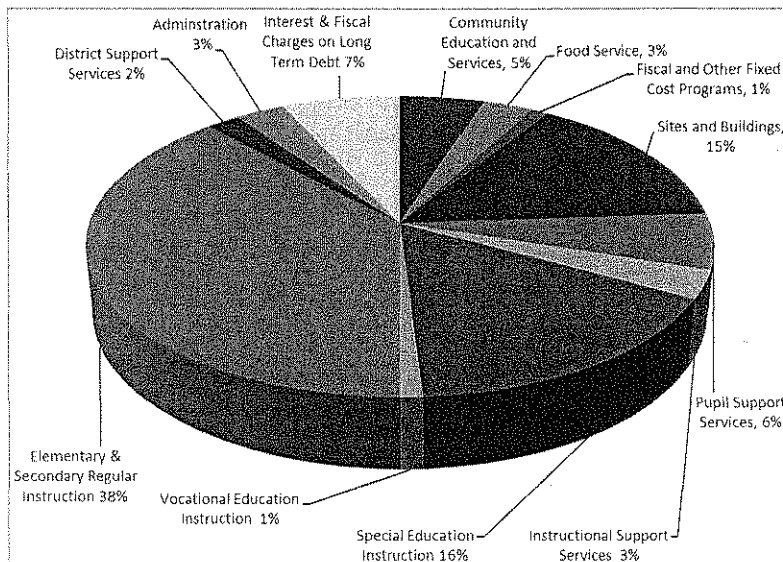
INDEPENDENT SCHOOL DISTRICT NO. 709

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Source of revenues for Fiscal Year 2014



Expenses for Fiscal Year 2014



Changes in Net Position

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

| Duluth Public Schools Change in Net Position For the Year ended June 30, | | | |
|-----------------------------------------------------------------------------------------------------|-----------------------|-----------------------|---------------------------|
| Revenues: | 2014 | 2013 | Total % Change |
| Program Revenues: | | | |
| Charges for Services | 5,923,068 | \$ 9,262,338 | (36.1)% |
| Operating grants and contributions | 29,991,007 | 28,659,836 | 4.6% |
| General Revenues: | | | |
| Property taxes | 26,609,553 | 24,664,673 | 7.9% |
| State aids | 62,330,994 | 62,418,317 | (0.1)% |
| Other | 1,853,322 | 2,889,807 | (35.9)% |
| Total Revenues | 126,707,924 | \$ 127,894,971 | (0.9)% |
| Expenses: | | | |
| Administration | 4,184,696 | \$ 4,417,421 | (5.3)% |
| District support services | 3,208,545 | 4,861,778 | (34.1)% |
| Elementary and secondary regular instruction | 48,785,613 | 44,125,655 | 10.6% |
| Vocational education instruction | 1,208,574 | 1,188,936 | 1.7% |
| Special education instruction | 21,206,606 | 21,576,378 | (1.7)% |
| Instructional support services | 3,699,524 | 3,077,978 | 20.2% |
| Pupil support services | 7,730,020 | 7,651,969 | 1.0% |
| Sites and buildings | 15,730,447 | 17,728,343 | (11.3)% |
| Fiscal and other fixed cost programs | 705,754 | 1,528,151 | (53.8)% |
| Food service | 3,434,506 | 3,316,070 | 3.6% |
| Community service | 6,183,549 | 6,577,124 | (6.0)% |
| Interest and fiscal charges on long-term debt | 12,855,384 | 9,026,695 | 42.4% |
| Total Expenses | \$ 128,933,218 | \$ 125,076,498 | 3.1% |
| Change in net Position | \$ (2,225,294) | \$ 2,818,473 | (178.8)% |
| Beginning of year net Position | \$ 15,134,406 | \$ 12,315,933 | 22.9% |
| End of year net Position | \$ 12,909,112 | \$ 15,134,406 | (14.7)% |

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

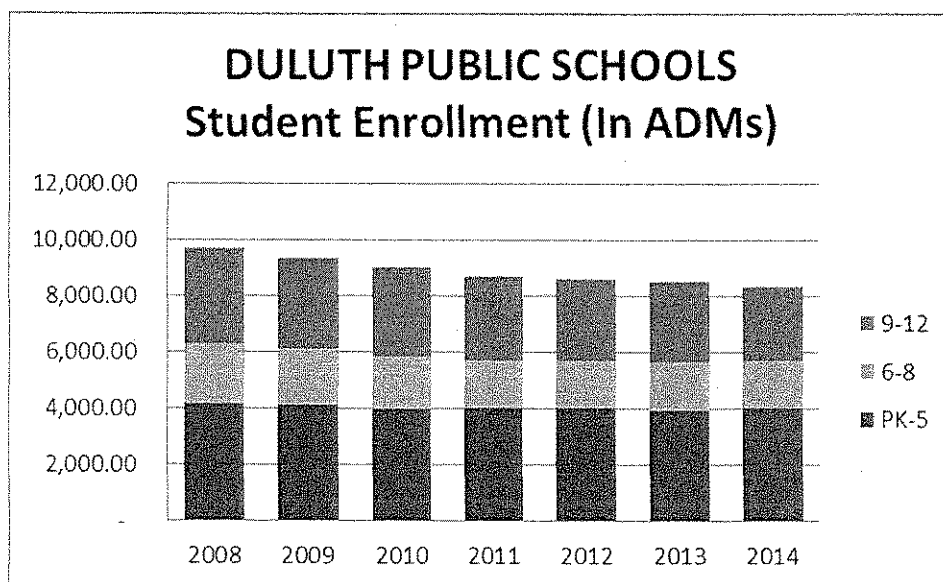
At the end of the 2013-14 fiscal year, the District's governmental funds reported a combined fund balance of \$14.2 million, a decrease of \$4.1 million from the prior year combined fund balance of \$18.3 million. This resulted from the planned reduction of the Capital Projects fund as projects were completed.

General Fund

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

Enrollment is a critical factor in determining revenue. Like most Minnesota school districts, the District is facing declining enrollment. These declines have stabilized at the Elementary and Middle School levels. The following chart reflects that the number of students has decreased over the last seven years.

Student Enrollment
Average Daily Membership (ADM)



General Fund Budgetary Highlights

General fund adopted revenue budget of \$95.6 million was revised upward to \$98.2 million as a result of a \$1.3 million increase in Title program, and a \$1.3 million increase for grants related to student and curriculum support.

General fund adopted expenditure budget of \$90.7 million was increased by \$3.0 million to \$93.7 million. In addition to the \$2.6 million of items identified in the preceding paragraph, there was \$0.4 million of budget carryover from the prior year.

General fund revenues were \$407,683 less than the revised budget (a difference of 0.4%).

General fund spending was \$1.9 million more than the revised budget, a difference of 2.1%.

The General Fund fund balance increased \$2.2 million to a total of \$4.1 million as follows:

Unassigned fund balance increased by \$3.0 million to 81,747. Notable impacts include the \$2.2 million operating surplus and the elimination of the \$4.9 million budgeted fund transfer that was not needed given the school board's decision to increase the tax levy for debt service.

The FY 2013 Committed fund balance was re-categorized as Assigned fund balance for FY 2014. The total continues at \$3.7 million.

Restricted fund balances decreased by \$641,460 to a total of \$130,039. Balances that existed for integration, basic skills and operating capital were utilized during the year.

Non-spendable fund balances of \$0.2 million decreased by \$0.2 million from the prior year.

Food Service Fund

The Food Service Fund revenues for 2013-14 totaled \$3,444,245 or \$64,785 less than the final budget. Expenditures were \$3,434,506 or \$151,524 less than final budget. The resulting surplus of \$9,739 increased the year-end fund balance to \$1,079,687.

Community Service Fund

The Community Service Fund revenues for 2013-14 totaled \$6,413,147 or \$70,148 more than the final budget. Expenditures of \$6,150,104 or \$192,895 less than the final budget. The resulting surplus of \$263,043 increased the year-end fund balance to \$854,120.

Capital Projects Fund

The Capital Projects Fund revenues for 2013-14 totaled \$1,114,164 or \$10,507 more than the final budget. Expenditures totaled \$4,842,388 or \$5.1 million less than the final budget. Other sources of funds included \$105,205 from the sale of properties originally purchased for the Long Range Facilities Plan. The resulting deficit of \$3,623,019 reduced the fund balance to \$6.2 million.

Debt Service Fund

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction or operating capital acquired through either initial or refunding bonds. Revenues for 2013-14 totaled \$18,158,433 or \$163,653 less than the final budget. Expenditures totaled \$21,086,678 or \$870 less than the final budget. The resulting deficit of \$2,928,245 reduced the fund balance to \$1.9 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal 2014, the District had over \$354 million invested in a broad range of capital assets, reflecting the impact of our Long Range Facilities Plan. Depreciation of \$42.3 million has been taken on existing items. As of June 30, 2014, the district had capital items, which had a depreciated value of \$312.4 million. Most of the capital investment is in buildings and equipment.

| ISD 709 CAPITAL ASSETS | | | |
|--------------------------------|----------------------|----------------------|-------------|
| | 2014 | 2013 | % Change |
| Land | 11,707,106 | \$11,707,106 | 0.0% |
| Construction in Progress | -0- | 30,423,286 | (100)% % |
| Land Improvement | 2,692,895 | 2,692,895 | 0.0% |
| Buildings and Improvements | 331,882,752 | 298,139,720 | 11.3% |
| Equipment | 8,388,245 | 8,267,851 | 1.5% |
| Less: Accumulated Depreciation | (42,309,537) | (35,602,477) | 18.8% |
| | | | |
| TOTAL | <u>\$312,361,461</u> | <u>\$315,628,381</u> | (1.0)% |

Long-Term Liabilities

At year-end, the District had \$271.5 million of outstanding bonds payable and certificates of participation. This reflects a decrease of \$12.6 million versus the principal amount of \$284.1 million due in 2013. 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 \$847.7 million as of June 30, 2014.

The remainder of long-term liabilities is the \$36.4 million recognized for severance benefits and other post-employment benefits (OPEB). This represents an increase of \$6.2 million versus prior year.

| ISD 709 LONG-TERM LIABILITIES | | | |
|-------------------------------|--------------------|----------------------|-------------|
| | 2014 | 2013 | % Change |
| Certificates of Participation | 214,530,425 | 223,685,000 | (4.1)% |
| General Obligation Bonds | 56,955,000 | 60,375,000 | (5.7)% |
| Other Postemployment Benefits | 3,712,783 | 3,511,705 | 5.7% |
| Severance Obligation | 32,676,852 | 26,648,911 | 22.6% |
| TOTAL | <u>307,875,060</u> | <u>\$314,221,041</u> | (2.0)% |
| Long-Term Liabilities | | | |
| Due within one year | 14,961,846 | \$14,274,036 | 4.8% |
| Due in more than one year | 292,913,214 | 299,947,005 | (2.3)% |
| TOTAL | <u>307,875,060</u> | <u>\$314,221,041</u> | (2.0)% |

ECONOMIC AND BUDGETARY FACTORS BEARING ON THE DISTRICT'S FUTURE

In November, 2013, the District presented two operating referendum questions for the consideration of the voters. Both referendum questions passed, and will be in place through FY19. As a result, the District will realize approximately \$1.8 million annually in new tax revenues, along with \$1.1 million annually in new equalization aid from the State of Minnesota.

In addition to the revenue noted above, the state legislature approved increases to the basic formula allowance, special education funding and funding for all-day kindergarten as part of the 2013 session. The majority of these increases become effective in FY15.

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

Declining enrollment – as the population of school-age children residing in the District declines, District revenues decline, as most of our funding is based on the number of pupils served in the District.

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

State Budget – Since K-12 education makes up over 40% of state spending and because State revenues account for over 71% of the District's General revenues, the District will be impacted by decisions made relative to education spending.

Medical Insurance – premium increases have been reduced through a plan change to a high-deductible statewide insurance plan. The District continues to work with employees to reduce the utilization of prescription drugs and medical services. As a result of these efforts, the District has realized a reduction of 8% in premiums for FY12, and an additional reduction of 5% for FY 13 and an increase of 5.4% for FY14.

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:

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

Financial and other district information is also available on the District website at
www.isd709.org

Basic Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement of Activities
For the Year Ended June 30, 2014

| Functions/Programs | Expenses |
|-----------------------------------------------|-----------------------|
| Governmental Activities | |
| Administration | \$ 4,184,696 |
| District Support Services | 3,208,545 |
| Regular Instruction | 48,785,613 |
| Vocational Education Instruction | 1,208,574 |
| Special Education Instruction | 21,206,606 |
| Instructional Support Services | 3,699,524 |
| Pupil Support Services | 7,730,020 |
| Sites and Buildings | 15,730,447 |
| Fiscal and Other Fixed Cost Programs | 705,754 |
| Food Service | 3,434,506 |
| Community Service | 6,183,549 |
| Interest and Fiscal Charges on Long Term Debt | 12,855,384 |
| Total Governmental Activities | <u>\$ 128,933,218</u> |

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

Exhibit 1

**Statement of Net Position
June 30, 2014**

| | Governmental Activities |
|-----------------------------------------------------------------------|----------------------------|
| Assets | |
| Cash and temporary investments | \$ 42,562,083 |
| Receivables | |
| Taxes | 21,617,539 |
| Accounts and interest receivable | 89,701 |
| Due from other governmental units | 11,878,553 |
| Inventory | 199,737 |
| Prepayments | 136,942 |
| Restricted assets | |
| Cash and investments for capital projects | 6,611,104 |
| Capital assets, net of depreciation | |
| Capital assets not being depreciated | 11,707,106 |
| Capital assets being depreciated | 300,654,355 |
| Total assets | \$ 395,457,120 |
| Deferred Outflows of Resources | |
| Total assets and deferred outflows of resources | \$ 395,457,120 |
| Liabilities | |
| Salaries payable | \$ 12,130,415 |
| Accounts and contracts payable | 1,721,444 |
| Short-term loan | 22,000,000 |
| Accrued interest payable | 5,767,724 |
| Due to other funds | 164,585 |
| Due to other governmental units | 86,926 |
| Compensated absences | 496,076 |
| Unearned revenue | 494,244 |
| Unamortized premium and discount, net | 537,479 |
| Long term liabilities | |
| Due within one year | 14,961,846 |
| Due in more than one year | 292,913,214 |
| Total liabilities | \$ 351,273,953 |
| Deferred inflows of resources | |
| Property taxes levied for subsequent years' expenditures | \$ 31,274,055 |
| Net Position | |
| Net investment in capital assets | \$ 47,107,172 |
| Restricted for: | |
| State Restrictions | 130,039 |
| Food Service | 957,439 |
| Community Service | 896,586 |
| Unrestricted (Deficit) | (36,182,124) |
| Total net position | \$ 12,909,112 |
| Total liabilities, deferred inflows or resources and net position | \$ 395,457,120 |

Exhibit 2

| Program Revenues | | | Net (Expenses) Revenue and Changes in Net Position |
|----------------------------------------------|------------------------------------------|----------------------------------------|-------------------------------------------------------------|
| Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| \$ | \$ 86,532 | \$ | \$ (4,098,164) |
| | | | (3,208,545) |
| 2,507,942 | 4,490,696 | | (41,786,975) |
| 4,329 | 305,197 | | (899,048) |
| 708,371 | 12,991,638 | | (7,506,597) |
| 18,054 | 1,668,765 | | (2,012,705) |
| (4,608) | 2,632,713 | | (5,101,915) |
| 114,943 | 168,064 | | (15,447,440) |
| | | | (705,754) |
| 1,109,395 | 2,334,850 | | 9,739 |
| 1,464,642 | 3,675,147 | | (1,043,760) |
| | 1,637,405 | | (11,217,979) |
| <u>\$ 5,923,068</u> | <u>\$ 29,991,007</u> | <u>\$</u> | <u>\$ (93,019,143)</u> |
| General Revenues | | | |
| Taxes | | | |
| Property Taxes, levied for General Purposes | | | \$ 11,139,586 |
| Property Taxes, levied for Community Service | | | 470,742 |
| Property Taxes, levied for Debt Service | | | 14,999,205 |
| State aid-formula grants | | | 66,479,150 |
| Tax shift | | | (4,148,156) |
| Other general revenues | | | 1,574,685 |
| Investments Earnings | | | 278,637 |
| Total General Revenues | | | <u>\$ 90,793,849</u> |
| Change in net position | | | \$ (2,225,294) |
| Net position - beginning | | | <u>15,134,406</u> |
| Net position - ending | | | <u>\$ 12,909,112</u> |

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2014

| | General Fund | Capital Projects Fund |
|----------------------------------------------------|----------------------|-----------------------------|
| Assets | | |
| Cash and investments | \$ 29,360,079 | \$ 6,611,104 |
| Taxes and credits receivable | 9,410,743 | |
| Accounts and interest receivable | 85,273 | |
| Due from | | |
| Other Minnesota school districts | 1,022,684 | |
| Department of Education | 7,430,610 | 16,806 |
| Federal through Department of Education | 1,917,351 | |
| Federal - direct | 114,354 | |
| Other governmental units | 88,717 | |
| Inventory | 78,885 | |
| Prepayments | 130,770 | |
| | <hr/> | <hr/> |
| Total Assets | \$ 49,639,466 | \$ 6,627,910 |
| Deferred Outflows of Resources | | |
| | <hr/> | <hr/> |
| Total Assets and deferred outflows of resources | <u>\$ 49,639,466</u> | <u>\$ 6,627,910</u> |

Exhibit 3

| Debt Service Fund | Other Funds | Total Governmental Funds |
|-------------------------|---------------------|--------------------------------|
| \$ 11,078,551 | \$ 1,967,158 | \$ 49,016,892 |
| 11,601,698 | 605,098 | 21,617,539 |
| | 3,760 | 89,033 |
| | | 1,022,684 |
| 196,089 | 315,130 | 7,958,635 |
| | 79,433 | 1,996,784 |
| | 697,379 | 811,733 |
| | | 88,717 |
| | 120,852 | 199,737 |
| | 6,172 | 136,942 |
| \$ 22,876,338 | \$ 3,794,982 | \$ 82,938,696 |
| | | |
| <u>\$ 22,876,338</u> | <u>\$ 3,794,982</u> | <u>\$ 82,938,696</u> |

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

**Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2014**

| | General Fund | Capital Projects Fund |
|----------------------------------------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Liabilities | | |
| Salaries payable | \$ 11,656,374 | \$ 7,177 |
| Accounts and interest payable | 906,895 | 42,860 |
| Short term loan | 22,000,000 | |
| Due to | | |
| Other funds | 113,636 | |
| Other governmental units | 86,926 | |
| Claims payable | 167,890 | |
| Construction contracts | | 346,737 |
| Unearned revenue | 334,492 | |
| | <u> </u> | <u> </u> |
| Total Liabilities | <u>\$ 35,266,213</u> | <u>\$ 396,774</u> |
| Deferred inflows of resources | | |
| Property taxes levied for subsequent year's expenditures | \$ 9,798,408 | |
| Unavailable revenue - delinquent property taxes | 455,310 | |
| | <u> </u> | <u> </u> |
| Total deferred inflows of resources | <u>\$ 10,253,718</u> | <u>\$</u> |

Exhibit 3
(Continued)

| Debt Service Fund | Other Funds | Total Governmental Funds |
|-------------------------|---------------------|--------------------------------|
| \$ 2,000 | \$ 466,864 | \$ 12,130,415 |
| | 188,512 | 1,140,267 |
| | | 22,000,000 |
| | 50,949 | 164,585 |
| | | 86,926 |
| | | 167,890 |
| | | 346,737 |
| | 77,903 | 412,395 |
| <u>\$ 2,000</u> | <u>\$ 784,228</u> | <u>\$ 36,449,215</u> |
| \$ 20,445,942 | \$ 1,029,705 | \$ 31,274,055 |
| 518,154 | 47,242 | 1,020,706 |
| <u>\$ 20,964,096</u> | <u>\$ 1,076,947</u> | <u>\$ 32,294,761</u> |

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2014

| | General Fund | Capital Projects Fund |
|---------------------------------------------------------------------------|---------------------------------|--------------------------------|
| Fund Balance (Deficit) | | |
| NonSpendable: | | |
| Inventory | \$ 78,885 | \$ |
| Prepayments | 130,770 | |
| Restricted for: | | |
| Staff development | 107,574 | |
| Alternative facilities | | 1,987,928 |
| Projects funded by COP | | 4,243,208 |
| ALC | 22,465 | |
| Debt service | | |
| Food service | | |
| Community education | | |
| Early childhood family education | | |
| School readiness | | |
| Adult basic education | | |
| Community service | | |
| Assigned for: | | |
| Severance-insurance premiums | 3,698,094 | |
| Unassigned | | |
| General | 81,747 | |
| Total Fund Balance | <u>\$ 4,119,535</u> | <u>\$ 6,231,136</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u><u>\$ 49,639,466</u></u> | <u><u>\$ 6,627,910</u></u> |

Exhibit 3
(Continued)

| Debt Service Fund | Other Funds | Total Governmental Funds |
|-------------------------|---------------------|--------------------------------|
| \$ | \$ 120,852 | \$ 199,737 |
| | 6,172 | 136,942 |
| | | 107,574 |
| | | 1,987,928 |
| | | 4,243,208 |
| | | 22,465 |
| 1,910,242 | | 1,910,242 |
| | 957,439 | 957,439 |
| | 350,396 | 350,396 |
| | 212,319 | 212,319 |
| | 47,973 | 47,973 |
| | 171,826 | 171,826 |
| | 66,830 | 66,830 |
| | | 3,698,094 |
| | | 81,747 |
| <u>\$ 1,910,242</u> | <u>\$ 1,933,807</u> | <u>\$ 14,194,720</u> |
| <u>\$ 22,876,338</u> | <u>\$ 3,794,982</u> | <u>\$ 82,938,696</u> |

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 4

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Activities
June 30, 2014

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Total fund balances - governmental funds | \$ 14,194,720 |
| 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 | 354,670,998 |
| Less: accumulated depreciation | (42,309,537) |
| 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 | (56,955,000) |
| Certificates of participation | (214,530,425) |
| 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. | (32,676,852) |
| 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. | (496,076) |
| 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. | 1,020,706 |
| Governmental funds do not report a liability for accrued interest until due and payable. | (5,767,724) |
| Changes in net other post-employment benefits obligations are reported only in the statement of activities. | (3,712,783) |
| 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. | (537,479) |
| An internal service fund is used by management to charge the costs of dental insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. | <u>8,564</u> |
| Total net position - governmental activities | <u>\$ 12,909,112</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, 2014**

| | General Fund | Capital Projects Fund |
|------------------------------------------------------|----------------------|-----------------------------|
| Revenues | | |
| Local property tax levies | \$ 10,340,109 | \$ 934,593 |
| Interest income | 276,580 | 2,053 |
| Other local and county | 4,087,496 | 9,454 |
| State sources | 75,480,834 | 168,064 |
| Federal sources | 7,047,932 | |
| Insurance/Judgement recovery | 10,787 | |
| Sales and other conversions of assets | 539,592 | |
| Total Revenues | <u>\$ 97,783,330</u> | <u>\$ 1,114,164</u> |
| Expenditures | | |
| Administration | \$ 4,170,319 | \$ |
| District support services | 2,983,717 | |
| Regular instruction | 42,382,359 | |
| Vocational instruction | 1,188,247 | |
| Special education instruction | 21,193,460 | |
| Community education and services | | |
| Instructional support services | 3,697,676 | |
| Pupil support services | 7,367,743 | |
| Sites, buildings and equipment | 7,983,811 | 206,165 |
| Fiscal and other fixed cost programs | 768,933 | |
| Debt service | | |
| Principal | 1,685,000 | |
| Interest and fiscal charges | 1,738,185 | |
| Capital outlay | 446,860 | 4,636,223 |
| Total Expenditures | <u>\$ 95,606,310</u> | <u>\$ 4,842,388</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ 2,177,020</u> | <u>\$ (3,728,224)</u> |
| Other Financing Sources (Uses) | | |
| Sale of property | \$ 7,738 | \$ 105,205 |
| Total Other Financing Sources (Uses) | <u>\$ 7,738</u> | <u>\$ 105,205</u> |
| Net change in fund balance | \$ 2,184,758 | \$ (3,623,019) |
| Fund Balance | | |
| Beginning of Year | <u>1,934,777</u> | <u>9,854,155</u> |
| End of Year | <u>\$ 4,119,535</u> | <u>\$ 6,231,136</u> |

Exhibit 5

| Debt Service Fund | Other Funds | Total Governmental Funds |
|-------------------------|---------------------|--------------------------------|
| \$ 15,169,136 | \$ 484,033 | \$ 26,927,871 |
| 4 | | 278,637 |
| | 1,624,404 | 5,721,354 |
| 1,960,888 | 2,541,415 | 80,151,201 |
| 1,028,405 | 4,094,463 | 12,170,800 |
| | 8,290 | 19,077 |
| | 1,104,787 | 1,644,379 |
| <u>\$ 18,158,433</u> | <u>\$ 9,857,392</u> | <u>\$ 126,913,319</u> |
| \$ | \$ | \$ 4,170,319 |
| | | 2,983,717 |
| | | 42,382,359 |
| | | 1,188,247 |
| | | 21,193,460 |
| | 6,143,507 | 6,143,507 |
| | | 3,697,676 |
| | 3,352,838 | 10,720,581 |
| | | 8,189,976 |
| | | 768,933 |
| 10,890,000 | | 12,575,000 |
| 10,196,678 | | 11,934,863 |
| | 88,265 | 5,171,348 |
| <u>\$ 21,086,678</u> | <u>\$ 9,584,610</u> | <u>\$ 131,119,986</u> |
| <u>\$ (2,928,245)</u> | <u>\$ 272,782</u> | <u>\$ (4,206,667)</u> |
| \$ | \$ | \$ 112,943 |
| \$ | \$ | \$ 112,943 |
| \$ (2,928,245) | \$ 272,782 | \$ (4,093,724) |
| <u>4,838,487</u> | <u>1,661,025</u> | <u>18,288,444</u> |
| <u>\$ 1,910,242</u> | <u>\$ 1,933,807</u> | <u>\$ 14,194,720</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, 2014

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Total net changes in fund balances - governmental funds | \$ (4,093,724) |
| 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 | 4,071,030 |
| Disposal of capital assets | (461,605) |
| Depreciation expense | (6,876,345) |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | 12,575,000 |
| 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. | (949,683) |
| Net amortization of premiums and discounts. | 29,162 |
| 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 position. | (6,229,019) |
| Payment of compensated absences is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | (34,951) |
| 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. | (318,338) |
| The change in net position of the internal service fund is reported with governmental activities. | 63,179 |
| Change in net position - governmental activities | <u>\$ (2,225,294)</u> |

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 7

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

| | <u>2014</u> |
|--------------------------------------------------------------------|--------------------------|
| Assets | |
| Current Assets | |
| Cash and investments | \$ 156,295 |
| Accounts and interest receivable | <u>668</u> |
| Total Assets | \$ 156,963 |
| Deferred Outflows of Resources | |
| Total Assets and Deferred Outflows of Resources | <u><u>\$ 156,963</u></u> |
| Liabilities | |
| Current Liabilities | |
| Accounts payable | \$ 66,550 |
| Unearned revenue | <u>81,849</u> |
| Total Liabilities | <u>\$ 148,399</u> |
| Deferred Inflows of Resources | |
| Net Position | |
| Unrestricted | <u>\$ 8,564</u> |
| Total Net Position | <u>\$ 8,564</u> |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | <u><u>\$ 156,963</u></u> |

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
INTERNAL SERVICE FUND - DENTAL PLAN
PROPRIETARY FUND
For the Year Ended June 30, 2014

| | <u>2014</u> |
|--------------------------------------|------------------------|
| Operating revenues | |
| Charges for Premiums, Net of Refunds | \$ 782,175 |
| | <u>782,175</u> |
| Total Operating Revenues | <u>\$ 782,175</u> |
| Operating expenses | |
| Employee benefits | \$ 666,059 |
| Services, supplies, and fees | <u>52,937</u> |
| Total Operating Expenses | <u>\$ 718,996</u> |
| Change in net position | \$ 63,179 |
| Total Net Position - Beginning | <u>(54,615)</u> |
| Total Net Position - Ending | <u><u>\$ 8,564</u></u> |

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 9

STATEMENT OF CASH FLOW
INTERNAL SERVICE FUND - DENTAL PLAN
PROPRIETARY FUND
For the Year Ended June 30, 2014

| | <u>2014</u> |
|-------------------------------------------------------|--------------------------|
| Cash Flows from Operating Activities | |
| Receipts from Interfund Services Provided | \$ 500,725 |
| Receipts from retirees | 258,628 |
| Payments for administrative costs | (52,936) |
| Payments for claims | <u>(662,575)</u> |
| Net Cash Provided by Operating Activities | \$ 43,842 |
| Cash and Cash Equivalents - Beginning | <u>112,453</u> |
| Cash and Cash Equivalents - Ending | <u><u>\$ 156,295</u></u> |
| Reconciliation of Operating Income to Net Cash | |
| Provided by Operating Activities | |
| Changes in net position | <u>\$ 63,179</u> |
| Provided by Operating Activities | |
| Decrease in Account Receivable | \$ 517 |
| Increase in Accounts Payable | 3,485 |
| (Decrease) in Unearned Revenue | <u>(23,339)</u> |
| Total Adjustments | <u>\$ (19,337)</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ 43,842</u></u> |

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 10

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

| | Federal Employee Benefit Trust Fund | Private- Purpose Funds |
|------------------------------------|-------------------------------------------------|------------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,491,924 | \$ 149,264 |
| Interest receivable | 14,927 | |
| Due from other funds | 164,585 | |
| Total Assets | <u>\$ 1,671,436</u> | <u>\$ 149,264</u> |
| Liabilities | | |
| Total Liabilities | <u>\$ -</u> | <u>\$ -</u> |
| Net Position | | |
| Restricted for endowment | \$ | \$ 131,025 |
| Restricted for clock tower | | 18,239 |
| Restricted for retirees | 1,671,436 | |
| Total Net Position | <u>\$ 1,671,436</u> | <u>\$ 149,264</u> |
| Total Liabilities and Net Position | <u>\$ 1,671,436</u> | <u>\$ 149,264</u> |

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 11

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

| | Federal Employee Benefit Trust Fund | Private- Purpose Funds |
|--------------------------|-------------------------------------------------|------------------------------|
| | <u> </u> | <u> </u> |
| Additions | | |
| Miscellaneous | \$ 164,585 | \$ |
| Investment earnings | | |
| Interest | <u>18,774</u> | <u>1,137</u> |
| Total Additions | <u>\$ 183,359</u> | <u>\$ 1,137</u> |
| Deductions | | |
| Benefits | <u>\$ 250,000</u> | <u>\$</u> |
| Total Deductions | <u>\$ 250,000</u> | <u>\$</u> |
| Change in Net Position | \$ (66,641) | \$ 1,137 |
| Net Position - Beginning | <u>1,738,077</u> | <u>148,127</u> |
| Net Position - Ending | <u><u>\$ 1,671,436</u></u> | <u><u>\$ 149,264</u></u> |

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

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 position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District except for the fiduciary funds. The Fiduciary Funds are only reported in the Statements of Fiduciary Net position at the fund financial statement level.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (continued)

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 appropriated functional activity.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to customers for service. Operating expenses for the internal service fund include the cost of services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Separate fund financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregate information for the remaining non-major governmental funds is reported in a single column in the fund financial statements.

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

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (continued)

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 employee and District' contributions. Operating expenses for proprietary funds include claims paid and administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Basis of Presentation

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

Major Governmental Funds

The General Fund 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 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (continued)

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. 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 Fund accounts for employees' severance for federally funded programs.

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.

Budget and Budgetary Accounting

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (continued)

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.

The District considers highly liquid investments with an original maturity of three months or less when purchased 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, 2014, 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.

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 expenditure at the time of consumption.

J. Property Taxes

Property taxes levies are established by the School Board in December of each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1. Taxes are due on May 15 and October 15. The county generally remits taxes to the District at periodic intervals as they are collect. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (continued)

majority of District revenue in the General, Community Service Special Revenue Fund, and Debt service Fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift".

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

K. 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.

L. 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.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District did not have any items that qualified for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has reported unavailable revenue from delinquent property taxes, which arises only under a modified accrual basis of accounting, in the governmental funds balance sheet. The District has reported property taxes levied for subsequent years expenditures as deferred inflow of resources in both the

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (continued)

governmental funds balance sheet and the statement of net position. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

N. 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.

O. Long-term Liabilities

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are included in expenditures/expenses when incurred.

P. Fund Balances

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

Non-spendable Fund Balances – is either (a) not in spendable form, or (b) legally contractually required to remain intact.

Restricted Fund Balances – These are amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Committed Fund Balances – includes amounts that can be used only for the specific purposes determined by a formal action of the School Board.

Assigned Fund Balances – include amounts intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned Fund Balance represents fund balance that has not been restricted, committed, or assigned to a specific purpose.

The District applies restricted resources first when an expense is incurred for the purpose which both restricted and unrestricted fund balance is available.

If resources from more than one fund balance classification could be spent, the district will strive to spend resources from fund balance classifications in the following order: restricted, committed, assigned, and unassigned.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

1. Summary of Significant Accounting Policies (continued)

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

To ensure financial stability, the board adopted a fund balance policy that shall establish and maintain an amount in the general fund unassigned amount, and/or the severance-insurance restricted amount, equal to ten percent of the combined budgetary unrestricted expenditures from the general fund, food service fund, community services fund, capital fund, and debt service fund. The minimum fund balance was not achieved at June 30, 2014.

Q. Net position

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

2. Deposits 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, 2014, 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:

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

2. Deposits and Investments (continued)

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

The Minnesota School District Liquid Asset Fund (MSDLAF) and MNTrust are external investment pools not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position on the pool is the same as the value of the pool shares.

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, 2014

| Investment Type | Fair Value | Less than 1 Yr | 1-3 Years | Over 3 Years |
|--------------------------|----------------------|----------------------|-------------------|---------------------|
| Government Securities | \$ 3,299,278 | | | \$ 3,299,278 |
| External Investment Pool | 39,539,333 | \$ 39,539,333 | | |
| Money Market Funds | 3,086,168 | 3,086,168 | | |
| Negotiable CD's | 3,435,162 | 2,836,390 | \$ 499,772 | 99,000 |
| Total Investments | <u>\$ 49,359,941</u> | <u>\$ 45,461,891</u> | <u>\$ 499,772</u> | <u>\$ 3,398,278</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

2. Deposits and Investments (continued)

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, 2014 is as follows:

| <u>S & P or Moody's Rating</u> | <u>Fair Value</u> |
|------------------------------------|----------------------|
| AA+ | \$ 3,299,278 |
| AAAm | 39,539,333 |
| AAA- | 95,469 |
| Not rated | 6,425,861 |
| | <hr/> |
| Total Investments | <u>\$ 49,359,941</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, 2014, none of the District's investments were subject to custodial credit risk.

Concentration of Credit Risk – The concentration of credit risk is the risk of loss that may be caused by the District's investment in a single issuer. The District places no limit on the amount the District may invest in one issuer. At June 30, 2014 the District did not hold investments in any one issuer (excluding mutual funds and external investment pools) that represents five percent or more of the District's investments.

The District's total cash and investments as of June 30, 2014 are as follows:

| | |
|-------------|----------------------|
| Petty Cash | \$ 2,605 |
| Deposits | 1,451,829 |
| Investments | <u>49,359,941</u> |
| | <u>\$ 50,814,375</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

The District's total cash and investments as of June 30, 2014 are presented in the basic financial statements as follows:

| | |
|-------------------------------------------|---------------|
| Statement of Net Position | |
| Cash and temporary investments | \$ 42,562,083 |
| Restricted Assets: | |
| Cash and investments for capital projects | 6,611,104 |
| Statement of Fiduciary Net Position | |
| Cash and Cash Equivalents | |
| Federal Employee Benefit Trust Fund | 1,491,924 |
| Private purpose Funds | 149,264 |
| | <hr/> |
| Total Cash and Investments | \$ 50,814,375 |
| | <hr/> |

3. Taxes and Credits Receivable

Current taxes and credits receivable represent the uncollected balance of the 2013 levy, collectible in 2014, including related state property tax relief aid. Delinquent taxes receivable represent taxes due from levies of the prior six years. At June 30, 2014, property taxes and credits receivable consisted of:

| <u>Fund</u> | <u>Current</u> | <u>Delinquent</u> | <u>Total</u> |
|-------------------------|----------------|-------------------|---------------|
| General Fund | \$ 8,955,433 | \$ 455,310 | \$ 9,410,743 |
| Community Services Fund | 557,856 | 47,242 | 605,098 |
| Debt Service Fund | 11,083,544 | 518,154 | 11,601,698 |
| | <hr/> | <hr/> | <hr/> |
| Total | \$ 20,596,833 | \$ 1,020,706 | \$ 21,617,539 |
| | <hr/> | <hr/> | <hr/> |

4. Inventory

Inventory at June 30, 2014, consisted of:

| | |
|--------------------------|------------|
| General Fund - Supplies | \$ 78,885 |
| Food Service Fund - Food | 120,852 |
| | <hr/> |
| Total | \$ 199,737 |
| | <hr/> |

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

5. Capital Assets

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

| Capital Assets Not Depreciated | Balance 6/30/2013 | Additions | Disposals | Balance 6/30/2014 |
|----------------------------------------------|-----------------------|----------------------|------------------------|-----------------------|
| Land | \$ 11,707,106 | \$ - | \$ - | \$ 11,707,106 |
| Construction Work in process | 30,423,286 | | (30,423,286) | - |
| Total Capital Assets Not Depreciated | <u>\$ 42,130,392</u> | <u>\$ -</u> | <u>\$ (30,423,286)</u> | <u>\$ 11,707,106</u> |
| Capital Assets Depreciated | | | | |
| Land Improvements | \$ 2,692,895 | \$ - | \$ - | \$ 2,692,895 |
| Buildings | 298,139,720 | 34,204,637 | (461,605) | 331,882,752 |
| Furniture & Equipment | 8,267,851 | 289,679 | (169,285) | 8,388,245 |
| Total Capital Assets Depreciated | \$ 309,100,466 | \$ 34,494,316 | \$ (630,890) | \$ 342,963,892 |
| Less Accumulated Depreciation | <u>(35,602,477)</u> | <u>(6,876,345)</u> | <u>169,285</u> | <u>(42,309,537)</u> |
| Capital assets, being depreciated, net | \$ 273,497,989 | \$ 27,617,971 | \$ (461,605) | \$ 300,654,355 |
| Total capital assets, net of depreciation | <u>\$ 315,628,381</u> | <u>\$ 27,617,971</u> | <u>\$ (30,884,891)</u> | <u>\$ 312,361,461</u> |

Depreciation expense was charged to governmental functions as follows:

| | 2014 |
|----------------------------------|---------------------|
| Program Code | Depreciation |
| Administration | \$ 13,030 |
| District Support Service | 155,795 |
| Elem/Sec Regular Instruction | 39,484 |
| Vocational Education Instruction | 5,433 |
| Special Education Instruction | 6,795 |
| Community Education and Service | 33,445 |
| Instructional Support Services | 650 |
| Pupil Support Services | 186,947 |
| Sites and Buildings | 6,434,766 |
| Total | <u>\$ 6,876,345</u> |

Included in amounts reported for capital assets are land, buildings, and equipment related to closure hearings conducted by the School Board. The closure hearings included Central High School, Secondary Technical Center, Morgan Park Middle School and Rockridge Elementary. The net book value of these assets total \$6,055,785.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014, was \$498,732

Future minimum lease payments under operating leases, which are not reflected in these financial statements, consist of the following at June 30, 2014:

| <u>Year Ending June 30</u> | | |
|----------------------------|----|----------------|
| 2015 | \$ | 344,085 |
| 2016 | | 344,915 |
| 2017 | | 97,245 |
| 2018 | | <u>56,853</u> |
| Total | \$ | <u>843,098</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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. \$ 95,325,000

\$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. 62,760,000

\$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. 31,415,000

\$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. 550,000

\$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. 4,280,000

\$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. 1,320,000

\$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. 6,080,000

Total \$ 214,530,425

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

7. Long-Term Liabilities (continued)

The annual requirements to amortize the principal and interest are:

| Year Ended June 30 | Total | Principal | Interest |
|-----------------------|-----------------------|-----------------------|----------------------|
| 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 | 18,843,540 | 10,845,000 | 7,998,540 |
| 2019 | 19,069,780 | 11,520,000 | 7,549,780 |
| 2020-2032 | 212,888,288 | 162,635,425 | 50,252,863 |
| Total | <u>\$ 306,665,699</u> | <u>\$ 214,530,425</u> | <u>\$ 92,135,274</u> |

Bonds Payable

\$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 \$ 55,870,000

\$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. 1,085,000

Total \$ 56,955,000

The annual requirements to amortize the principal and interest are:

| Year Ended June 30 | Total | Principal | Interest |
|-----------------------|----------------------|----------------------|----------------------|
| 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 | 5,454,175 | 3,435,000 | 2,019,175 |
| 2019 | 5,451,775 | 3,570,000 | 1,881,775 |
| 2020-2032 | 48,939,150 | 39,675,000 | 9,264,150 |
| Total | <u>\$ 76,883,575</u> | <u>\$ 56,955,000</u> | <u>\$ 19,928,575</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

7. Long-Term Liabilities (continued)

Changes in long-term debt for the year ended June 30, 2014 are:

| | Balance June 30, 2013 | Increase | Payments/ Adjustments | Balance June 30, 2014 |
|-------------------------------|--------------------------|---------------------|--------------------------|--------------------------|
| Certificates of participation | \$ 223,685,425 | | \$ 9,155,000 | \$ 214,530,425 |
| Bonds payable | 60,375,000 | | 3,420,000 | 56,955,000 |
| OPEB | 3,511,705 | \$ 796,219 | 595,141 | 3,712,783 |
| Severance obligation | 26,648,911 | 9,183,139 | 3,155,198 | 32,676,852 |
| Total | <u>\$ 314,221,041</u> | <u>\$ 9,979,358</u> | <u>\$ 16,325,339</u> | <u>\$ 307,875,060</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 \$1,028,405.

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, 2014.

| | Current Portion | Long-term Portion | Total |
|-------------------------------|----------------------|-----------------------|-----------------------|
| Certificates of participation | \$ 9,665,000 | \$ 204,865,425 | \$ 214,530,425 |
| Bonds payable | 3,380,000 | 53,575,000 | 56,955,000 |
| OPEB | | 3,712,783 | 3,712,783 |
| Severance obligation | 1,916,846 | 30,760,006 | 32,676,852 |
| Total | <u>\$ 14,961,846</u> | <u>\$ 292,913,214</u> | <u>\$ 307,875,060</u> |

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, 2014 is approximately \$847,783,275.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

8. Short -Term Liabilities

Certificates of Indebtedness

On September 13, 2013, the District issued \$22,000,000 General Obligation Aid Anticipation Certificates of Indebtedness, Series 2013A at an interest rate of 1.00% in anticipation of aids to be received from or through the Department of Education of the State of Minnesota in 2014, including any amounts payable to the District by the State of Minnesota to replace taxes. The debt was issued to finance current operation costs of the General Fund. Principal and interest of \$220,000 are due on September 16, 2014.

| Balance July 1, 2013 | Additions | Reductions | Balance June 30, 2014 |
|-------------------------|---------------|---------------|--------------------------|
| \$ 23,000,000 | \$ 22,000,000 | \$ 23,000,000 | \$ 22,000,000 |

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, 2014, \$496,076 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 are paid over a two year period. These funds will be disbursed in accordance with the HCSP account agreement, which is a separate agreement between the HCSP and the retiree. For the remaining employees, the District pays a portion of the severance benefit to the state HCSP and retains a portion for the employees to use to pay future health insurance premiums. Severance is recorded as an expenditure when paid. The retained severance obligation for this benefit is for future health insurance benefits and amounts due to the state HCSP.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

10. Severance Obligations (continued)

During 2014, 142 retirees received a total benefit of \$3,155,198. 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 | \$ 1,737,904 |
| Retained severance benefit obligations for qualified employees | 32,610,384 |
| Total termination benefits payable | \$ 34,348,288 |
| Amount deposited in Federal Employee Benefit Trust Fund | (1,671,436) |
| Total | <u>\$ 32,676,852</u> |

11. Interfund Transactions

Individual fund receivable and payable balances at June 30, 2014:

| | <u>Receivable</u> | <u>Payable</u> |
|-------------------------------------|-------------------|-------------------|
| General Fund | | \$ 113,636 |
| Community Service Fund | | 50,949 |
| Fiduciary Funds | | |
| Federal Employee Benefit Trust Fund | \$ 164,585 | |
| Total Funds | <u>\$ 164,585</u> | <u>\$ 164,585</u> |

These amounts represent federal severance calculation.

12. Fund Balance

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

Restricted and Assigned fund balances at June 30, 2014 are as follows:

- A. Restricted for Staff Development – Represents unspent staff development revenues set aside from general education revenues.
- B. Restricted for Alternative Facilities – This amount represents the resources available for approved expenditures based on the ten-year plan for capital projects.
- C. Restricted for Projects funded by Certificates of Participation (COP) – Represents unspent COP bond issue proceeds available for construction projects identified in the District's Long-Range Facility Plan.
- D. Restricted for Area Learning Center – Represents available resources for students attending the Area Learning Center. Revenue is derived by state aid and expenditures are for salaries, benefits, and supplies.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

12. Fund Balance (continued)

- E. Restricted for Debt Service – This amount represents available resources for the payment of long-term debt. Revenues are derived from local tax levies, state aids, and federal sources and expenditures are for principal and interest costs.
- F. Restricted for Food Service - This amount represents available resources for food service programs. Revenues are derived from local, state, and federal sources and expenditures are for salaries, benefits and supplies.
- G. Restricted for Community Education – This amount represents available resources for community education classes. Revenues are derived from local tax levies and state aids and expenditures are for salaries, benefits and supplies.
- H. Restricted for Early Childhood and Family Education (ECFE) – This amount represents available resources for ECFE classes. Revenues are derived from local tax levies and state aids and expenditures are for salaries, benefits and supplies.
- I. Restricted for School Readiness – This amount represents available resources to provide services for learning readiness programs.
- J. Restricted for Adult Basic Education – This amount represents the balance of carryover monies for all activity involving Adult Basic Education
- K. Restricted for Community Service - This amount represents available resources to provide services for community service.
- L. Assigned for Severance Insurance Premiums – This balance represents resources segregated from the unassigned fund balance for retirement benefits.

Below is a detail description of the restricted fund balance amount reported on the Balance Sheet on June 30, 2014.

| | |
|-----------------------------------------------|-------------------------|
| Staff development | \$ 107,574 |
| Alternative facilities | 1,987,928 |
| Projects funded by COP | 4,243,208 |
| Area Learning Center | 22,465 |
| Debt service | 1,910,242 |
| Food Service | 957,439 |
| Community Education | 350,396 |
| Early childhood family education | 212,319 |
| School readiness | 47,973 |
| Adult basic education | 171,826 |
| Community service | 66,830 |
| Total Restricted Net Assets | <u>\$ 10,078,200</u> |
| Assigned for Severance Insurance Premiums | <u>\$ 3,698,094</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2013 the date of the latest actuarial valuation, approximately 860 retirees and their dependents were receiving postemployment health insurance benefits and an estimated 1,209 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, 2014:

| | |
|-----------------------------------------------------|---------------------|
| Annual Required Contribution (ARC)/Annual OPEB Cost | |
| Annual Required Contribution (ARC) | \$ 858,833 |
| Interest on net OPEB obligation | 140,468 |
| Adjustment to ARC | (203,082) |
| Annual OPEB Cost | \$ 796,219 |
| Estimated Employer contributions | |
| Implicit subsidy benefits | 595,141 |
| Increase (decrease) in Net OPEB Obligation | \$ 201,078 |
| Net OPEB obligation, June 30, 2013 | 3,511,705 |
| Net OPEB obligation, June 30, 2014 | <u>\$ 3,712,783</u> |

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2012 | \$ 705,188 | \$ 249,972 | 35.4% | \$ 3,249,748 |
| June 30, 2013 | 719,219 | 457,252 | 63.6% | 3,511,705 |
| June 30, 2014 | 796,219 | 595,141 | 74.7% | 3,712,783 |

Funded Status and Funding Progress – As of July 1, 2013, 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 \$8,236,516. The covered payroll (annual payroll of active employees covered by the plan) was \$53,495,962, and the ratio of the UAAL to the covered payroll was 15.4 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, 2013, 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 percent, and health care trend rates ranging from 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after eight years. The UAAL is being amortized as a level dollar amount over thirty years.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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).

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. For members hired prior to July 1, 2010 retirement benefits vest after 3 years and after 5 years for members hired after June 30, 2010 or 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

14. Pension Plans (continued)

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.

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 4 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.

Effective July 1, 2010 a cost of living adjustment (COLA) equal to the consumer price index (up to 5%) is payable when the funding ratio using actuarial value of assets equals or exceeds 90%. Until 90% threshold is met there is a transitional COLA which provides for an adjustment based on the funding ratio using the market value of assets: 2% when greater than 90%, 1% when greater than 80%, otherwise 0%.

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 7.00% for FY 2014. The District is required to contribute 7.29% in FY 2014. The District's contributions for the years ending June 30, 2014, 2013, and 2012 were \$3,093,532, \$2,952,818, and \$2,805,041 respectively equal to the contractually required contributions for each year as set by state statute.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

14. Pension Plans (continued)

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.

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 Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

14. Pension Plans (continued)

2. Public Employees Retirement Association (continued)

a. Plan Description (continued)

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 GERS. 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.

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. GERS Basic Plan members and coordinated plan members were required to contribute 9.10% and 6.25%, respectively of their annual covered salary. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members and 7.25% for Coordinated Plan GERS. The District contributions for the years ending June 30, 2014, 2013, and 2012 were \$1,035,702, \$1,053,022, and \$1,098,830 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 fund had expenditures in excess of appropriations for the year ended June 30, 2014:

| <u>Fund</u> | <u>Final Budget</u> | <u>Expenditures</u> | <u>Excess</u> |
|-------------|---------------------|---------------------|----------------|
| General | \$ 93,671,458 | \$ 95,606,310 | \$ (1,934,852) |

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

16. Dental Self-Insurance Plan

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

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

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

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

| Fiscal Year Ended June 30 | Beginning of Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claims Payments | Balance at Fiscal Year-End |
|------------------------------|------------------------------------------|-------------------------------------------------------|--------------------|----------------------------------|
| 2014 | \$ 63,066 | \$ 718,996 | \$ 715,512 | \$ 66,550 |
| 2013 | 74,461 | 724,239 | 735,634 | 63,066 |

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.

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.

18. Commitments

At June 30, 2014, the District had commitments under various construction and service contracts totaling \$528,598. The construction commitments will be paid by the Capital Projects Fund.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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.

20. Future Accounting Standards

GASB Statement No.68, Accounting and Financial Reporting for Pensions, establishes standard of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers. The requirements of GASB Statement No.68 are effective for fiscal years beginning after June 15, 2014. The District has not completed the process of evaluating GASB Statement No.68, but because the District participates in a cost sharing multiple-employer pension system as defined by GASB Statement No.68, implementation is expected to result in recognition of pension expense as well as reporting of deferred outflows and inflows of resources and a net position liability based on the District's proportional share of those of the plan, calculated as specified in GASB Statement No.68. Additional footnote and supplementary disclosures will also be required upon implementation.

21. Subsequent Event

Consolidation of Duluth Teachers Retirement Fund

All active, inactive, and retired members of the Duluth Teachers Retirement Fund Association (DTRFA) are transferred to the Teachers Retirement Association (TRA) and are no longer members of the DTRFA as of July 1, 2015. In addition, the DTRFA must transfer all assets deemed acceptable, except for any investments deemed not acceptable, accounts receivable, and any direct real estate holdings of the DTRFA as of June 30, 2015, to the TRA. For those assets not accepted by the TRA, title will pass to the Duluth Public Schools including real estate holdings on July 1, 2015.

**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, 2014

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

| | Budget | | | Over (Under) | Prior Year |
|----------------------------------------------------------|-----------------------|----------------------|----------------------|-----------------------|-----------------------|
| | Original | Final | Actual | Final Budget | Actual |
| Revenues | | | | | |
| Local property tax levies | \$ 8,095,100 | \$ 8,344,567 | \$ 10,340,109 | \$ 1,995,542 | \$ 10,556,117 |
| Interest income | 60,005 | 60,005 | 276,580 | 216,575 | (227,595) |
| Other local and county | 3,244,710 | 3,686,431 | 4,087,496 | 401,065 | 5,135,803 |
| State sources | 77,974,871 | 77,721,851 | 75,480,834 | (2,241,017) | 74,640,392 |
| Federal sources | 5,679,180 | 7,840,077 | 7,047,932 | (792,145) | 7,153,603 |
| Insurance recovery | | | 10,787 | (10,787) | |
| Sales and other conversions of assets | 538,082 | 538,082 | 539,592 | 1,510 | 446,253 |
| Total Revenues | \$ 95,591,948 | \$ 98,191,013 | \$ 97,783,330 | \$ (407,683) | \$ 97,704,573 |
| Expenditures | | | | | |
| Administration | \$ 4,073,093 | \$ 3,871,718 | \$ 4,170,319 | \$ (298,601) | \$ 4,360,454 |
| District support services | 4,203,583 | 4,568,976 | 2,983,717 | 1,585,259 | 3,943,889 |
| Regular instruction | 34,489,682 | 36,771,815 | 42,382,359 | (5,610,544) | 43,659,690 |
| Vocational instruction | 1,163,727 | 1,183,078 | 1,188,247 | (5,169) | 1,184,290 |
| Special education instruction | 20,986,194 | 21,076,100 | 21,193,460 | (117,360) | 21,532,929 |
| Instructional support services | 3,184,673 | 3,612,872 | 3,697,676 | (84,804) | 3,068,670 |
| Pupil support services | 8,043,972 | 8,120,568 | 7,367,743 | 752,825 | 7,257,049 |
| Sites, buildings and equipment | 6,982,593 | 7,176,222 | 7,983,811 | (807,589) | 7,720,273 |
| Fiscal and other fixed cost programs | 3,170,000 | 3,170,000 | 768,933 | 2,401,067 | 803,972 |
| Debt Service | | | | | |
| Principal | 1,685,000 | 1,685,000 | 1,685,000 | - | |
| Interest | 1,738,185 | 1,738,185 | 1,738,185 | - | |
| Capital outlay | 971,246 | 696,924 | 446,860 | 250,064 | 4,335,737 |
| Total Expenditures | \$ 90,691,948 | \$ 93,671,458 | \$ 95,606,310 | \$ (1,934,852) | \$ 97,866,953 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ 4,900,000 | \$ 4,519,555 | \$ 2,177,020 | \$ (2,342,535) | \$ (162,380) |
| Other Financing Sources (Uses) | | | | | |
| Sale of property | \$ | \$ | \$ 7,738 | \$ 7,738 | \$ 1,502,906 |
| Operating transfers out | (4,900,000) | | | | (3,012,034) |
| Total Other Financing Sources (Uses) | \$ (4,900,000) | \$ | \$ 7,738 | \$ 7,738 | \$ (1,509,128) |
| Net change in fund balance | \$ | \$ 4,519,555 | \$ 2,184,758 | \$ (2,334,797) | \$ (1,671,508) |
| Fund Balance | | | | | |
| Beginning of Year | | | \$ 1,934,777 | | \$ 3,606,285 |
| End of Year | | | \$ 4,119,535 | | \$ 1,934,777 |

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S OTHER POSTEMPLOYMENT
HEALTH CARE PLAN
June 30, 2014

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) |
|--------------------------|------------------------|-------------------------------------|------------------------------------------|---------------------------|
| 2011 | 1,754,660 | 1,200,449 | 68.4% | 2,794,532 |
| 2012 | 705,188 | 249,972 | 35.4% | 3,249,748 |
| 2013 | 719,209 | 457,252 | 63.6% | 3,511,705 |
| 2014 | 796,219 | 595,141 | 74.7% | 3,712,783 |

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% |
| July 1, 2013 | - | 8,236,516 | 8,236,516 | 0% | 53,495,962 | 15.4% |

**SUPPLEMENTARY
INFORMATION**

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement B-1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
CAPITAL PROJECTS FUND
BUDGET AND ACTUAL
Year Ended June 30, 2014
With Comparative Actual Amounts for the Year Ended June 30, 2013

| | Budget | | | Over (Under) | Prior Year |
|---------------------------------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| | Original | Final | Actual | Final Budget | Actual |
| Revenues | | | | | |
| Local property tax levies | \$ 934,593 | \$ 934,593 | \$ 934,593 | \$ | \$ 409,004 |
| Interest income | 1,000 | 1,000 | 2,053 | 1,053 | 195,873 |
| Other local and county | | | 9,454 | 9,454 | 700,682 |
| State sources | 168,064 | 168,064 | 168,064 | | 168,064 |
| Total Revenues | \$ 1,103,657 | \$ 1,103,657 | \$ 1,114,164 | \$ 10,507 | \$ 1,473,623 |
| Expenditures | | | | | |
| Sites, buildings and equipment | \$ 121,695 | \$ 243,030 | \$ 206,165 | \$ 36,865 | \$ 273,071 |
| Capital Outlay | 979,962 | 9,720,377 | 4,636,223 | 5,084,154 | 33,468,030 |
| Total Expenditures | \$ 1,101,657 | \$ 9,963,407 | \$ 4,842,388 | \$ 5,121,019 | \$ 33,741,101 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ 2,000 | \$ (8,859,750) | \$ (3,728,224) | \$ 5,131,526 | \$ (32,267,478) |
| Other Financing Sources (Uses) | | | | | |
| Sale of property | \$ | \$ | \$ 105,205 | \$ 105,205 | \$ 672,515 |
| Total Other Financing sources (Uses) | \$ | \$ | \$ 105,205 | \$ 105,205 | \$ 672,515 |
| Net change in fund balance | \$ 2,000 | \$ (8,859,750) | \$ (3,623,019) | \$ 5,236,731 | \$ (31,594,963) |
| Fund Balance | | | | | |
| Beginning of Year | | | 9,854,155 | | 41,449,118 |
| End of Year | | | <u>\$ 6,231,136</u> | | <u>\$ 9,854,155</u> |

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement C-1

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
DEBT SERVICE FUND
BUDGET AND ACTUAL**

Year Ended June 30, 2014

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

| | Budget | | | Over (Under) | Prior Year |
|---------------------------------------------------|----------------|----------------|----------------|-----------------|----------------|
| | Original | Final | Actual | Final Budget | Actual |
| Revenues | | | | | |
| Local property tax levies | \$ 14,495,862 | \$ 15,291,362 | \$ 15,169,136 | \$ (122,226) | \$ 12,629,212 |
| Interest income | | | 4 | 4 | 268 |
| State sources | 2,709,000 | 1,913,500 | 1,960,888 | 47,388 | 1,890,825 |
| Federal sources | 1,117,224 | 1,117,224 | 1,028,405 | (88,819) | 1,142,949 |
| Total Revenues | \$ 18,322,086 | \$ 18,322,086 | \$ 18,158,433 | \$ (163,653) | \$ 15,663,254 |
| Expenditures | | | | | |
| Principal | \$ 10,890,000 | \$ 10,890,000 | \$ 10,890,000 | \$ - | \$ 10,375,000 |
| Interest and fiscal charges | 10,197,548 | 10,197,548 | 10,196,678 | 870 | 10,487,523 |
| Total Expenditures | \$ 21,087,548 | \$ 21,087,548 | \$ 21,086,678 | \$ 870 | \$ 20,862,523 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (2,765,462) | \$ (2,765,462) | \$ (2,928,245) | \$ (162,783) | \$ (5,199,269) |
| Other Financing Sources (Uses) | | | | | |
| Transfer In | \$ 4,900,000 | \$ | \$ | \$ | \$ 3,012,034 |
| Total Other Financing Sources (Uses) | \$ 4,900,000 | \$ | \$ | \$ | \$ 3,012,034 |
| Net change in fund balance | \$ 2,134,538 | \$ (2,765,462) | \$ (2,928,245) | \$ (162,783) | \$ (2,187,235) |
| Fund Balance | | | | | |
| Beginning of Year | | | 4,838,487 | | 7,025,722 |
| End of Year | | | \$ 1,910,242 | | \$ 4,838,487 |

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement D-1

COMBINING BALANCE SHEET
OTHER FUNDS
JUNE 30, 2014
With Comparative Amounts at June 30, 2013

| | Food Service Fund | Community Services Fund | Totals | |
|----------------------------------------------------------------------------|-------------------------|-------------------------------|---------------------|---------------------|
| | | | 2014 | 2013 |
| Assets | | | | |
| Cash and investments | \$ 992,712 | \$ 974,446 | \$ 1,967,158 | \$ 1,090,963 |
| Taxes and credits receivable | | 605,098 | 605,098 | 635,516 |
| Accounts and interest receivable | 132 | 3,628 | 3,760 | 9,572 |
| Due from | | | | |
| Department of Education | | 315,130 | 315,130 | 388,258 |
| Federal through Department of Education | 57,679 | 21,754 | 79,433 | 11,369 |
| Federal - direct | | 697,379 | 697,379 | 809,947 |
| Other governmental units | | | | 1,848 |
| Property tax shift | | | | 9,218 |
| Inventory | 120,852 | | 120,852 | 99,852 |
| Prepayments | 1,396 | 4,776 | 6,172 | 5,069 |
| Total Assets | \$ 1,172,771 | \$ 2,622,211 | \$ 3,794,982 | \$ 3,061,612 |
| Deferred Outflows of Resources | | | | |
| Total assets and deferred outflows of resources | <u>\$ 1,172,771</u> | <u>\$ 2,622,211</u> | <u>\$ 3,794,982</u> | <u>\$ 3,061,612</u> |
| Liabilities | | | | |
| Salaries payable | \$ 20,799 | \$ 446,065 | \$ 466,864 | \$ 470,505 |
| Accounts payable | 72,285 | 116,227 | 188,512 | 177,618 |
| Due to | | | | |
| Other funds | | 50,949 | 50,949 | 52,905 |
| Unearned revenue | | 77,903 | 77,903 | 64,043 |
| Total Liabilities | <u>\$ 93,084</u> | <u>\$ 691,144</u> | <u>\$ 784,228</u> | <u>\$ 765,071</u> |
| Deferred Inflows of Resources | | | | |
| Property taxes levied for subsequent year's expenditures | \$ | \$ 1,029,705 | \$ 1,029,705 | \$ 574,983 |
| Unavailable revenue - delinquent property taxes | | 47,242 | 47,242 | 60,533 |
| Total Deferred Inflows of Resources | <u>\$</u> | <u>\$ 1,076,947</u> | <u>\$ 1,076,947</u> | <u>\$ 635,516</u> |
| Fund Balance | | | | |
| NonSpendable: | | | | |
| Inventory | \$ 120,852 | \$ | \$ 120,852 | \$ 99,852 |
| Prepayments | 1,396 | 4,776 | 6,172 | 5,069 |
| Restricted for: | | | | |
| Community education | | 350,396 | 350,396 | 202,139 |
| Early childhood family education | | 212,319 | 212,319 | 202,179 |
| School readiness | | 47,973 | 47,973 | 36,908 |
| Adult basic education | | 171,826 | 171,826 | 119,604 |
| Community service | | 66,830 | 66,830 | 26,533 |
| Food service | 957,439 | | 957,439 | 968,741 |
| Total Fund Balance | <u>\$ 1,079,687</u> | <u>\$ 854,120</u> | <u>\$ 1,933,807</u> | <u>\$ 1,661,025</u> |
| Total Liabilities , Deferred Inflows of Resources and Fund Balances | <u>\$ 1,172,771</u> | <u>\$ 2,622,211</u> | <u>\$ 3,794,982</u> | <u>\$ 3,061,612</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, 2014

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

| | Food Service Fund | Community Services Fund | Totals | |
|-----------------------------------------|-------------------------|-------------------------------|---------------------|----------------------|
| | | | 2014 | 2013 |
| Revenues | | | | |
| Local property tax levies | \$ | \$ 484,033 | \$ 484,033 | \$ 982,873 |
| Other local and county | 4,608 | 1,619,796 | 1,624,404 | 1,552,586 |
| State sources | 152,703 | 2,388,712 | 2,541,415 | 2,048,425 |
| Federal sources | 2,182,147 | 1,912,316 | 4,094,463 | 4,395,625 |
| Insurance recovery | | 8,290 | 8,290 | |
| Sales and other conversions of assets | 1,104,787 | | 1,104,787 | 1,047,161 |
| Total Revenues | \$ 3,444,245 | \$ 6,413,147 | \$ 9,857,392 | \$ 10,026,670 |
| Expenditures | | | | |
| Community education and services | \$ | \$ 6,143,507 | \$ 6,143,507 | \$ 6,540,208 |
| Pupil support services | 3,352,838 | | 3,352,838 | 3,270,219 |
| Capital outlay | 81,668 | 6,597 | 88,265 | 49,322 |
| Total Expenditures | \$ 3,434,506 | \$ 6,150,104 | \$ 9,584,610 | \$ 9,859,749 |
| Excess of Revenues Over Expenditures | \$ 9,739 | \$ 263,043 | \$ 272,782 | \$ 166,921 |
| Net change in fund balance | \$ 9,739 | \$ 263,043 | \$ 272,782 | \$ 166,921 |
| Fund Balance | | | | |
| Beginning of Year | 1,069,948 | 591,077 | 1,661,025 | 1,494,104 |
| End of Year | <u>\$ 1,079,687</u> | <u>\$ 854,120</u> | <u>\$ 1,933,807</u> | <u>\$ 1,661,025</u> |

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Schedule E - 1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOOD SERVICE FUND
BUDGET AND ACTUAL
Year Ended June 30, 2014
With Comparative Actual Amounts for the Year Ended June 30, 2013

| | Budget | | Actual | Over (Under) | Prior Year Actual |
|-------------------------------------------------|---------------------|---------------------|---------------------|--------------------|----------------------|
| | Original | Final | | Final Budget | |
| Revenues | | | | | |
| Other local and county | \$ 23,100 | \$ 23,100 | \$ 4,608 | \$ (18,492) | \$ 13,675 |
| State sources | 167,500 | 167,500 | 152,703 | (14,797) | 164,461 |
| Federal sources | 2,078,000 | 2,078,000 | 2,182,147 | 104,147 | 2,167,766 |
| Sales and other conversions of assets | 1,240,430 | 1,240,430 | 1,104,787 | (135,643) | 1,047,161 |
| Total Revenues | <u>\$ 3,509,030</u> | <u>\$ 3,509,030</u> | <u>\$ 3,444,245</u> | <u>\$ (64,785)</u> | <u>\$ 3,393,063</u> |
| Expenditures | | | | | |
| Pupil support services | \$ 3,500,030 | \$ 3,500,030 | \$ 3,352,838 | \$ 147,192 | \$ 3,270,219 |
| Capital outlay | 9,000 | 86,000 | 81,668 | 4,332 | 45,851 |
| Total Expenditures | <u>\$ 3,509,030</u> | <u>\$ 3,586,030</u> | <u>\$ 3,434,506</u> | <u>\$ 151,524</u> | <u>\$ 3,316,070</u> |
| Excess of Revenues Over (Under) Expenditures | <u>\$</u> | <u>\$ (77,000)</u> | <u>\$ 9,739</u> | <u>\$ 86,739</u> | <u>\$ 76,993</u> |
| Fund Balance | | | | | |
| Beginning of Year | | | 1,069,948 | | 992,955 |
| End of Year | | | <u>\$ 1,079,687</u> | | <u>\$ 1,069,948</u> |

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

| | Budget | | | Over (Under) Final Budget | Prior Year Actual |
|---------------------------------------|--------------|--------------|--------------|---------------------------------|----------------------|
| | Original | Final | Actual | | |
| Revenues | | | | | |
| Local property tax levies | \$ 996,220 | \$ 908,020 | \$ 484,033 | \$ (423,987) | \$ 982,873 |
| Other local and county | 1,315,069 | 1,424,062 | 1,619,796 | 195,734 | 1,538,911 |
| State sources | 1,815,664 | 2,003,329 | 2,388,712 | 385,383 | 1,883,964 |
| Federal sources | 1,770,040 | 1,999,298 | 1,912,316 | (86,982) | 2,227,859 |
| Insurance recovery | | 8,290 | 8,290 | 0 | 0 |
| Total Revenues | \$ 5,896,993 | \$ 6,342,999 | \$ 6,413,147 | \$ 70,148 | \$ 6,633,607 |
| Expenditures | | | | | |
| Community education and services | \$ 5,879,788 | \$ 6,322,339 | \$ 6,143,507 | \$ 178,832 | \$ 6,540,208 |
| Capital outlay | 17,205 | 20,660 | 6,597 | 14,063 | 3,471 |
| Total Expenditures | \$ 5,896,993 | \$ 6,342,999 | \$ 6,150,104 | \$ 192,895 | \$ 6,543,679 |
| Other Financing Sources (Uses) | | | | | |
| Total Other Financing Sources (Uses) | \$ | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Net change in fund balance | \$ | \$ 0 | \$ 263,043 | \$ 263,043 | \$ 89,928 |
| Fund Balance | | | | | |
| Beginning of Year | | | 591,077 | | 501,149 |
| End of Year | | | \$ 854,120 | | \$ 591,077 |

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, 2014

| Activity | Cash Balance 6/30/2013 | Receipts and Transfers In | Disbursements and Transfers Out | Cash Balance 6/30/2014 |
|---------------------------------|---------------------------|------------------------------|---------------------------------------|---------------------------|
| High Schools | | | | |
| Denfeld | \$ 421,199 | \$ 398,365 | \$ 423,301 | \$ 396,263 |
| East | 224,750 | 660,885 | 630,411 | 255,224 |
| Total High Schools | \$ 645,949 | \$ 1,059,250 | \$ 1,053,712 | \$ 651,487 |
| Middle Schools | | | | |
| Lincoln Park | \$ 69,683 | \$ 25,700 | \$ 30,631 | \$ 64,752 |
| Ordean East | 113,978 | 29,643 | 36,686 | 106,935 |
| Total Middle Schools | \$ 183,661 | \$ 55,343 | \$ 67,317 | \$ 171,687 |
| Elementary Schools | | | | |
| Congdon Park | \$ 10,053 | \$ 36,949 | \$ 35,355 | \$ 11,647 |
| Homecroft | 27,510 | 30,251 | 43,166 | 14,595 |
| Lakewood | 19,103 | 15,335 | 17,111 | 17,327 |
| Laura MacArthur | 17,261 | 21,531 | 23,217 | 15,575 |
| Lester Park | 16,745 | 33,737 | 24,322 | 26,160 |
| Lowell | 14,246 | 5,095 | 7,489 | 11,852 |
| Myers-Wilkins | 58,748 | 14,459 | 12,448 | 60,759 |
| Piedmont | 15,289 | 23,677 | 19,845 | 19,121 |
| Stowe | 45,605 | 17,228 | 14,791 | 48,042 |
| Total Elementary Schools | \$ 224,560 | \$ 198,262 | \$ 197,744 | \$ 225,078 |
| ALC/Unity | \$ 28,652 | \$ 5,588 | \$ 10,414 | \$ 23,826 |
| Barnes Early Childhood | 3,275 | 3,655 | 3,157 | 3,773 |
| Merritt Creek Academy | 2,206 | 188 | 673 | 1,721 |
| Public School Stadium | 1,643 | 21,313 | 21,426 | 1,530 |
| Woodland Hills | 4,327 | 1,869 | 2,429 | 3,767 |
| Total Student Activities | \$ 1,094,273 | \$ 1,345,468 | \$ 1,356,872 | \$ 1,082,869 |
| District Funds | | | | |
| Co-curricular | \$ 936,185 | \$ 1,174,473 | \$ 1,169,120 | \$ 941,538 |
| Extra-curricular | 158,088 | 170,995 | 187,752 | 141,331 |
| Total Funds | \$ 1,094,273 | \$ 1,345,468 | \$ 1,356,872 | \$ 1,082,869 |

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

NDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

FISCAL COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2014

| | Audit | UFARS | Audit - UFARS | | Audit | UFARS | Audit - UFARS |
|------------------------------------|---------------|---------------|---------------|----------------------------------|--------------|--------------|---------------|
| 01 GENERAL FUND | | | | 06 BUILDING CONSTRUCTION | | | |
| Total revenues | \$ 97,783,330 | \$ 97,783,330 | \$ | Total revenues | \$ 1,114,164 | \$ 1,114,164 | \$ |
| Total expenditures | 95,606,310 | 95,606,310 | | Total expenditures | 4,842,388 | 4,842,388 | |
| Non spendable | | | | Non spendable | | | |
| 460 Non spendable fund balance | 209,655 | 209,654 | 1 | 460 Non spendable fund balance | | | |
| Restricted/Reserve | | | | Restricted/Reserve | | | |
| 403 Staff development | 107,574 | 107,574 | | 407 Down payment levy | | | |
| 405 Deferred maintenance | | | | 409 Alternative facility program | 1,987,928 | 1,987,928 | |
| 406 Health and safety | | | | 413 Projects funded by COP | 4,243,208 | 4,243,208 | |
| 407 Capital Projects Levy | | | | Restricted | | | |
| 408 Cooperative revenue | | | | 464 Restricted fund balance | - | | |
| 411 Severance pay | | | | Unassigned | | | |
| 413 Project funded by COP | | | | 463 Unassigned fund balance | | | |
| 414 Operating debt | | | | | | | |
| 416 Levy reduction | | | | 07 DEBT SERVICE | | | |
| 417 Taconite building maintenance | | | | Total revenues | 18,158,433 | 18,158,433 | |
| 423 Certain teacher programs | | | | Total expenditures | 21,086,678 | 21,086,679 | (1) |
| 424 Operating capital | | | | Non spendable | | | |
| 426 \$25 Taconite | | | | 460 Non spendable fund balance | | | |
| 427 Disabled accessibility | | | | Restricted/Reserve | | | |
| 428 Learning and development | | | | 425 Bond refundings | | | |
| 434 Area learning center | 22,465 | 22,465 | | 451 QZAB payments | | | |
| 435 Contracted alt. Programs | | | | Restricted | | | |
| 436 St. approved alt. Program | | | | 464 Restricted fund balance | 1,910,242 | 1,910,242 | |
| 438 Gifted & talented | | | | Unassigned | | | |
| 441 Basic skills program | | | | 463 Unassigned fund balance | | | |
| 445 Career and technical Programs | | | | | | | |
| 446 First Grade Preparedness | | | | 08 TRUST | | | |
| 449 Safe schools levy | | | | Total revenues | 184,496 | 184,497 | (1) |
| 450 Prekindergarten | | | | Total expenditures | 250,000 | 250,000 | |
| 451 QZAB payments | | | | 422 Net position | 1,820,700 | 1,820,700 | |
| 452 OPEB liability not in trust | | | | | | | |
| 453 Unfunded sev & retirement levy | | | | 20 INTERNAL SERVICE | | | |
| Restricted | | | | Total revenues | 782,175 | 782,175 | |
| 464 Restricted fund balance | | | | Total expenditures | 718,996 | 718,996 | |
| Committed | | | | 422 Net position | 8,564 | 8,564 | |
| 418 Committed for separation | | | | | | | |
| 461 Committed fund balance | | | | 25 OPEB REVOCABLE TRUST FUND | | | |
| Assigned | | | | Total revenues | | | |
| 462 Assigned fund balance | 3,698,094 | 3,698,094 | | Total expenditures | | | |
| Unassigned | | | | 422 Net position | | | |
| 422 Unassigned fund balance | 81,747 | 81,747 | | | | | |
| 02 FOOD SERVICE | | | | 45 OPEB IRREVOCABLE TRUST FUND | | | |
| Total revenues | 3,444,245 | 3,444,245 | | Total revenues | | | |
| Total expenditures | 3,434,506 | 3,434,507 | (1) | Total expenditures | | | |
| Non spendable | | | | 422 Net position | | | |
| 460 Non spendable fund balance | 122,248 | 122,248 | | | | | |
| Restricted | | | | 47 OPEB DEBT SERVICE FUND | | | |
| 452 OPEB liability not in trust | | | | Total revenues | | | |
| 464 Restricted fund balance | 957,439 | 957,438 | 1 | Total expenditures | | | |
| Unassigned | | | | Non spendable | | | |
| 463 Unassigned fund balance | | | | 460 Non spendable fund balance | | | |
| | | | | Restricted | | | |
| 04 COMMUNITY SERVICE | | | | 425 Bond refundings | | | |
| Total revenues | 6,413,147 | 6,413,147 | | 464 Restricted fund balance | | | |
| Total expenditures | 6,150,104 | 6,150,104 | | Unassigned | | | |
| Non spendable | | | | 463 Unassigned fund balance | | | |
| 460 Non spendable fund balance | 4,776 | 4,776 | | | | | |
| Restricted/Reserve | | | | | | | |
| 426 \$25 taconite | | | | | | | |
| 431 Community education | 350,396 | 350,396 | | | | | |
| 432 ECCE | 212,319 | 212,319 | | | | | |
| 444 School readiness | 47,973 | 47,973 | | | | | |
| 447 Adult Basic Education | 171,826 | 171,826 | | | | | |
| 452 OPEB liability not in trust | | | | | | | |
| Restricted | | | | | | | |
| 464 Restricted fund balance | 66,830 | 66,830 | | | | | |
| Unassigned | | | | | | | |
| 463 Unassigned fund balance | | | | | | | |