COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2017

DULUTH
INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

215 North First Avenue East
Duluth, MN 55802

Prepared by the
Finance Department

Douglas Hasler • CFO/Executive Director of Business Services

Peggy Blalock • Finance Manager

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

TABLE OF CONTENTS

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

TABLE OF CONTENTS
(Continued)

INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

ORGANIZATION
JUNE 30, 2017

School Board Directors

		Term Expires
David Kirby	Chairperson	01/08/2020
Rosie Loeffler-Kemp	Vice Chairperson	01/08/2018
Annie Harala	Clerk of the Board	01/08/2018
Nora Sandstad	Treasurer	01/06/2020
Art Johnston		01/08/2018
Alanna Oswald		01/06/2020
Harry Welty		01/08/2018

Ex Officio Members

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

FINANCIAL SECTION

WIPFLi LLP

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, 2017, 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, 2017, 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, information about the District's other postemployment health care plan, and information about the District's net pension liability, pages 72 through 74, 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, pages 75 through 82, 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, in accordance with auditing standards generally accepted in the United States, the District's basic financial statements for the year ended June 30, 2016, which are not presented with the accompanying financial statements and we expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The individual fund schedules and combining other funds statements for the year ended June 30, 2016, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 basic financial statements. The information was subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the 2016 individual fund schedules and combining other funds statements are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2017 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

December 1, 2017
Duluth, Minnesota

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017

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, 2017.

FINANCIAL HIGHLIGHTS

- The District's total net position of governmental activities decreased approximately $43 million versus 2016 to $(27,724,278) primarily due to an increase in deferred outflows of resources related to our financial presentation of pension expenses.

- Overall program and general revenues were $135.5 million, $4.2 million less than related expenses of $139.8 million excluding pension expense of $38.5 million.

- General revenues accounted for $99.7 million, or 73.6% of all fiscal year 2017 revenues. This amount is approximately the same percentage of total revenues as the prior year. Program specific revenues of $35.7 million (related to services, grants and contributions) accounted for 26% of total fiscal 2017 revenues. This represents a decrease of $.6 million versus the prior year.

- The District spent approximately $178.4 million on governmental activities that includes $38.5 million in pension expense. Excluding the pension expense, this represents an increase of $18 million (equal to 15%) versus prior year. Increases of $16 million in regular instruction, special education instruction, and sites and buildings and $2.8 million of reduced expenses relating largely to administration and support services, had the primary impact on this change.

- Among major funds, the General fund had $101.9 million in revenues, consisting mainly of state aids and local property taxes, and $104.9 million in expenditures. This resulted in a deficit of $3 million. As a result, the fund balance was reduced to $.1 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

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

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

	2017	2016	Total Percentage Change
Current and Other Assets	$188,206,821	$109,834,869	71%
Capital Assets	$294,153,701	$301,671,578	(2)%
Total Assets	$482,360,552	$411,506,447	17%
Total Deferred Outflows of Resources	$171,890,098	$40,985,833	319%
Total Assets and Deferred Outflows of Resources	$654,250,620	$452,492,280	45%
Long-term Liabilities	$625,210,115	$375,432,010	67%
Other Liabilities	$24,050,467	$27,807,416	(14)%
Total Liabilities	$649,260,582	$403,239,426	61%
Total Deferred Inflows of Resources	$32,714,316	$34,038,078	(4)%
Net Position/(Liabilities)			
Net investment in capital assets	$62,473,463	$59,594,821	5%
Restricted	$80,609,732	$2,756,839	2824%
Unrestricted (deficit)	$(170,807,473)	$(47,136,884)	262%
Total Net Position/(Liability)	$(27,724,278)	$15,214,776	(282)%

District Assets of $482.4 million include, $24 million in unrestricted cash, receivables of $31 million, nearly all of which is made up of property tax and state aid receivables, capital assets being depreciated of $284 million, $133 million in restricted cash (for debt service), $10 million in undepreciated capital assets, and $0.4 million in other assets.

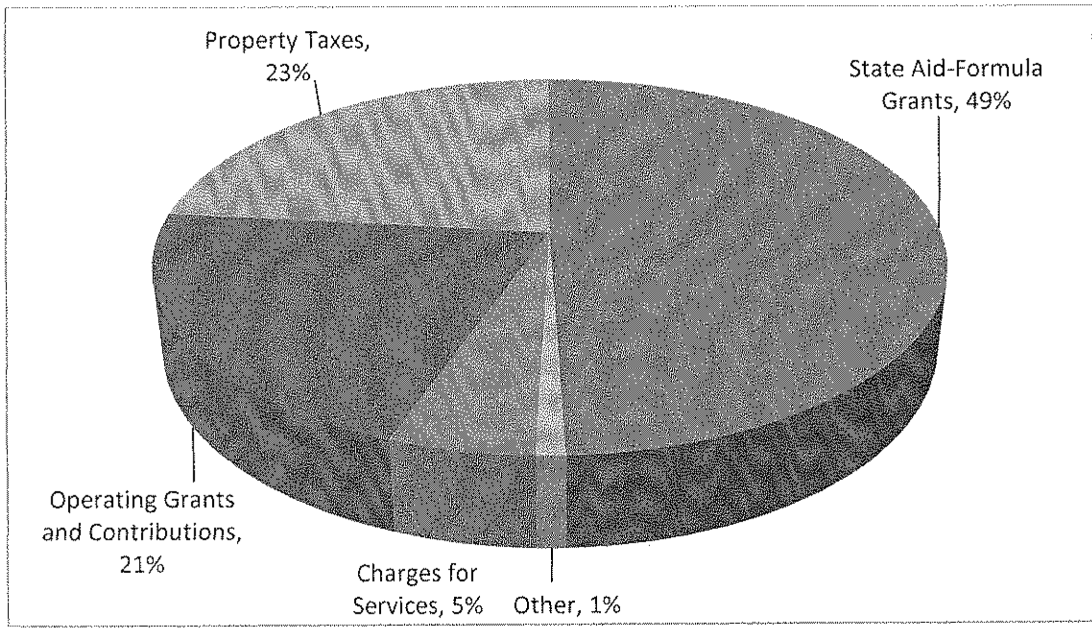
Deferred outflows of resources includes approximately $172 million for pension related items.

District Liabilities of $649.2 million include $610.3 million in Long-term Debt (facilities plan and future pension liabilities), $23 million due to employees and vendors for expenditures incurred but not paid as of fiscal year-end, and $15.9 million in other liabilities.

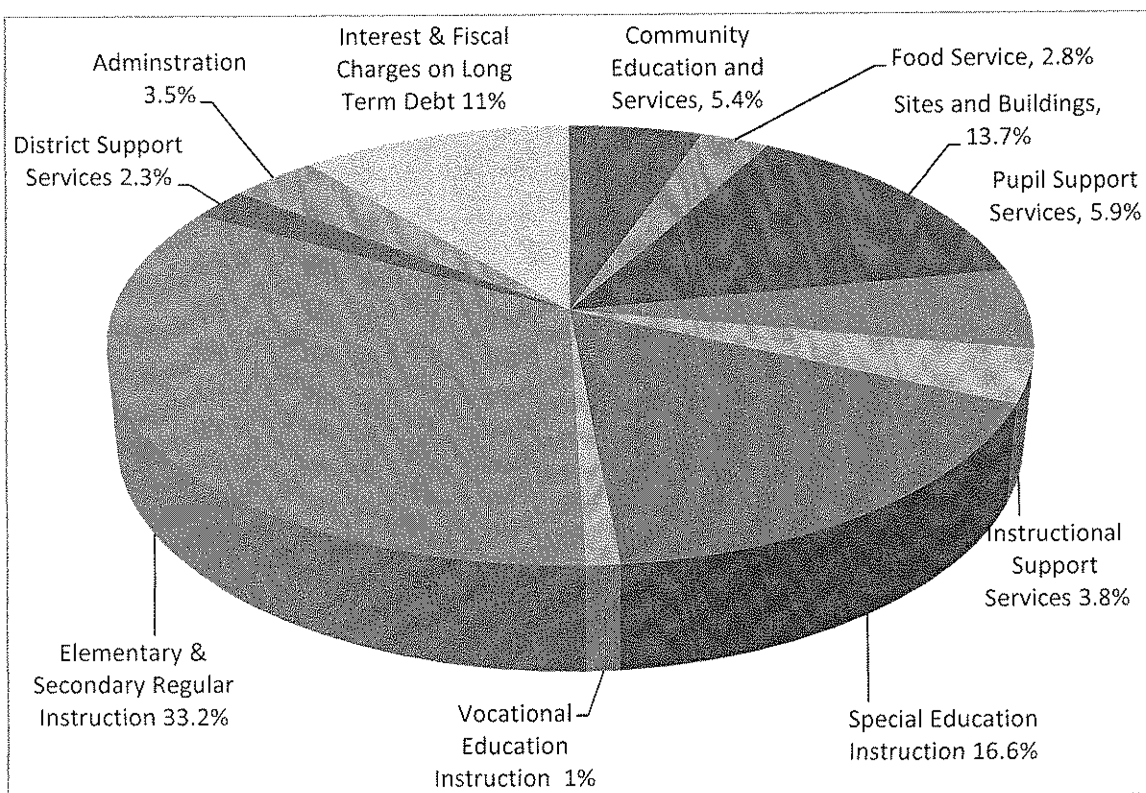
Deferred Inflows of Resources of $32.7 million includes $30.6 million of property taxes levied for subsequent years' expenditures and $2 million for pension related items.

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

Source of Revenues for Fiscal Year 2017



Expenses for Fiscal Year 2017



Changes in Net Position

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

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

Revenues:		**2017**		**2016**	**Total % Change**
Program revenues:					
Charges for Services	$	6,952,313	$	7,103,653	-2.1%
Operating grants and contributions	$	28,757,404	$	29,202,373	-1.5%
General revenues:					
Property taxes	$	31,724,863	$	31,464,419	0.8%
State aids	$	66,232,983	$	66,314,745	-0.1%
Other	$	1,769,441	$	2,682,655	-34.0%
Total Revenues	**$**	**135,437,004**	**$**	**136,767,845**	-1.0%
Expenses:					
Administration	$	5,026,374	$	5,245,269	-4.2%
District support services	$	3,340,170	$	4,174,502	-20.0%
Elementary and secondary regular instruction	$	85,009,159	$	35,317,843	140.7%
Vocational education instruction	$	1,466,868	$	1,317,407	11.3%
Special education instruction	$	23,221,114	$	22,457,866	3.4%
Instructional support services	$	5,328,829	$	5,654,493	-5.8%
Pupil support services	$	8,373,414	$	7,895,877	6.0%
Sites and buildings	$	19,294,425	$	15,275,444	26.3%
Fiscal and other fixed program costs	$	299,573	$	282,330	6.1%
Food service	$	4,030,346	$	3,893,697	3.5%
Community Service	$	7,561,786	$	7,217,652	4.8%
Interest and fiscal charges on long-term debt	$	15,424,000	$	12,820,579	20.3%
*Pension expense	$	-	$	(172,391,491)	-100.0%
Total expenses	**$**	**178,376,058**	**$**	**(50,838,532)**	-450.9%
Change in net position	**$**	**(42,939,054)**	**$**	**187,606,377**	-122.9%
Beginning of year net position	**$**	**15,214,776**	**$**	**(173,481,113)**	-108.8%
Prior Period Adjustment	**$**	**-**	**$**	**1,089,512**	
Net position restated	**$**	**-**	**$**	**(172,391,601)**	
End of year net position (deficit)	**$**	**(27,724,278)**	**$**	**15,214,776**	-282.2%

*Due to the merger of the DTRFA and TRA on June 30, 2015, there was a significant change in the District's proportionate share in DTRFA's net pension liability during the measurement period that caused a significant negative pension expense.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

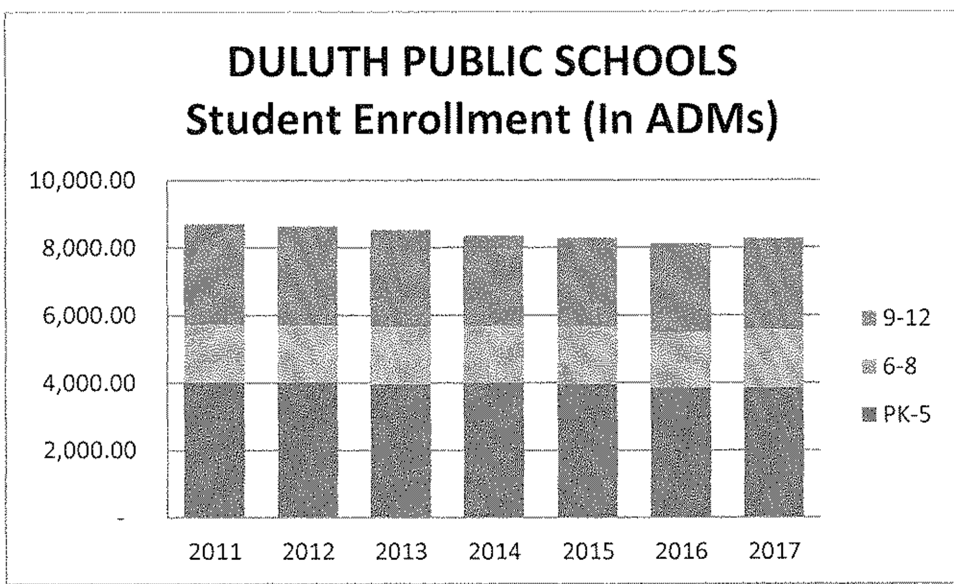
At the end of the 2016-17 fiscal year, the District's governmental funds reported a combined fund balance of $140.9 million, an increase of $81.4 million from the prior year combined fund balance of $59.5 million. This resulted from the refunding of Certificates of Participation Series 2008B by issuing Refunding Certificates of Participation Series 2016A.

General Fund

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

Enrollment is a critical factor in determining revenue. Like most Minnesota school districts, the District is facing declining enrollment. These declines have largely stabilized at the Elementary and Middle School levels. The following chart reflects that the number of students has decreased over the last six years with a small increase in 2017.

Student Enrollment
Average Daily Membership (ADM)



General Fund Budgetary Highlights

General fund adopted revenue budget of $103.6 million was revised upward to $105.4 million as a result of a $0.5 million increase in Title programs, a $1 million increase for grants and donations related to student and curriculum support, and $0.3 million in miscellaneous revenues.

General fund adopted expenditure budget of $103.6 million was increased by $3.9 million to $107.5 million. In addition to the $1.5 million of additions identified in the preceding paragraph, there was $2.2 million added to the budget to allow spending from the prior year reserve for textbooks and restricted funds.

General fund revenues were $3.4 million less than the revised budget (a difference of 3.2%). This was in part due to a formula change in special education funding and a reduction in enrollment that was greater than expected.

General fund spending was $2.6 million less than the revised budget, a difference of 2.4%. Spending was reduced to try to offset the reduction in revenues and reflects the decline in enrollment.

The General Fund balance decreased $3 million to a total of $.1 million as follows:

- Unassigned fund balance decreased by $2.8 million to a total deficit of $485,684.
- Restricted fund balances decreased by $93,583 to a total of $468,873.
- Non-spendable fund balances decreased by $46,347 to a total of $128,409.

Food Service Fund

The Food Service Fund revenues for 2016-17 totaled $4,031,023 or $276,983 more than the final budget. Expenditures were $4,030,346 or $120,291 less than the final budget. The resulting surplus of $677 increased the year-end fund balance to $902,048.

Community Service Fund

The Community Service Fund revenues for 2016-17 totaled $7,398,752 or $332,234 more than the final budget. Expenditures were $7,439,480 or $185,280 more than the final budget. The resulting deficit of $40,728 decreased the year-end fund balance to $1,287,862.

Capital Projects Fund

The Capital Projects Fund revenues for 2016-17 totaled $1,432 or $1,432 more than the final budget. Expenditures totaled $3,129,913 million or $1,059,993 million more than the final budget. The resulting deficit of $3,128,481 million reduced the fund balance to $187.

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 2016-17 totaled $22,133,371 or $1,284,720 more than the final budget. Expenditures totaled $20,158,280 or $8,525,973 less than the final budget. Other Financing Sources and Uses included proceeds from a bond refunding in the amount of $82,605,000 and premium on bonds of $11,521,782 as sources and bond refunding payments from escrow accounts as a use of $8,522,522. The resulting surplus of $87,579,351 increased the fund balance to $138,597,855 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal 2017, the District had over $355 million invested in a broad range of capital assets, reflecting the impact of our Long Range Facilities Plan. Depreciation of $60.9 million has been taken on existing items. As of June 30, 2017, the District had capital items, which had a depreciated value of $294.1 million. Most of the capital investment is in buildings and equipment.

ISD 709 CAPITAL ASSETS			
	2017	**2016**	**% Change**
Land	$10,021,410	$11,692,735	(14)%
Land Improvement	$2,496,358	$2,595,576	(4)%
Buildings and Improvements	$335,178,420	$334,100,561	0.0%
Equipment	$7,364,660	$8,133,622	(9)%
Less: Accumulated Depreciation	$(60,907,147)	$(54,850,916)	11%
TOTAL	**$294,153,701**	**$301,671,578**	**(2)%**

Long-Term Liabilities

At year-end, the District had $353.5 million of outstanding bonds payable and certificates of participation. This reflects an increase of $64.5 million versus the principal amount of $289 million outstanding at June 30, 2016. 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 $922.9 million as of June 30, 2017.

The remainder of long-term liabilities is the $29 million recognized for severance benefits and other post-employments benefits (OPEB). This represents an increase of $.6 million versus prior year. The final item represents the net pension liability of $227.7 million, an increase of $169.7 million versus 2016 due to a change in proportionate share for TRA.

ISD 709 LONG-TERM LIABILITIES			
	2017	**2016**	**% Change**
Certificates of Participation	$263,135,425	$195,215,425	35%
General Obligation Bonds	$90,445,000	$93,785,000	(4)%
Other Postemployment Benefits	$4,210,675	$3,458,553	22%
Severance Obligation	$24,803,441	$24,897,997	0%
Net Pension Liability	$227,742,940	$58,075,035	292%
TOTAL	**$610,337,481**	**$375,432,010**	**63%**
Long-Term Liabilities			
Due within one year	$20,509,926	$14,895,588	38%
Due in more than one year	$589,827,555	$360,536,422	64%
TOTAL	**$610,337,481**	**$375,432,010**	**63%**

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, and funding for early childhood education as part of the 2015 session. These increases are spread between FY16 and FY17.

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

Declining enrollment – as the population of school-age children residing in the District declines, District revenues decline, as most of our funding is based on the number of pupils served in the District. A demographic study completed in 2017 projects slight declines in enrollment for the next five years.

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

State Budget –Since K-12 education makes up over 40% of state spending and because State revenues account for over 76% of the District's General revenues, the District will be impacted by decisions made relative to education spending.

Medical Insurance – premium increases have been reduced through a plan change to a high-deductible statewide insurance plan. The District continues to work with employees to reduce the utilization of prescription drugs and medical services. As a result of these efforts, the District has realized a reduction of 8% in premiums for FY12, and an additional reduction of 5% for FY 13 with subsequent increases being reasonable at 5.4%, 1.7% and 0.7% from FY14 through FY16. The increase for FY17 was 6.8%.

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

Exhibit 1

Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and temporary investments	$ 23,980,513
Receivables	
Taxes	19,268,678
Accounts and interest receivable	664,265
Due from other governmental units	11,074,578
Inventory	189,031
Prepayments	68,208
Restricted assets	
Cash and investments for debt service	132,961,361
Cash and investments for capital projects	187
Capital assets, net of depreciation	
Capital assets not being depreciated	10,021,410
Capital assets being depreciated	284,132,291
Total assets	$ 482,360,522
Deferred Outflows of Resources	
Pension related items	171,890,098
Total assets and deferred outflows of resources	$ 654,250,620
Liabilities	
Salaries payable	$ 10,917,055
Accounts and contracts payable	3,212,150
Accrued interest payable	8,902,044
Due to other funds	284,149
Due to other governmental units	37,221
Compensated absences	447,090
Unearned revenue	250,758
Long term liabilities	
Due within one year	20,509,926
Due in more than one year	589,827,555
Unamortized premium and discount, net	14,872,634
Total liabilities	$ 649,260,582
Deferred inflows of resources	
Property taxes levied for subsequent years' expenditures	30,635,764
Pension related items	2,078,552
Total deferred inflows of resources	$ 32,714,316
Net Position (Deficit)	
Net investment in capital assets	$ 62,473,463
Restricted for:	
State Restrictions	468,873
Food Service	776,703
Community Service	1,354,884
Debt Service	78,009,272
Unrestricted (Deficit)	(170,807,473)
Total net position (deficit)	$ (27,724,278)
Total liabilities, deferred inflows of resources and net position (deficit)	$ 654,250,620

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

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs		Expenses
Governmental Activities		
Administration	$	5,026,374
District Support Services		3,340,170
Regular Instruction		85,009,159
Vocational Education Instruction		1,466,868
Special Education Instruction		23,221,114
Instructional Support Services		5,328,829
Pupil Support Services		8,373,414
Sites and Buildings		19,294,425
Fiscal and Other Fixed Cost Programs		299,573
Food Service		4,030,346
Community Service		7,561,786
Interest and Fiscal Charges on Long Term Debt		15,424,000
Total Governmental Activities	$	178,376,058

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

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
$	$ 115,569	$	$ (4,910,805)
	140,532		(3,199,638)
3,141,216	3,811,675		(78,056,268)
8,736	131,432		(1,326,700)
658,996	11,396,516		(11,165,602)
17,094	1,612,831		(3,698,904)
63,716	2,581,725		(5,727,973)
1,098	-		(19,293,327)
			(299,573)
1,281,783	2,749,240		677
1,779,674	4,532,057		(1,250,055)
	1,685,827		(13,738,173)
$ 6,952,313	$ 28,757,404	$	$ (142,666,341)

General Revenues	
Taxes	
Property Taxes, levied for General Purposes	$ 12,413,369
Property Taxes, levied for Community Service	940,661
Property Taxes, levied for Debt Service	18,370,833
State aid-formula grants	66,232,983
Other general revenues	1,092,208
Investments Earnings	677,233
Total General Revenues	$ 99,727,287
Change in net position	$ (42,939,054)
Net position - beginning	15,214,776
Net position (deficit) - ending	$ (27,724,278)

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Capital Projects Fund
Assets		
Cash and temporary investments	$ 6,937,301	$ 187
Cash and investments with fiscal agent		
Taxes and credits receivable	8,126,301	
Accounts and interest receivable	163,832	
Due from		
Other Minnesota school districts	1,390,341	
Department of Education	7,670,539	-
Federal through Department of Education	1,128,377	
Federal - direct	5,045	
Other governmental units	34,463	
Inventory	65,202	
Prepayments	63,207	
Total Assets	$ 25,584,608	$ 187
Deferred Outflows of Resources		
Total Assets and deferred outflows of resources	$ 25,584,608	$ 187

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

Debt Service Fund	Other Funds	Total Governmental Funds
$ 13,976,159	$ 2,688,098	$ 23,601,745
132,961,361		132,961,361
10,544,532	597,845	19,268,678
482,171	16,903	662,906
		1,390,341
221,311	342,635	8,234,485
	72,587	1,200,964
	209,280	214,325
		34,463
	123,829	189,031
	5,001	68,208
$ 158,185,534	$ 4,056,178	$ 187,826,507
$ 158,185,534	$ 4,056,178	$ 187,826,507

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Capital Projects Fund
Liabilities		
Salaries payable	$ 10,533,695	$ -
Accounts and interest payable	2,650,675	-
Due to		
Other funds	187,716	
Other governmental units	37,221	
Claims payable	109,172	
Construction contracts	70,081	-
Unearned revenue	127,651	
Total Liabilities	$ 13,716,211	$ -
Deferred inflows of resources		
Property taxes levied for subsequent year's expenditures	$ 11,061,401	
Unavailable revenue - delinquent property taxes	695,578	
Total deferred inflows of resources	$ 11,756,979	$

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

Debt Service Fund	Other Funds	Total Governmental Funds
$	$ 383,360	$ 10,917,055
1,750	277,597	2,930,022
	96,433	284,149
		37,221
		109,172
		70,081
	9,529	137,180
$ 1,750	$ 766,919	$ 14,484,880
$ 18,545,521	$ 1,028,842	$ 30,635,764
1,040,408	70,507	1,806,493
$ 19,585,929	$ 1,099,349	$ 32,442,257

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Balance Sheet
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Capital Projects Fund
Fund Balance		
NonSpendable:		
Inventory	$ 65,202	$
Prepayments	63,207	
Restricted for:		
Bond refunding	-	
Teacher Development & Evaluation	100,800	
Long Term Facilities Maintenance	179,282	-
Projects funded by COP		187
ALC	188,791	
Debt service		
Food service		
Community education		
Early childhood family education		
School readiness		
Adult basic education		
Community service		
Unassigned		
General	(485,864)	
Total Fund Balance	$ 111,418	$ 187
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 25,584,608	$ 187

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

Exhibit 3
(Continued)

Debt Service Fund	Other Funds	Total Governmental Funds
$	$ 123,829	$ 189,031
	5,001	68,208
132,961,361		132,961,361
		100,800
		179,282
		187
		188,791
5,636,494		5,636,494
	776,703	776,703
	773,759	773,759
	195,894	195,894
	260,060	260,060
	24,659	24,659
	30,005	30,005
		(485,864)
$ 138,597,855	$ 2,189,910	$ 140,899,370
$ 158,185,534	$ 4,056,178	$ 187,826,507

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 4

Reconciliation of the Balance Sheet to the Statement of Net Position Governmental Activities June 30, 2017

Total fund balances - governmental funds	$ 140,899,370
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	355,060,848
Less: accumulated depreciation	(60,907,147)
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	(90,445,000)
Certificates of participation	(263,135,425)
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.	(24,803,441)
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.	(447,090)
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.	1,806,493
Governmental funds do not report a liability for accrued interest until due and payable.	(8,902,044)
The net pension liability and the deferred outflows of resources and inflow of resources related to pensions are only reported in the statement of net position.	
Net pension liability	(227,742,940)
Deferred inflows of resources related to pensions	(2,078,552)
Deferred outflows of resources related to pensions	171,890,098
Changes in net other post-employment benefits obligations are reported only in the statement of activities.	(4,210,675)
Governmental funds report debt issuance premiums and discounts as an other financing source or use at the time of issuance, whereas, these amounts are deferred and amortized in the statement of net position.	(14,872,634)
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 postion.	163,861
Total net position (deficit) - governmental activities	$ (27,724,278)

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

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INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement of Revenues, Expenditures, and Changes in Fund Balance
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	General Fund	Capital Projects Fund
Revenues		
Local property tax levies	$ 12,459,353	$ -
Interest income	108,910	1,432
Other local and county	4,085,377	-
State sources	78,037,330	-
Federal sources	6,524,445	
Insurance/Judgement recovery	84,785	
Sales and other conversions of assets	657,415	
Total Revenues	$ 101,957,615	$ 1,432
Expenditures		
Administration	$ 5,009,606	$
District support services	2,800,224	
Regular instruction	45,613,382	
Vocational instruction	1,420,996	
Special education instruction	23,214,740	
Community education and services	89,191	
Instructional support services	5,279,209	
Pupil support services	7,887,262	
Sites, buildings and equipment	8,131,440	-
Fiscal and other fixed cost programs	330,174	
Debt service		
Principal	1,830,000	
Interest and fiscal charges	1,540,935	
Capital outlay	1,796,687	3,129,913
Total Expenditures	$ 104,943,846	$ 3,129,913
Excess (Deficiency) of Revenues Over Expenditures	$ (2,986,231)	$ (3,128,481)
Other Financing Sources (Uses)		
Sale of property	$ 1,001	$ -
Proceeds from bonds and loans, net	-	-
Bond refunding payments from escrow		
Premium on bonds		
Total Other Financing Sources (Uses)	$ 1,001	$ -
Net change in fund balance	$ (2,985,230)	$ (3,128,481)
Fund Balance		
Beginning of Year	3,096,648	3,128,668
End of Year	$ 111,418	$ 187

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

Debt Service Fund	Other Funds	Total Governmental Funds
$ 18,407,310	$ 944,390	$ 31,811,053
566,891		677,233
	1,955,132	6,040,509
2,227,094	2,770,333	83,034,757
932,076	4,499,109	11,955,630
	-	84,785
	1,260,811	1,918,226
$ 22,133,371	$ 11,429,775	$ 135,522,193
$	$	$ 5,009,606
		2,800,224
		45,613,382
		1,420,996
		23,214,740
	7,424,128	7,513,319
		5,279,209
	3,977,037	11,864,299
		8,131,440
		330,174
11,495,000		13,325,000
8,663,280		10,204,215
	68,661	4,995,261
$ 20,158,280	$ 11,469,826	$ 139,701,865
$ 1,975,091	$ (40,051)	$ (4,179,672)
$	$	$ 1,001
82,605,000		82,605,000
(8,522,522)		(8,522,522)
11,521,782		11,521,782
$ 85,604,260	$	$ 85,605,261
$ 87,579,351	$ (40,051)	$ 81,425,589
51,018,504	2,229,961	59,473,781
$ 138,597,855	$ 2,189,910	$ 140,899,370

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, 2017

Total net changes in fund balances - governmental funds	$ 81,425,589
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	1,577,022
Disposal of capital assets	(1,855,203)
Depreciation expense	(7,239,696)
The amount of bond proceeds is reported in the governmental funds as a source of financing. Bond proceeds are not revenues in the statement of activities, but rather constitute long-term liabilities.	(82,605,000)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	18,025,000
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.	(1,704,632)
Net amortization of premiums and discounts.	(11,214,413)
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.	(657,566)
Payment of compensated absences is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	(140,602)
Pension expense is reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.	
Change in deferred outflows of resources related to pensions	130,904,265
Change in deferred inflows of resources related to pensions	269,676
Change in net pension liability	(169,667,905)
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.	(86,190)
The change in net position of the internal service fund is reported with governmental activities.	30,601
Change in net position (deficit) - governmental activities	$ (42,939,054)

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

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 7

STATEMENT OF NET POSITION
INTERNAL SERVICE FUND - DENTAL PLAN
PROPRIETARY FUND
JUNE 30, 2017

Assets		
Current Assets		
Cash and Cash Equivalents	$	378,955
Accounts and interest receivable		1,359
Total Assets	$	380,314
Deferred Outflows of Resources		
Total Assets and Deferred Outflows of Resources	$	380,314
Liabilities		
Current Liabilities		
Claims payable	$	102,875
Unearned revenue		113,578
Total Liabilities	$	216,453
Deferred Inflows of Resources		
Net Position		
Unrestricted	$	163,861
Total Net Position	$	163,861
Total Liabilities, Deferred Inflows of Resouces, and Net Position	$	380,314

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

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, 2017

Operating revenues		
Charges for Premiums, Net of Refunds	$	847,226
Total Operating Revenues	$	847,226
Operating expenses		
Employee benefits	$	759,173
Services, supplies, and fees		57,452
Total Operating Expenses	$	816,625
Change in net position	$	30,601
Total Net Position - Beginning		133,260
Total Net Position - Ending	$	163,861

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

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, 2017

Cash Flows from Operating Activities		
Receipts from Interfund Services Provided	$	517,303
Receipts from retirees		327,449
Payments for administrative costs		(57,452)
Payments for claims		(734,166)
Net Cash Provided by Operating Activities	$	53,134
Cash and Cash Equivalents - Beginning		325,821
Cash and Cash Equivalents - Ending	$	378,955
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Changes in net position	$	30,601
Provided by Operating Activities		
(Increase) in Account Receivable	$	(262)
Increase in Accounts Payable		25,007
Increase in Unearned Revenue		(2,212)
Total Adjustments	$	22,533
Net Cash Provided by Operating Activities	$	53,134

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

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Exhibit 10

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Federal Employee Benefit Trust Fund	Private-Purpose Funds
Assets		
Cash and temporary investments	$ 1,567,675	$ 151,038
Interest receivable	241	
Due from other funds	284,149	
Total Assets	$ 1,852,065	$ 151,038
Liabilities		
Total Liabilities	$ -	$ -
Net Position		
Restricted for endowment	$	$ 132,033
Restricted for clock tower		19,005
Restricted for retirees	1,852,065	
Total Net Position	$ 1,852,065	$ 151,038
Total Liabilities and Net Position	$ 1,852,065	$ 151,038

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

Exhibit 11

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2017

	Federal Employee Benefit Trust Fund	Private-Purpose Funds
Additions		
Interfund contribution	$ 284,148	$
Investment earnings		
Interest	10,408	585
Total Additions	$ 294,556	$ 585
Deductions		
Benefits	$ 200,000	$
Total Deductions	$ 200,000	$
Change in Net Position	$ 94,556	$ 585
Net Position - Beginning	1,757,509	150,453
Net Position - Ending	$ 1,852,065	$ 151,038

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

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

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.

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

Basis of Presentation

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

Major Governmental Funds

The General Fund 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.

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.

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.

1. **Summary of Significant Accounting Policies (continued)**

F. Cash and Temporary Investments

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

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

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, 2017, the allowance for uncollectible accounts was $6,018. The only receivables not expected to be collected within one year are current and delinquent property taxes receivable.

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

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

1. **Summary of Significant Accounting Policies (continued)**

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

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.

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 reports deferred outflows of resources related to pensions for its proportionate shares of collective deferred outflows of resources related to pensions and District contributions to pension plans subsequent to the measurement date of collective net pension liability.

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

1. Summary of Significant Accounting Policies (continued)

governmental funds balance sheet. The District has also reported property taxes levied for subsequent year's expenditures as deferred inflow of resources in both the governmental funds balance sheet and the statement of net position. The District also reports deferred inflows of resources for its proportionate share of collective deferred inflows of resources related to pensions. 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. Pensions

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

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

P. Long-term Liabilities

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

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

1. Summary of Significant Accounting Policies (continued)

Q. 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 purposed 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.

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, 2017.

R. 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.

1. Summary of Significant Accounting Policies (continued)

S. Implementation of New Standards

The District implemented certain applicable sections of GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73.* The statement addresses issues regarding the presentation of payroll-related measures in required supplementary information. The implementation of GASB Statement No. 82 did not affect the valuation of pensions.

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, 2017, the District's deposits were not exposed to custodial credit risk.

B. Investments

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

1. Securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by subd. 6;
2. Shares of a Minnesota joint powers investment trust or shares of an investment company that is registered under the Federal Investment Company Act of 1940 pursuant to the restrictions of Minn. Stat § 118A.05 subd. 4;
3. General obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota or other states provided such obligations have certain specified bond ratings by a national bond rating service;
4. Time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers' acceptances of United States banks;
5. Commercial paper issued by United States corporations, or their Canadian subsidiaries, that is of the highest quality and matures in 270 days or less;

2. Deposits and Investments (Continued)

6. Guaranteed investment contracts (gic's) issued or guaranteed by United States commercial banks, or domestic branches of foreign banks, or United States insurance companies, if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories;
7. Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers; and
8. Securities lending agents under the provisions of Minn. Stat. § 118A.05 subd.3.

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

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, 2017

Investment Type	Fair Value	Less than 1 Yr	1-3 Years	Over 3 Years
U.S. Government Securities	$ 132,961,259	$ 52,891,814	$ 80,069,445	$ -
External Investment Pools	22,518,836	22,518,836		
Negotiable CD's	1,678,946	1,678,946	-	
Total Investments	$ 157,159,041	$ 77,089,596	$ 80,069,445	$ -

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.

2. Deposits and Investments Continued)

The District's exposure to credit risk as of June 30, 2017 is as follows:

S & P or Moody's Rating	Fair Value
Aaa	$ 44,776,003
AAAm	14,518,836
Not rated	97,864,202
Total Investments	$ 157,159,041

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, 2017, 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, 2017 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 categorizes its fair value measurements within the fair val hierarchy established by accounting principles generally accepted in the United States. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 are significant unobservable inputs.

The District has the following investments valued at recurring fair value measurements at June 30, 2017:

		Active Markets of Identical Assets	Significant Other Observable Inupts	Unobservable Inputs
Investments by fair value level	Total	(Level 1)	(Level 2)	(Level 3)
Negotiable certificates of deposit	$ 1,678,946	$	$ 1,678,946	$
U.S. Gov Securities	132,961,259		132,961,259	
	134,640,205	$	$ 134,640,205	$
Investments measured at the net asset value (NAV)				
External investment pools	22,518,836			
	$ 157,159,041			

2. Deposits and Investments (continued)

The following table sets forth additional disclosures about the District's investments whose values are estimated using net asset value (NAV) as of June 30, 2017:

	Amount	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - MSDLAF	$ 1,827,819	$ -	14 days*	24-hour notice
External Investment Pool - MNTrust	20,691,017	-	None	None
	$ 22,518,836			

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

The District's total cash and investments as of June 30, 2017 are as follows:

Petty Cash	$ 2,605
Deposits	1,499,128
Investments	157,159,041
	$ 158,660,774

The District's total cash and investments as of June 30, 2017 are presented in the basic financial statements as follows:

Statement of Net Position	
Cash and temporary investments	$ 23,980,513
Restricted Assets:	
Cash and investments for debt service	132,961,361
Cash and investments for capital projects	187
Statement of Fiduciary Net Position	
Cash and Cash Equivalents	
Federal Employee Benefit Trust Fund	1,567,675
Private Purpose Funds	151,038
Total Cash and Investments	$ 158,660,774

3. Taxes and Credits Receivable

Current taxes and credits receivable represent the uncollected balance of the 2016 levy, collectible in 2017, including related state property tax relief aid. Delinquent taxes receivable represent taxes due from levies of the prior six years. At June 30, 2017, property taxes and credits receivable consisted of:

Fund	Current	Delinquent	Total
General Fund	$ 7,430,723	$ 695,578	$ 8,126,301
Community Services Fund	527,338	70,507	597,845
Debt Service Fund	9,504,124	1,040,408	10,544,532
Total	$ 17,462,185	$ 1,806,493	$ 19,268,678

4. Inventory

Inventory at June 30, 2017, consisted of:

General Fund - Supplies	$ 65,202
Food Service Fund - Food	123,829
Total	$ 189,031

5. Lease Obligations

Operating Leases

The District is committed under various operating leases for building space, parking facilities, and equipment. Rent expense for the year ended June 30, 2017, was $503,309.

Future minimum lease payments under operating leases, which are not reflected in these financial statements, consist of the following at June 30, 2017:

Year Ending June 30	
2018	$ 398,028
2019	267,945
2020	143,907
2021	20,542
Total	$ 830,422

6. Capital Assets

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

Capital Assets Not Depreciated	Balance 6/30/2016	Additions	Disposals	Balance 6/30/2017
Land	$ 11,692,735	$ 1,203.00	$ (1,672,528)	$ 10,021,410
Total Capital Assets Not Depreciated	$ 11,692,735	$ 1,203.00	$ (1,672,528)	$ 10,021,410
Capital Assets Depreciated				
Land Improvements	$ 2,595,576	$ -	$ (99,218)	$ 2,496,358
Buildings	334,100,561	1,124,188	(46,329)	335,178,420
Equipment	8,133,622	451,631	(1,220,593)	7,364,660
Total Capital Assets Depreciated	$ 344,829,759	$ 1,575,819	$ (1,366,140)	$ 345,039,438
Less Accumulated Deprecation	(54,850,916)	(7,239,696)	1,183,465	(60,907,147)
Capital assets, net	$ 289,978,843	$ (5,663,877)	$ (182,675)	$ 284,132,291
Total capital assts, net of depreciation	$ 301,671,578	$ (5,662,674)	$ (1,855,203)	$ 294,153,701

Depreciation expense was charged to governmental functions as follows:

Program Code	2017 Depreciation
Administration	$ 9,552
District Support Service	118,973
Elem/Sec Regular Instruction	33,417
Vocational Education Instruction	24,016
Special Education Instruction	4,758
Community Education and Service	33,115
Instructional Support Services	650
Pupil Support Services	179,327
Sites and Buildings	6,835,888
Total	$ 7,239,696

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. Morgan Park Middle School was sold in July, 2015. Rockridge Elementary will be used as an educational facility again beginning in Fiscal Year 2018. The net book value of the remaining assets total $5,109,420.

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.	$ 82,225,000
$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.	53,010,000
$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.	27,075,000
$5,000,000 Full Term Refunding Certificates of Participation, Series 2010C due in annual installments of $210,000 to $370,000 plus 2.00 to 4.00 percent interest from August 1, 2011 through February 1, 2028.	3,490,000
$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.	1,125,000
$12,800,424.50 Full Term Capital Appreciation Certificates of Participation, Series 2012A due in annual installments of $536,344 to $2,304,404 plus 3.70 to 4.25 percent interest from February 1, 2021 through February 1, 2028.	12,800,425
$6,340,000 Certificates of Participation, Series 2012B due in annual installments of $260,000 to $460,000 plus 3.00 to 5.25 percent interest from March 1, 2013 through March 1, 2032.	5,275,000
$82,605,000 Full Term Refunding Certificates of Participation, Series 2016A due in annual installments of $4,470,000 to $9,900,000 plus 3.00 to 5.00 percent interest from February 1, 2017 through February 1, 2028.	78,135,000
Total	$ 263,135,425

7. Long-Term Liabilities (continued)

The annual requirements to amortize the principal and interest are:

Year Ended June 30	Total	Principal	Interest
2018	$ 26,972,030	$ 15,705,000	$ 11,267,030
2019	27,392,480	16,720,000	10,672,480
2020	24,561,893	17,795,000	6,766,893
2021	25,994,422	19,471,344	6,523,078
2022	27,795,285	21,403,895	6,391,390
2023-2027	157,069,555	132,515,781	24,553,774
2028-2032	43,565,282	39,524,405	4,040,877
Total	$ 333,350,947	$ 263,135,425	$ 70,215,522

On August 17, 2016, the District issued $82,605,000 in Full Term Refunding Certificates of Participation, Series 2016A, to refund the Full Term Certificates of Participation, Series 2008B. The proceeds were placed in escrow and invested in U. S. government securities. The proceeds plus interest earned will be sufficient to pay the 2017 through 2028 payments of the Full Term Certificates of Participation, Series 2008B callable on February 1, 2019. The refunding was undertaken to reduce total debt service payments in an average amount annually of $571,686 over twelve years.

Bonds Payable

$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	$ 46,680,000
$44,320,000 General Obligation School Building Refunding Bonds (Series 2015B) due in annual installments of $525,000 to $5,135,000 plus 3.50 to 4.00 percent interest from August 1, 2015 to February 1, 2028.	43,765,000
Total	$ 90,445,000

7. Long-Term Liabilities (continued)

The annual requirements to amortize the principal and interest are:

Year Ended June 30	Total	Principal	Interest
2018	$ 50,432,425	$ 46,715,000	$ 3,717,425
2019	5,302,200	3,605,000	1,697,200
2020	5,288,000	3,735,000	1,553,000
2021	5,283,600	3,880,000	1,403,600
2022	5,284,600	4,075,000	1,209,600
2023-2027	26,439,700	23,300,000	3,139,700
2028	5,289,050	5,135,000	154,050
Total	$ 103,319,575	$ 90,445,000	$ 12,874,575

Changes in long-term debt for the year ended June 30, 2017 are:

	Balance June 30, 2016	Increase	Payments/ Adjustments	Balance June 30, 3017
Certificates of participation	$ 195,215,425	$ 82,605,000	$ 14,685,000	$ 263,135,425
Bonds payable	93,785,000		3,340,000	90,445,000
OPEB	3,458,553	2,259,746	1,507,624	4,210,675
Severance obligation	24,897,997	2,888,496	2,983,052	24,803,441
Net pension liability	58,075,035	174,422,869	4,754,964	227,742,940
Total	$ 375,432,010	$ 262,176,111	$ 27,270,640	$ 610,337,481

7. Long-Term Liabilities (continued

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

The American Recovery and Reinvestment Act of 2009 (ARRA) created build America bonds and recovery zone economic development bonds. As a result of this act, the District receives direct payments from the Federal Government equal to 35 percent of the interest payments due on bond Series 2009A. During the year the District received an interest subsidy from the Federal Government totaling $932,075.

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, 2017.

	Current Portion	Long-term Portion	Total
Certificates of participation	$ 15,705,000	$ 247,430,425	$ 263,135,425
Bonds payable	3,470,000	86,975,000	90,445,000
OPEB		4,210,675	4,210,675
Severance obligation	1,334,926	23,468,515	24,803,441
Net pension liability		227,742,940	227,742,940
Total	$ 20,509,926	$ 589,827,555	$ 610,337,481

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, 2017 is approximately $922,942,365

8. Compensated Absences

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

	Vacation	Sick Leave
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, 2017, $447,090 has been included in the district-wide financial statements.

9. Severance Obligations

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

For some bargaining units, the District remits either a lump sum or one third of the calculated severance benefit to the Minnesota State Retirement System Health Care Savings Plan (HCSP) upon retirement of the employee. The remaining two thirds of the calculated amount due the employee are paid over a two year period. These funds will be disbursed in accordance with the HCSP account agreement, which is a separate agreement between the HCSP and the retiree. For the remaining employees, the District pays a portion of the severance benefit to the state HCSP and retains a portion for the employees to use to pay future health insurance premiums. Severance is recorded as an expenditure when paid. The retained severance obligation for this benefit is for future health insurance benefits and amounts due to the state HCSP.

During 2017, 124 retirees received a total benefit of $2,983.052. The District funds these expenditures as paid except for the severance for employees of federal programs, which is funded through the Federal Employee Benefit Trust.

Retained severance benefit obligations for retirees	$ 883,902
Retained severance benefit obligations for qualified employees	25,771,604
Total termination benefits payable	$ 26,655,506
Amount available in Federal Employee Benefit Trust Fund	(1,852,065)
Total	$ 24,803,441

10. Interfund Transactions

Individual fund receivable and payable balances at June 30, 2017:

	Receivable	Payable
General Fund	$ -	$ 187,716
Community Service Fund		96,433
Fiduciary Funds		
Federal Employee Benefit Trust Fund	$ 284,149	
Total Funds	$ 284,149	$ 284,149

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

11. Fund Balance

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

Restricted fund balances at June 30, 2017 are as follows:

A. Restricted for Teacher Development & Evaluations – This represents amounts available for development and evaluations for teachers and principals.
B. 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.
C. 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.
D. 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.
E. 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.
F. 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.
G. 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.
H. Restricted for School Readiness – This amount represents available resources to provide services for learning readiness programs.
I. Restricted for Adult Basic Education – This amount represents the balance of carryover monies for all activity involving Adult Basic Education
J. Restricted for Community Service - This amount represents available resources to provide services for community service.
K. Restricted for Long-Term Facilities Maintenance (LTFM) – This amount represents available resources to be used for LTFM projects in accordance with the 10 Year Plan.
L. Restricted for Bond Refunding – This amount represents amounts held in escrow on Refunding Bond Series 2015B and 2016A. The amounts in escrow are used for future payments of principal and interest on Bond Series 2008A and 2008B until their respective bond callable dates.

11. Fund Balance (continued)

Below is a detail description of the restricted fund balance amount reported on the Government's Balance Sheet on June 30, 2017.

Teacher Development & Eval	$ 100,800
LTFM	179,282
Projects funded by COP	187
Area Learning Center	188,791
Debt service	138,597,855
Food Service	776,703
Community Education	773,759
Early childhood famility education	195,894
School readiness	260,060
Adult basic education	24,659
Community service	30,005
Total Restricted Fund Balance	$ 141,127,995

12. Post-Employment Healthcare Plan

The cost of post-employment benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 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, 2015 the date of the latest actuarial valuation, approximately 823 retirees and their dependents were receiving postemployment health insurance benefits and an estimated 1,213 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

12. Post-Employment Healthcare Plan (continued)

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, 2017:

Annual Required Contribution (ARC)/Annual OPEB Cost	
Annual Required Contribution (ARC)	$ 2,324,032
Interest on net OPEB obligation	129,696
Adjustment to ARC	(193,982)
Annual OPEB Cost	$ 2,259,746
Employer contributions	
Implicit subsidy benefits	623,722
Direct subsidy benefits	883,902
Increase in Net OPEB Obligation	$ 752,122
Net OPEB obligation, June 30, 2016	3,458,553
Net OPEB obligation, June 30, 2017	$ 4,210,675

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Estimated Employer Contribution	% of Annual OPEB Cost Contribution	Net OPEB Obligation
June 30,2015	$ 798,700	$ 622,287	77.9%	$ 3,889,196
June 30,2016	2,296,454	2,727,097	118.8%	3,458,553
June 30,2017	2,259,746	1,507,624	66.7%	4,210,675

Funded Status and Funding Progress – As of July 1, 2015, 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 $20,857,660. The covered payroll (annual payroll of active employees covered by the plan) was $61,089,875, and the ratio of the UAAL to the covered payroll was 34.1 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.

12. Post-Employment Healthcare Plan (continued)

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, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 3.75 percent, inflation rate of 2.75 percent, and health care trend rates ranging from 7.2 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after seven years. The UAAL is being amortized as a level dollar amount over thirty years.

13. Defined Benefit Pension Plans

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

A. Teachers' Retirement Association of Minnesota

1. Plan Description

Certified employees of the District are covered by defined benefit plans administered by the TRA. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary school, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

13. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

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

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

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

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

OR

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

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

13. Defined Benefit Pension Plans (Continued)

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

3. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal years ended June 30, 2015, June 30, 2016, and June 30, 2017, were:

Basic:	
Employee:	11.0%
Employer:	11.5%
Coordinated:	
Employee:	7.5%
Employer:	7.5%

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

Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	$ 354,961,140
Add employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	(442,978)
Total employer contributions	$ 354,544,518
Total non-employer contributions	35,587,410
Total contributions reported in Schedule of Employer and Non-Employer Allocations	$ 390,131,928

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

13. Defined Benefit Pension Plans (Continued)

4. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information:

Valuation Date	July 1, 2016
Experience Study	June 5, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	4.66%, from the Single Equivalent Interest Rate calculation
Price inflation rate	2.75%
Wage growth rate	3.5%
Projected salary increase	3.5% - 9.5%
Cost of living adjustment	2.0%
Mortality Assumption:	
Pre-retirement	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

13. Defined Benefit Pension Plans (Continued)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Unallocated Cash	2%	0.50%
Total	100%	

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

5. Discount Rate

The discount rate used to measure the total pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to all periods on and after 2052, resulting in a SEIR of 4.66 percent. Based on Fiduciary Net Position at prior year measurement date, the discount rate of 8.00 percent was used and it was not necessary to calculate the SEIR.

13. Defined Benefit Pension Plans (Continued)

6. Net Pension Liability

At June 30, 2017, the District reported a liability of $207,062,563 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.8681% at the end of the measurement period and 0.7225% for the beginning of the year.

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

District's proportional share of net pension liability	$	207,062,563
State's proportional share of net pension liability associated with the District	$	20,782,926

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to be 2.0 percent annually. While in previous measurement the COLA increased to 2.5 percent in 2034.

For the year ended June 30, 2017, the District recognized pension expense of $32,184,044. It also recognized $2,901,992 as an increase to pension expense for the support provided by direct aid.

At June 30, 2017, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 27,683	$
Net difference between projected and actual earnings on plan investments	14,575,862	
Changes in assumptions	117,528,953	
Contributions paid to TRA subsequent to the measurement period	3,582,555	
Changes in proportion	28,226,134	
Total	$ 163,941,187	$

13. Defined Benefit Pension Plans (Continued)

$3,582,555 reported as a deferred outflow resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

Year Ended June 30	Pension Expense Amount
2018	$ 36,027,013
2019	$ 36,027,013
2020	$ 36,027,012
2021	$ 27,813,700
2022	$ 24,463,894
Total	$ 160,358,632

7. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.66%, as well as the liability measured using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	$ 266,748,336	$207,062,563	$ 158,450,447

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

8. Pension Plan Fiduciary Net Position

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

13. <u>Defined Benefit Pension Plans (Continued)</u>

B. Public Employees Retirement Association (PERA)

1. Plan Description

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

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan (accounted for in the General Employees Retirement Fund). General Employees Plan members belong to either the Coordinated Plan. Coordinated Plan members are covered by Social Security.

2. Benefits Provided

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

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

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of services. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

13. Defined Benefit Pension Plans (Continued)

3. Contributions

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

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2017. The District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2017 were $1,248,355. The District's contribution was equal to the contractually required contribution for the year as set by state statute.

4. Pension Costs

At June 30, 2017, the District reported a liability of $20,680,377 for its proportionate share of General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $270,170. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.2547%, which was a decrease of 0.0035% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $2,821,026 for its proportionate share of General Employees Plan's pension expense.

13. Defined Benefit Pension Plans (Continued)

At June 30, 2017, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$	$ 1,620,732
Net difference between projected and actual earnings on plan investments	2,212,543	
Changes in assumptions	4,488,013	
Contributions paid to PERA subsequent to the measurement period	1,248,355	
Changes in proportion		457,820
Total	$ 7,948,911	$ 2,078,552

$1,248,355 reported as a deferred outflow resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

Year Ended June 30	Pension Expense Amount
2018	$ 1,211,560
2019	707,442
2020	1,955,992
2021	747,010
2022	-
Total	$ 4,622,004

13. Defined Benefit Pension Plans (Continued)

5. Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retiree, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following three changes in actuarial assumptions occurred in 2016:

(1) The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
(2) The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
(3) Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

13. Defined Benefit Pension Plans (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Deferred Inflows Discount Rate	1% Increase in Discount Rate
Discount Rate	6.50%	7.50%	8.50%
District's proportionale share of the PERA net pension liability	$ 29,372,264	$ 20,680,377	$ 13,520,627

8. Pension Plan Fiduciary Net Position

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

14. Dental Self-Insurance Plan

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

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

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

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

Fiscal Year Ended June 30	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	Claims Payments	Balance af Fiscal Year End
2016	$ 75,903	$ 773,376	$ 772,732	$ 76,547
2017	76,547	816,625	790,297	102,875

15. Risk Management

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

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 contracts totaling $70,081. The construction commitments will be paid by the General Fund.

16. Commitments

At June 30, 2017, the District had commitments under various construction and service contracts totaling $70,081. The construction commitments will be paid by the General Fund.

17. Contingent Liabilities

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

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

18. Future Accounting Standards

The Government Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. Listed below are the statements which may impact future financial statements of the District.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective for the District for the year ended June 30, 2018. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures, and identifies the methods and assumptions that are required ot be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The District has not completed the process of evaluating GASB Statement No. 75, but implementation is expected to impact the District's recognition of OPEB liabilities and expense/expenditures.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, will be effective for the District beginning with its year ending June 30, 2019. This statement addresses accounting and financial reporting for liabilities associated with the legal obligation to perform future asset retirement activities.

GASB Statement No. 84, *Fiduciary Activities*, will be effective for the District beginning with its year ending June 30, 2020. This statement establishes criteria for identifying fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, will be effective for the District beginning with its year ending June 30, 2018. This statement provides guidance on accounting and financial reporting for in-substance defeasance of debt.

GASB Statement No. 87, *Leases*, will be effective for the District beginning with its year ending June 30, 2021. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

19. Subsequent Event

Bond Issues

On October 30, 2017, the District issued $3,640,000 in Taxable General Obligation Facilities Maintenance Bonds (Series 2017A) and $615,000 in Taxable General Obligation Capital Facilities Bonds (Series 2017B). The proceeds of the Series 2017A Bonds will be used to renovate the Rockridge building and replace the Lakewood Elementary School roof. The proceeds of the Series 2017B Bonds will be used to repair and renovate the Rockridge building. The bonds will be repaid over the next five years, ending February 1, 2022.

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, 2017
With Comparative Actual Amounts for the Year Ended June 30, 2016

	Budget Original	Budget Final	Actual	Over (Under) Final Budget	Prior Year Actual
Revenues					
Local property tax levies	$ 12,616,535	$ 12,616,535	$ 12,459,353	$ (157,182)	$ 10,364,262
Interest income	41,678	41,678	108,910	67,232	46,758
Other local and county	3,359,913	3,606,370	4,085,377	479,007	4,135,457
State sources	80,946,083	81,916,107	78,037,330	(3,878,777)	78,961,138
Federal sources	6,006,087	6,501,226	6,524,445	23,219	6,293,531
Insurance/Judgement recovery		69,383	84,785	15,402	3,365
Sales and other conversions of assets	648,583	648,583	657,415	8,832	772,435
Total Revenues	$ 103,618,879	$ 105,399,882	$ 101,957,615	$ (3,442,267)	$ 100,576,946
Expenditures					
Administration	$ 5,572,277	$ 5,173,473	$ 5,009,606	$ 163,867	$ 5,178,207
District support services	4,261,886	4,270,346	2,800,224	1,470,122	3,742,130
Regular instruction	41,077,690	43,192,893	45,613,382	(2,420,489)	43,642,035
Vocational instruction	1,609,471	1,625,421	1,420,996	204,425	1,270,918
Special education instruction	21,568,392	21,606,879	23,214,740	(1,607,861)	22,447,130
Community education and services	-	158,080	89,191	68,889	-
Instructional support services	3,771,551	4,447,102	5,279,209	(832,107)	5,609,660
Pupil support services	8,368,199	8,427,341	7,887,262	540,079	7,548,385
Sites, buildings and equipment	4,950,263	8,301,471	8,131,440	170,031	7,548,440
Fiscal and other fixed cost programs	3,980,000	3,980,000	330,174	3,649,826	340,448
Debt Service					
Principal	1,830,000	1,830,000	1,830,000	-	1,780,000
Interest	1,540,935	1,540,935	1,540,935	-	1,608,785
Capital outlay	5,088,215	2,997,661	1,796,687	1,200,974	757,674
Total Expenditures	$ 103,618,879	$ 107,551,602	$ 104,943,846	$ 2,607,756	$ 101,473,812
Excess (Deficiency) of Revenues Over Expenditures	$ -	$ (2,151,720)	$ (2,986,231)	$ (834,511)	$ (896,866)
Other Financing Sources (Uses)					
Sale of property	$ -	$ 1,001	$ 1,001	$ -	$ 298,462
Total Other Financing Sources (Uses)	$ -	$ 1,001	$ 1,001	$ -	$ 298,462
Net change in fund balance	$ -	$ (2,150,719)	$ (2,985,230)	$ (834,511)	$ (598,404)
Fund Balance					
Beginning of Year			$ 3,096,648		$ 3,695,052
End of Year			$ 111,418		$ 3,096,648

INFORMATION ABOUT THE DISTRICT'S OTHER POSTEMPLOYMENT HEALTH CARE PLAN
June 30, 2017

Statement A- 2

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, 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%
July 1, 2015		20,857,660	20,857,660	0%	61,089,875	34.1%

The District's unfunded actuarial accrued liability (UAAL) changed from $8,236,516 to $20,857,660. The main reason for this large liability increase is due to an internal change in allocation of liabilities between GASB 45 and GASB 16 severance benefits. Previously, severance benefits typically accounted for under GASB 45 were valued with GASB 16 liabilities. Based on discussions with the District and the District's auditors, GASB 45 severance benefits based on years of service are now included with GASB 45 retiree medical benefits.

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

- Withdrawal, retirement and mortality rates for teachers were updated from the rates used in the 2013 Duluth Teachers' Retirement Fund Association valuation to the rates used in the 2014 Teachers Retirement Association valuation to reflect current pension plan participation.

- Healthcare trend rates were reset to reflect updated cost increase expectations.

- The discount rate was updated from 4.00% to 3.75% based on updated expectations of long-term 20-year general obligation municipal bond rates.

- Medical per capita claims costs were updated to reflect recent experience.

- The inflation assumption was changed from 3.00% to 2.75% based on an updated historical analysis of inflation rates and forward-looking market expectations.

- The spouse age assumption was changed from assuming husbands are same age as wives to assuming husbands are three years older than wives.

- Based on GASB 16 provisions, the GASB 16 liabilities were changed to assume a 0% discount rate and no future increases in unused sick leave, unused vacation leave or salary.

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S NET PENSION LIABILITY
June 30, 2017

Statement A- 3

Schedule of Employer Share of Net Pension Liability

Teacher's Retirement Association (TRA)

Measurement Date	Employer's Proportion (%) of Net Pension Liability	Employer's Proportionate Share (Amt) of Net Pension Liability (a)	State's Proportionate Share of Net Pension Liability associated with District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of Net Pension Liability (Asset) as a % of Covered Payroll (a/b)	Plan Fiduciary Net Position as a % of Total Pension Liability
June 30, 2016	0.8681%	$ 207,062,563	$ 20,782,926	$ 227,845,489	$ 45,155,373	458.6%	44.88%
June 30, 2015	0.7225%	$ 44,693,771	$ 5,481,972	$ 50,175,743	$ 36,668,947	121.9%	76.80%

Duluth Teacher's Retirement Fund Association (DTRFA)

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

Public Employees Retirement Association (PERA)

Measurement Date	Employer's Proportion (%) of Net Pension Liability	Employer's Proportionate Share (Amt) of Net Pension Liability (a)	State's Proportionate Share of Net Pension Liability associated with District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of Net Pension Liability (Asset) as a % of Covered Payroll (a/b)	Plan Fiduciary Net Position as a % of Total Pension Liability
June 30, 2016	0.2547%	$ 20,680,377	$ 270,170	$ 20,950,547	$ 15,804,347	130.9%	68.90%
June 30, 2015	0.2582%	$ 13,381,264		$ 13,381,264	$ 14,926,453	89.6%	78.20%
June 30, 2014	0.2719%	$ 12,772,500		$ 12,772,500	$ 14,262,165	89.6%	78.70%

Schedule of Employer Contributions

Teacher's Retirement Association (TRA)

Fiscal Year Ending	Statuorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2017	$ 3,582,555	$ 3,582,555	$ -	$ 47,767,400	7.50%
June 30, 2016	$ 3,386,653	$ 3,386,653	$ -	$ 45,155,373	7.50%

Duluth Teacher's Retirement Fund Association (DTRFA)

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

Public Employees Retirement Association (PERA)

Fiscal Year Ending	Statuorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2017	$ 1,248,355	$ 1,248,355	$ -	$ 16,639,693	7.50%
June 30, 2016	$ 1,185,326	$ 1,185,326	$ -	$ 15,804,347	7.50%
June 30, 2015	$ 1,119,484	$ 1,119,484	$ -	$ 14,926,453	7.25%

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, 2017
With Comparative Actual Amounts for the Year Ended June 30, 2016

	Budget			Over	
	Original	Final	Actual	(Under) Final Budget	Prior Year Actual
Revenues					
Local property tax levies	$ -	$ -	$ -	$	$ 1,018,493
Interest income	-	-	1,432	1,432	1,969
Other local and county			-	-	-
State sources	-	-	-		168,064
Total Revenues	$ -	$ -	$ 1,432	$ 1,432	$ 1,188,526
Expenditures					
Sites, buildings and equipment	$ -	$ -	$ -	$ -	$ 302,644
Capital Outlay	1,547,187	2,069,920	3,129,913	(1,059,993)	3,355,353
Total Expenditures	$ 1,547,187	$ 2,069,920	$ 3,129,913	$ (1,059,993)	$ 3,657,997
Net change in fund balance	$ (1,547,187.00)	$ (2,069,920)	$ (3,128,481)	$ (1,058,561)	$ (2,469,471)
Fund Balance					
Beginning of Year			3,128,668		5,598,139
End of Year			$ 187		$ 3,128,668

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, 2017
With Comparative Actual Amounts for the Year Ended June 30, 2016

	Budget			Over (Under)	Prior Year
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local property tax levies	$ 17,655,434	$ 17,655,434	$ 18,407,310	$ 751,876	$ 19,112,825
Interest income			566,891	566,891	1,367,257
State sources	2,260,641	2,260,641	2,227,094	(33,547)	2,090,428
Federal sources	932,576	932,576	932,076	(500)	972,302
Total Revenues	$ 20,848,651	$ 20,848,651	$ 22,133,371	$ 1,284,720	$ 23,542,812
Expenditures					
Principal	$ 11,725,000	$ 16,195,000	$ 11,495,000	$ 4,700,000	$ 11,980,000
Interest and fiscal charges	10,721,296	12,489,253	8,663,280	3,825,973	10,803,367
Total Expenditures	$ 22,446,296	$ 28,684,253	$ 20,158,280	$ 8,525,973	$ 22,783,367
Excess (Deficiency) of Revenues Over Expenditures	$ (1,597,645)	$ (7,835,602)	$ 1,975,091	$ 9,810,693	$ 759,445
Other Financing Sources (Uses)					
Proceeds from bonds and loans, net	$ -	$ 6,237,957	$ 82,605,000	$ 76,367,043	$ -
Bond refunding payments from escrow			(8,522,522)	(8,522,522)	
Premium on bonds			11,521,782	11,521,782	-
Total Other Financing Sources (Uses)	$ -	$ 6,237,957	$ 85,604,260	$ 79,366,303	$ -
Net change in fund balance	$ (1,597,645)	$ (1,597,645)	$ 87,579,351	$ 89,176,996	$ 759,445
Fund Balance					
Beginning of Year			51,018,504		50,259,059
End of Year			$ 138,597,855		$ 51,018,504

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

Statement D-1

COMBINING BALANCE SHEET
OTHER FUNDS
JUNE 30, 2017
With Comparative Amounts at June 30, 2016

	Food Service Fund	Community Services Fund	Totals 2017	Totals 2016
Assets				
Cash and investments	$ 756,954	$ 1,931,144	$ 2,688,098	$ 2,238,829
Taxes and credits receivable		597,845	597,845	594,616
Accounts and interest receivable	11,339	5,564	16,903	38,018
Due from				
Department of Education		342,635	342,635	400,338
Federal through Department of Education	59,812	12,775	72,587	141,528
Federal - direct		209,280	209,280	694,299
Inventory	123,829		123,829	102,138
Prepayments	1,516	3,485	5,001	7,676
Total Assets	$ 953,450	$ 3,102,728	$ 4,056,178	$ 4,217,442
Deferred Outflows of Resources				
Total assets and deferred outflows of resources	$ 953,450	$ 3,102,728	$ 4,056,178	$ 4,217,442
Liabilities				
Salaries payable	$	$ 383,360	$ 383,360	$ 589,905
Accounts payable	51,402	226,195	277,597	185,528
Due to				
Other funds		96,433	96,433	116,619
Unearned revenue		9,529	9,529	685
Total Liabilities	$ 51,402	$ 715,517	$ 766,919	$ 892,737
Deferred Inflows of Resources				
Property taxes levied for subsequent year's expenditures	$	$ 1,028,842	$ 1,028,842	$ 1,020,508
Unavailable revenue - delinquent property taxes		70,507	70,507	74,236
Total Deferred Inflows of Resources	$	$ 1,099,349	$ 1,099,349	$ 1,094,744
Fund Balance				
NonSpendable:				
Inventory	$ 123,829	$	$ 123,829	$ 102,138
Prepayments	1,516	3,485	5,001	7,676
Restricted for:				
Community education		773,759	773,759	694,419
Early childhood family education		195,894	195,894	275,964
School readiness		260,060	260,060	226,145
Adult basic education		24,659	24,659	95,360
Community service		30,005	30,005	30,005
Food service	776,703		776,703	798,254
Total Fund Balance	$ 902,048	$ 1,287,862	$ 2,189,910	$ 2,229,961
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 953,450	$ 3,102,728	$ 4,056,178	$ 4,217,442

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, 2017
With Comparative Actual Amounts for the Year Ended June 30, 2016

	Food Service Fund	Community Services Fund	Totals 2017	Totals 2016
Revenues				
Local property tax levies	$	$ 944,390	$ 944,390	$ 982,312
Other local and county	20,972	1,934,160	1,955,132	2,079,045
State sources	217,925	2,552,408	2,770,333	2,505,427
Federal sources	2,531,315	1,967,794	4,499,109	4,449,839
Sales and other conversions of assets	1,260,811		1,260,811	1,157,949
Total Revenues	$ 4,031,023	$ 7,398,752	$ 11,429,775	$ 11,174,572
Expenditures				
Community education and services	$	$ 7,424,128	$ 7,424,128	$ 7,178,050
Pupil support services	3,977,037		3,977,037	3,817,923
Capital outlay	53,309	15,352	68,661	81,931
Total Expenditures	$ 4,030,346	$ 7,439,480	$ 11,469,826	$ 11,077,904
Net change in fund balance	$ 677	$ (40,728)	$ (40,051)	$ 96,668
Fund Balance				
Beginning of Year	901,371	1,328,590	2,229,961	2,133,293
End of Year	$ 902,048	$ 1,287,862	$ 2,189,910	$ 2,229,961

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, 2017
With Comparative Actual Amounts for the Year Ended June 30, 2016

	Budget			Over (Under)	Prior Year
	Original	Final	Actual	Final Budget	Actual
Revenues					
Other local and county	$ 5,000	$ 19,040	$ 20,972	$ 1,932	$ 10,029
State sources	166,000	166,000	217,925	51,925	232,015
Federal sources	2,371,000	2,371,000	2,531,315	160,315	2,369,971
Sales and other conversions of assets	1,198,000	1,198,000	1,260,811	62,811	1,157,949
Total Revenues	$ 3,740,000	$ 3,754,040	$ 4,031,023	$ 276,983	$ 3,769,964
Expenditures					
Pupil support services	$ 4,079,837	$ 4,083,837	$ 3,977,037	$ 106,800	$ 3,817,923
Capital outlay	34,000	66,800	53,309	13,491	75,774
Total Expenditures	$ 4,113,837	$ 4,150,637	$ 4,030,346	$ 120,291	$ 3,893,697
Excess (Deficiency) of Revenues Over Expenditures	$	$ (396,597)	$ 677	$ 397,274	$ (123,733)
Fund Balance					
Beginning of Year			901,371		1,025,104
End of Year			$ 902,048		$ 901,371

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, 2017
With Comparative Actual Amounts for the Year Ended June 30, 2016

	Budget Original	Budget Final	Actual	Over (Under) Final Budget	Prior Year Actual
Revenues					
Local property tax levies	$ 945,187	$ 945,187	$ 944,390	$ (797)	$ 982,312
Other local and county	1,694,000	1,705,344	1,934,160	228,816	2,069,016
State sources	2,384,403	2,384,403	2,552,408	168,005	2,273,412
Federal sources	2,097,071	2,031,584	1,967,794	(63,790)	2,079,868
Total Revenues	$ 7,120,661	$ 7,066,518	$ 7,398,752	$ 332,234	$ 7,404,608
Expenditures					
Community education and services	$ 7,301,443	$ 7,238,911	$ 7,424,128	$ (185,217)	$ 7,178,050
Capital outlay	6,900	15,289	15,352	(63)	6,157
Total Expenditures	$ 7,308,343	$ 7,254,200	$ 7,439,480	$ (185,280)	$ 7,184,207
Net change in fund balance	$ (187,682)	$ (187,682)	$ (40,728)	$ 146,954	$ 220,401
Fund Balance					
Beginning of Year			1,328,590		1,108,189
End of Year			$ 1,287,862		$ 1,328,590

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, 2017

Activity	Cash Balance 6/30/2016	Receipts and Transfers In	Disbursements and Transfers Out	Cash Balance 6/30/2017
High Schools				
Denfeld	$ 354,077	$ 422,269	$ 462,496	$ 313,850
East	311,802	681,905	742,641	251,066
Total High Schools	**$ 665,879**	**$ 1,104,175**	**$ 1,205,137**	**$ 564,916**
Middle Schools				
Lincoln Park	$ 50,098	$ 51,440	$ 54,643	$ 46,896
Ordean East	117,300	89,030	81,319	125,011
Total Middle Schools	**$ 167,398**	**$ 140,470**	**$ 135,961**	**$ 171,906**
Elementary Schools				
Congdon Park	$ 11,287	$ 57,009	$ 52,598	$ 15,698
Homecroft	10,244	37,878	29,613	18,510
Lakewood	23,604	20,091	17,173	26,522
Laura MacArthur	18,756	18,359	15,523	21,591
Lester Park	25,189	32,353	30,933	26,608
Lowell	8,569	45,853	9,550	44,872
Myers-Wilkins	64,300	14,954	14,644	64,609
Piedmont	9,373	27,789	29,578	7,584
Stowe	46,956	16,364	20,601	42,719
Total Elementary Schools	**$ 218,276**	**$ 270,649**	**$ 220,213**	**$ 268,712**
ALC/Unity	$ 16,746	$ 1,523	$ 6,176	$ 12,093
Barnes Early Childhood	5,088	4,783	4,936	4,935
Merritt Creek Academy	1,101	83	333	851
Public School Stadium	1,758	-	1,758	-
Woodland Hills	1,456	42	823	675
Total Student Activities	**$ 1,077,702**	**$ 1,521,724**	**$ 1,575,338**	**$ 1,024,089**
District Funds				
Co-curricular	$ 932,951	$ 1,276,945	$ 1,353,529	$ 856,367
Extra-curricular	144,751	243,021	220,051	167,722
Total Funds	**$ 1,077,702**	**$ 1,519,966**	**$ 1,573,580**	**$ 1,024,089**

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE

INDEPENDENT SCHOOL DISTRICT NO. 709
DULUTH, MINNESOTA

FISCAL COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2017

	Audit	UFARS	Audit - UFARS
01 GENERAL FUND			
Total revenues	$ 101,957,615	$ 101,957,615	$
Total expenditures	104,943,846	104,943,846	
Non spendable			
460 Non spendable fund balance	128,409	128,409	
Restricted/Reserve			
403 Staff development			
405 Deferred maintenance			
406 Health and safety			
407 Capital Projects Levy			
408 Cooperative revenue			
411 Severance pay			
413 Project funded by COP			
414 Operating debt			
416 Levy reduction			
417 Taconite building maintenance			
423 Certain teacher programs			
424 Operating capital			
426 $25 Taconite			
427 Disabled accessibility			
428 Learning and development			
434 Area learning center	188,791	188,791	
435 Contracted alt. Programs			
436 St. approved alt. Program			
438 Gifted & talented			
440 Teacher Development and Eval	100,800	100,600	
441 Basic skills program			
445 Career and technical Programs			
448 First Grade Preparedness			
449 Safe schools levy			
450 Prekindergarten			
451 QZAB payments			
452 OPEB liability not in trust			
453 Unfunded sev & retirement levy			
467 LTFM	179,282	179,282	
472 Medical Assistance			
Restricted			
464 Restricted fund balance			
Committed			
418 Committed for separation			
461 Committed fund balance			
Assigned			
462 Assigned fund balance			
Unassigned			
422 Unassigned fund balance	(465,864)	(465,865)	1
02 FOOD SERVICE			
Total revenues	4,031,023	4,031,023	
Total expenditures	4,030,346	4,030,346	
Non spendable			
460 Non spendable fund balance	125,345	125,345	
Restricted			
452 OPEB liability not in trust			
464 Restricted fund balance	776,703	776,703	
Unassigned			
463 Unassigned fund balance			
04 COMMUNITY SERVICE			
Total revenues	7,398,752	7,398,752	
Total expenditures	7,439,480	7,439,480	
Non spendable			
460 Non spendable fund balance	3,485	3,485	
Restricted/Reserve			
426 $25 taconite			
431 Community education	773,759	773,760	(1)
432 ECFE	195,894	195,894	
440 Teacher dev and evaluation			
444 School readiness	260,060	260,060	
447 Adult Basic Education	24,659	24,659	
452 OPEB liability not in trust			
Restricted			
464 Restricted fund balance	30,005	30,005	
Unassigned			
463 Unassigned fund balance			

	Audit	UFARS	Audit - UFARS
06 BUILDING CONSTRUCTION			
Total revenues	$ 1,432	$ 1,432	$
Total expenditures	3,129,913	3,129,913	
Non spendable			
460 Non spendable fund balance			
Restricted/Reserve			
407 Down payment levy			
409 Alternative facility program			
413 Projects funded by COP	187	187	
Restricted			
464 Restricted fund balance			
Unassigned			
463 Unassigned fund balance			
07 DEBT SERVICE			
Total revenues	22,133,371	22,133,371	
Total expenditures	20,158,280	20,158,280	
Non spendable			
460 Non spendable fund balance			
Restricted/Reserve			
425 Bond refundings	132,961,361	132,961,361	
451 QZAB payments			
Restricted			
464 Restricted fund balance	5,636,494	5,636,493	1
Unassigned			
463 Unassigned fund balance			
08 TRUST			
Total revenues	295,141	295,141	
Total expenditures	200,000	200,000	
422 Net position	2,003,103	2,003,104	(1)
20 INTERNAL SERVICE			
Total revenues	847,226	847,226	
Total expenditures	816,625	816,625	
422 Net position	163,861	183,861	
25 OPEB REVOCABLE TRUST FUND			
Total revenues			
Total expenditures			
422 Net position			
45 OPEB IRREVOCABLE TRUST FUND			
Total revenues			
Total expenditures			
422 Net position			
47 OPEB DEBT SERVICE FUND			
Total revenues			
Total expenditures			
Non spendable			
460 Non spendable fund balance			
Restricted			
425 Bond refundings			
464 Restricted fund balance			
Unassigned			
463 Unassigned fund balance			

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

WIPFLi LLP

Independent Auditor's Report on Legal Compliance for the State of Minnesota

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

We have audited, 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, the 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, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 1, 2017.

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65, covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

December 1, 2017
Duluth, Minnesota