

Independent School  
District No. 709  
Duluth, Minnesota

Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2016  
And Independent Auditors' Report

Prepared by the Finance Department



COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended June 30, 2016

DULUTH  
INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

215 North First Avenue East  
Duluth, MN 55802

Prepared by the  
Finance Department

William Hanson • CFO/Executive Director of Business Services

Peggy Blalock • Finance Manager

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

**TABLE OF CONTENTS**

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

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

**TABLE OF CONTENTS  
(Continued)**

	<u>Reference</u>	<u>Page</u>
Required Supplementary Information		
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual General Fund	Statement A-1	71
Information about the District's Other Postemployment Health Care Plan	Statement A-2	72
Information about the District's Net Pension Liability	Statement A-3	73
Supplementary Information		
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual Capital Projects Fund	Statement B-1	74
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual Debt Service Fund	Statement C-1	75
Other Funds		
Combining Balance Sheet	Statement D-1	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	Statement D-2	77
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual Food Service Fund	Schedule E-1	78
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual Community Service Fund	Schedule F-1	79
Student Activities		
Combined Schedule of Cash Receipts, Cash Disbursements, and Cash Balances	Schedule G-1	80
Uniform Financial Accounting and Reporting Standards Compliance Table	Schedule 1	81
Independent Auditor's Report on Legal Compliance for the State of Minnesota	Schedule 2	82
Schedule of Findings and Responses		83

## **INTRODUCTORY SECTION**

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

ORGANIZATION  
JUNE 30, 2016

School Board Directors

Term Expires

Annie Harala	Chairperson	01/08/2018
David Kirby	Vice Chairperson	01/06/2020
Rosie Loeffler-Kemp	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  
William Hanson, Appointed July, 2003

## **FINANCIAL SECTION**



## **Independent Auditor's Report**

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 709, Duluth, Minnesota (District), as of and for the year ended June 30, 2016, 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, 2016, 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.

## ***Emphasis of Matters***

As discussed in Note 1, a certain error was discovered in amounts that were reported in the basic financial statements as of and for the year ended June 30, 2015. Corrections have been made to beginning governmental activities net position and the General Fund fund balance. Our opinion is not modified with respect to this matter.

There was a significant change in the estimate for net pension liability and deferred items related to pensions during fiscal year 2016 due to the merger of the Duluth Teachers Retirement Fund Association into the Teachers Retirement Association effective June 30, 2015, as discussed in Note 13. Our opinion is not modified with respect to this matter.

## ***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 71 through 73, 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 74 through 81, 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, 2015, 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, 2015, 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 2015 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 2015 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 12, 2016 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 12, 2016  
Duluth, Minnesota

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**INDEPENDENT SCHOOL DISTRICT NO. 709 – DULUTH PUBLIC SCHOOLS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2016**

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, 2016.

**FINANCIAL HIGHLIGHTS**

- The District's total net position of governmental activities increased approximately \$188.7 million, versus 2016 to \$15,214,776 primarily due to an increase in unrestricted assets related to our financial presentation of pension expenses as we have transitioned to the state's teacher pension plan.
- Overall program and general revenues were \$136.8 million, \$15.2 million more than related expenses of \$121.6 million excluding pension expense.
- General revenues accounted for \$100.5 million, or 73% of all fiscal year 2016 revenues. This amount is unchanged versus the prior year. Program specific revenues of \$36.3 million (related to services, grants and contributions) accounted for 27% of total fiscal 2016 revenues. This represents an increase of \$1.9 million versus the prior year.
- The District spent approximately \$121.6 million on governmental activities. This represents a decrease of \$9.5 million (equal to 7.2%) versus prior year. Reductions of \$8.4 million related to long-term severance obligations as determined by a new actuarial analysis and \$2.6 million of reduced expenses relating largely to the retirement of senior teaching staff, had the primary impact on this change.
- Among major funds, the General fund had \$100.6 million in revenues, consisting mainly of state aids and local property taxes, and \$101.5 million in expenditures. This deficit of \$.9 million was partially offset by property sales of \$0.3 million. As a result, the fund balance was reduced to \$3.1 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,			
	2016	2015 (Restated)	Total Percentage Change 2015(Restated)-2016
Current and Other Assets	\$109,834,869	\$110,546,203	(0.6)%
Capital Assets	<u>\$301,671,578</u>	<u>\$306,066,367</u>	(1.4)%
<b>Total Assets</b>	\$411,506,447	\$416,612,570	(1.2)%
<b>Total Deferred Outflows of Resources</b>	\$40,985,833	\$7,950,094	405.6%
<b>Total Assets and Deferred Outflows of Resources</b>	\$452,492,280	\$424,562,664	6.4%
Long-term Liabilities	\$375,432,010	\$433,291,325	(13.4)%
Other Liabilities	<u>\$27,807,416</u>	<u>\$27,044,044</u>	2.8%
<b>Total Liabilities</b>	\$403,239,426	\$460,335,369	(12.4)%
<b>Total Deferred Inflows of Resources</b>	\$34,038,078	\$136,618,896	(75.3)%
Net Position/(Liabilities)			
Net investment in			
capital assets	\$59,594,821	\$53,224,081	12.0%
Restricted	\$2,756,839	\$2,839,324	(2.9)%
Unrestricted (deficit)	<u>\$(47,136,884)</u>	<u>\$(228,455,006)</u>	(79.1)%
<b>Total Net Position/(Liability)</b>	<u>\$15,214,776</u>	<u>\$(172,391,601)</u>	108.3%

District Assets of \$411.5 million include, \$23.7 million in unrestricted cash, receivables of \$35.9 million, nearly all of which is made up of property tax and state aid receivables, capital assets being depreciated of \$290 million, \$50 million in restricted cash (for the facilities plan), \$11.7 million in undepreciated capital assets, and \$0.2 million in other assets.

Deferred outflows of resources includes approximately \$41 million for pension related items.

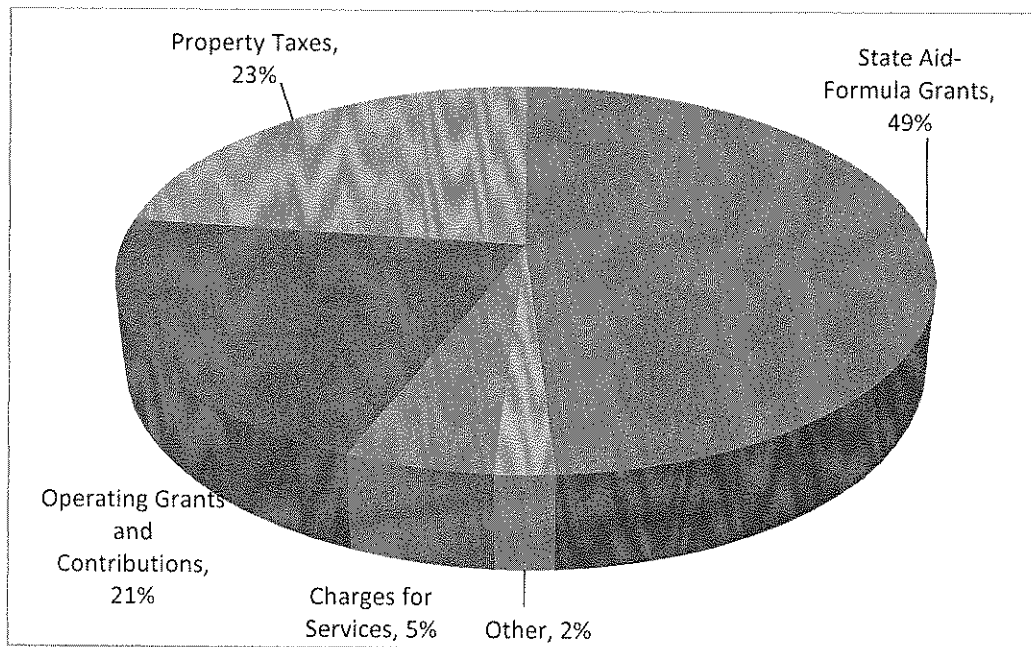
District Liabilities of \$403.2 million include \$375.4 million in Long-term Debt (facilities plan), \$23.2 million due to employees and vendors for expenditures incurred but not paid as of fiscal year-end, and \$4.6 million in other liabilities.

Deferred Inflows of Resources of \$34 million includes \$31.7 million of property taxes levied for subsequent years' expenditures and \$2.3 million for pension related items.

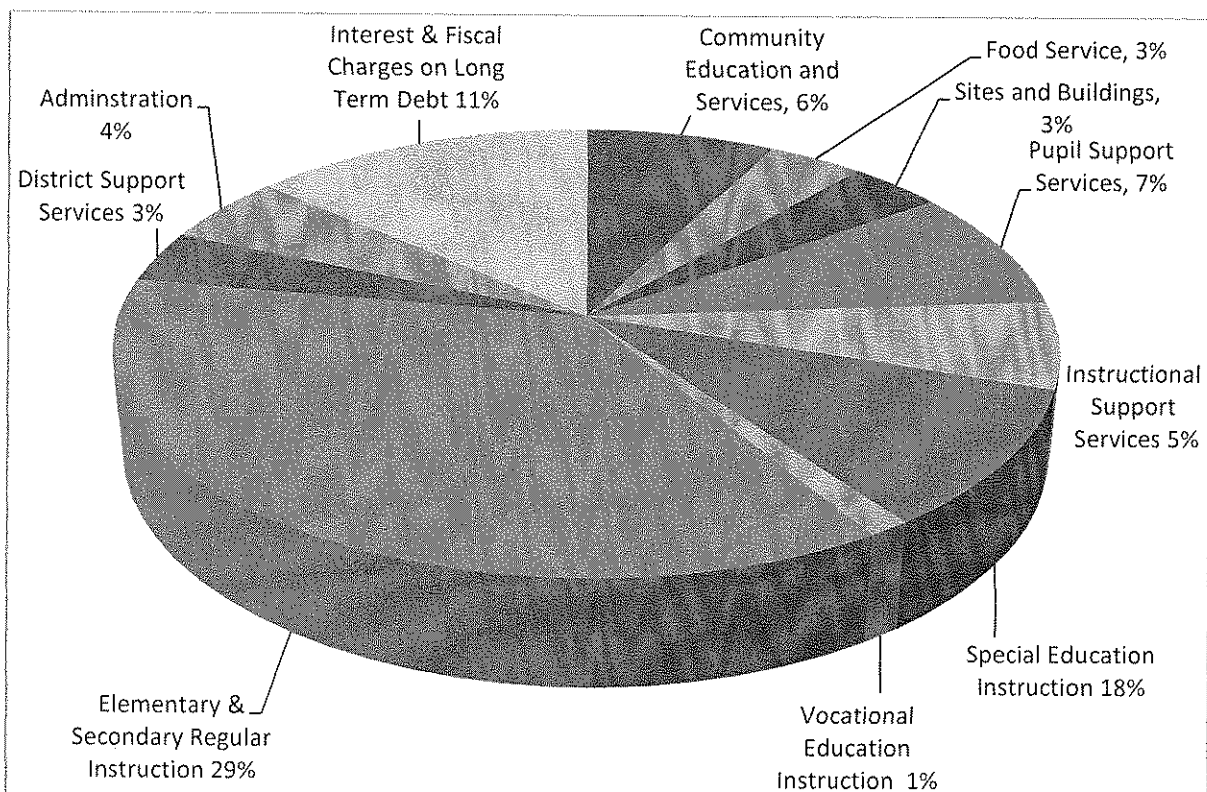


INDEPENDENT SCHOOL DISTRICT NO. 709  
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Source of Revenues for Fiscal Year 2016



Expenses for Fiscal Year 2016



## 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.

<b>Duluth Public Schools</b> <b>Change in Net Position</b> <b>For the Year ended June 30,</b>			
	<b>2016</b>	<b>2015 (Restated)</b>	<b>Total % Change</b>
<b>Revenues:</b>			
Program revenues:			
Charges for Services	\$ 7,103,653	\$ 6,370,017	11.5%
Operating grants and contributions	\$ 29,202,373	\$ 28,022,623	4.2%
General revenues:			
Property taxes	\$ 31,464,419	\$ 33,667,370	(-3.4)%
State aids	\$ 66,314,745	\$ 66,303,027	0.0%
Other	\$ 2,682,655	\$ 1,579,046	69.9%
<b>Total Revenues</b>	<b>\$ 136,767,845</b>	<b>\$ 135,942,083</b>	<b>1.4%</b>
<b>Expenses:</b>			
Administration	\$ 5,245,269	\$ 4,862,576	7.9%
District support services	\$ 4,174,502	\$ 4,680,336	-10.8%
Elementary and secondary regular instruction	\$ 35,317,843	\$ 46,336,538	-23.8%
Vocational education instruction	\$ 1,317,407	\$ 1,213,522	8.6%
Special education instruction	\$ 22,457,866	\$ 22,077,486	1.7%
Instructional support services	\$ 5,654,493	\$ 5,288,751	6.9%
Pupil support services	\$ 7,895,877	\$ 7,913,147	-0.2%
Sites and buildings	\$ 15,275,444	\$ 15,394,286	-0.8%
Fiscal and other fixed program costs	\$ 282,330	\$ 346,911	-18.6%
Food service	\$ 3,893,697	\$ 3,905,589	-0.3%
Community Service	\$ 7,217,652	\$ 6,749,687	6.9%
Interest and fiscal charges on long-term debt	\$ 12,820,579	\$ 12,340,804	3.9%
Pension expense	\$ (172,391,491)	\$ (48,703,651)	-252.3%
<b>Total expenses</b>	<b>\$ (50,838,532)</b>	<b>\$ 82,405,982</b>	<b>-160.7%</b>
<b>Change in net position</b>	<b>\$ 187,606,377</b>	<b>\$ 53,536,101</b>	<b>256.2%</b>
<b>Beginning of year net position</b>	<b>\$ (173,481,113)</b>	<b>\$ (225,927,702)</b>	<b>23.2%</b>
<b>Prior Period Adjustment</b>	<b>\$ 1,089,512</b>		
<b>Net position restated</b>	<b>\$ (172,391,601)</b>		
<b>End of year net position</b>	<b>\$ 15,214,776</b>	<b>\$ (172,391,601)</b>	<b>108.3%</b>

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

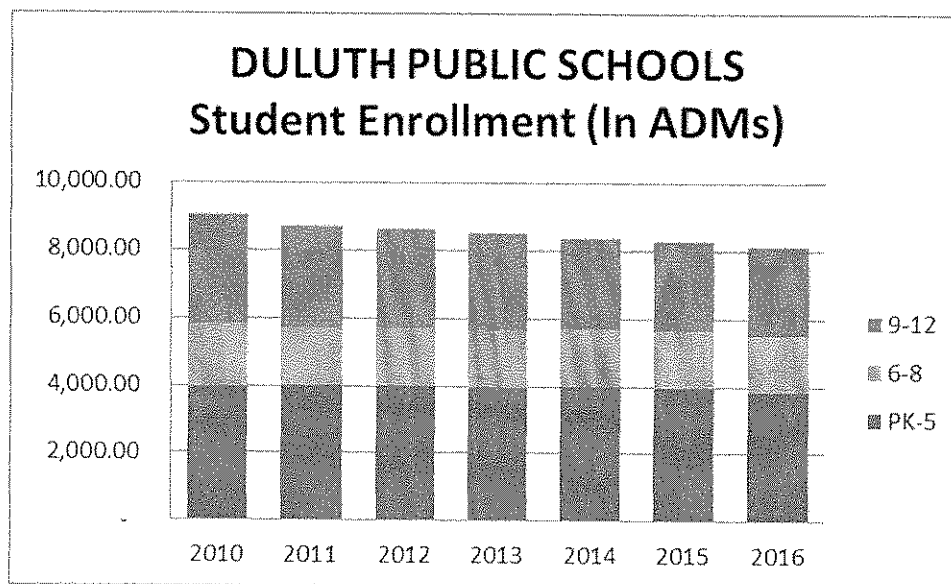
At the end of the 2015-16 fiscal year, the District's governmental funds reported a combined fund balance of \$59.5 million, a decrease of \$2.2 million from the prior year combined fund balance of \$61.7 million. This resulted from the planned use of cash within the Capital Projects Fund as construction opportunities were completed.

### General Fund

The General Fund is used to account for all revenues and expenditures of the school district not accounted for elsewhere. The General Fund is used to account for: 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 seven years.

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



### General Fund Budgetary Highlights

General fund adopted revenue budget of \$103.4 million was revised upward to \$103.9 million as a result of a \$0.5 million increase in Title programs, a \$0.6 million increase for grants and donations related to student and curriculum support, and \$0.3 million in miscellaneous revenues, all of which was partially offset by a \$0.9 million estimated reduction for reduced enrollment.

General fund adopted expenditure budget of \$103.5 million was increased by \$1.5 million to \$105 million. In addition to the \$0.5 million of additions identified in the preceding paragraph, there was \$1.0 million of budget carryover from the prior year.

General fund revenues were \$3.3 million less than the revised budget (a difference of 3.2%).

General fund spending was \$3.5 million less than the revised budget, a difference of 3.3%.

The General Fund balance decreased \$.6 million (from the restated balance of \$3.7 million) to a total of \$3.1 million as follows:

- Unassigned fund balance decreased by \$0.4 million.
- Restricted fund balances decreased by \$160,043 to a total of \$562,456.
- Non-spendable fund balances of \$0.2 million were unchanged from the prior year.

### **Food Service Fund**

The Food Service Fund revenues for 2015-16 totaled \$3,769,964 or \$115,022 more than the final budget. Expenditures were \$3,893,697 or \$84,636 more than the final budget. The resulting deficit of \$123,733 decreased the year-end fund balance to \$901,371.

### **Community Service Fund**

The Community Service Fund revenues for 2015-16 totaled \$7,404,608 or \$710,082 more than the final budget. Expenditures were \$7,184,207 or \$182,456 less than the final budget. The resulting surplus of \$220,401 increased the year-end fund balance to \$1,328,590.

### **Capital Projects Fund**

The Capital Projects Fund revenues for 2015-16 totaled \$1,188,526 or \$1,969 more than the final budget. Expenditures totaled \$3,657,997 million or \$1,579,512 million less than the final budget. The resulting deficit of \$2,469,471 million reduced the fund balance to \$3,128,668 million.

### **Debt Service Fund**

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction or operating capital acquired through either initial or refunding bonds. Revenues for 2015-16 totaled \$23,542,812 or \$2,603,050 more than the final budget. Expenditures totaled \$22,783,367 or \$5,200 less than the final budget. The resulting surplus of \$759,443 increased the fund balance to \$51,018,504 million.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of fiscal 2016, the District had over \$356 million invested in a broad range of capital assets, reflecting the impact of our Long Range Facilities Plan. Depreciation of \$54.9 million has been taken on existing items. As of June 30, 2016, the District had capital items, which had a depreciated value of \$301.7 million. Most of the capital investment is in buildings and equipment.

ISD 709 CAPITAL ASSETS			
	2016	2015	% Change
Land	\$11,692,735	\$11,707,106	(0.1)%
Land Improvement	\$2,595,576	\$2,595,576	0.0%
Buildings and Improvements	\$334,100,561	\$332,181,283	0.6%
Equipment	\$8,133,622	\$7,762,136	4.8%
Less: Accumulated Depreciation	\$(54,850,916)	\$(48,179,734)	(13.8)%
<b>TOTAL</b>	<b>\$301,671,578</b>	<b>\$306,066,367</b>	<b>(1.4)%</b>

### Long-Term Liabilities

At year-end, the District had \$289 million of outstanding bonds payable and certificates of participation. This reflects a decrease of \$13.8 million versus the principal amount of \$302.8 million due in 2015. 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 \$891.4 million as of June 30, 2016.

The remainder of long-term liabilities is the \$28.4 million recognized for severance benefits and other post-employment benefits (OPEB). This represents a decrease of \$8.2 million versus prior year. The final item represents the net pension liability of \$58.1 million, a decrease of \$35.9 million versus 2015 (reduction due to the merging of DTRFA and TRA on June 30, 2015).

ISD 709 LONG-TERM LIABILITIES			
	2016	2015	% Change
Certificates of Participation	\$195,215,425	\$204,865,425	(4.7)%
General Obligation Bonds	\$93,785,000	\$97,895,000	(4.2)%
Other Postemployment Benefits	\$3,458,553	\$3,889,196	(11.1)%
Severance Obligation	\$24,897,997	\$32,682,128	(23.8)%
Net Pension Liability	\$58,075,035	93,959,576	(38.2)%
<b>TOTAL</b>	<b>\$375,432,010</b>	<b>\$433,291,325</b>	<b>(13.4)%</b>
Long-Term Liabilities			
Due within one year	\$14,895,588	\$15,392,135	(3.2)%
Due in more than one year	\$360,536,422	\$417,899,190	(13.7)%
<b>TOTAL</b>	<b>\$375,432,010</b>	<b>\$433,291,325</b>	<b>(13.4)%</b>

## **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 2015 projects enrollment to stabilize in approximately 2020.

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.

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. 1<sup>st</sup> Avenue East, Duluth, MN 55802  
or call 218-336-8704

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

## **BASIC FINANCIAL STATEMENTS**

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

**Exhibit 1**

**Statement of Net Position  
June 30, 2016**

	Governmental Activities
<b>Assets</b>	
Cash and temporary investments	\$ 23,667,656
Receivables	
Taxes	21,123,212
Accounts and interest receivable	787,631
Due from other governmental units	13,962,352
Inventory	186,054
Prepayments	98,516
Restricted assets	
Cash and investments for debt service	46,314,997
Cash and investments for capital projects	3,694,451
Capital assets, net of depreciation	
Capital assets not being depreciated	11,692,735
Capital assets being depreciated	<u>289,978,843</u>
 Total assets	 \$ 411,506,447
<b>Deferred Outflows of Resources</b>	
Pension related items	<u>40,985,833</u>
 Total assets and deferred outflows of resources	 <u>\$ 452,492,280</u>
<b>Liabilities</b>	
Salaries payable	\$ 14,083,180
Accounts and contracts payable	1,923,485
Accrued interest payable	7,197,412
Due to other funds	280,042
Due to other governmental units	79,378
Compensated absences	306,488
Unearned revenue	279,210
Long term liabilities	
Due within one year	14,895,588
Due in more than one year	360,536,422
Unamortized premium and discount, net	<u>3,658,221</u>
 Total liabilities	 <u>\$ 403,239,426</u>
<b>Deferred inflows of resources</b>	
Property taxes levied for subsequent years' expenditures	31,689,850
Pension related items	<u>2,348,228</u>
 Total deferred inflows of resources	 <u>\$ 34,038,078</u>
<b>Net Position (Deficit)</b>	
Net investment in capital assets	\$ 59,594,821
Restricted for:	
State Restrictions	562,456
Food Service	798,254
Community Service	1,396,129
Unrestricted (Deficit)	<u>(47,136,884)</u>
Total net position	<u>\$ 15,214,776</u>
 Total liabilities, deferred inflows of resources and net position (deficit)	 <u>\$ 452,492,280</u>

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, 2016**

Functions/Programs	Expenses
Governmental Activities	
Administration	\$ 5,245,269
District Support Services	4,174,502
Regular Instruction	35,317,843
Vocational Education Instruction	1,317,407
Special Education Instruction	22,457,866
Instructional Support Services	5,654,493
Pupil Support Services	7,895,877
Sites and Buildings	15,275,444
Fiscal and Other Fixed Cost Programs	282,330
Food Service	3,893,697
Community Service	7,217,652
Interest and Fiscal Charges on Long Term Debt	12,820,579
Pension Expense*	(172,391,491)
Total Governmental Activities	<u>\$ (50,838,532)</u>

\*Due to the merger of the DTRFA to 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.

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
\$	\$ 72,666	\$	\$ (5,172,603)
			(4,174,502)
3,213,688	3,721,509		(28,382,646)
6,424	309,650		(1,001,333)
635,351	12,387,737		(9,434,778)
24,364	1,449,795		(4,180,334)
(10,028)	2,533,714		(5,372,191)
301,827	168,064		(14,805,553)
			(282,330)
1,167,978	2,601,986		(123,733)
1,764,049	4,375,950		(1,077,653)
	1,581,302		(11,239,277)
			172,391,491
<u>\$ 7,103,653</u>	<u>\$ 29,202,373</u>	<u>\$</u>	<u>\$ 87,144,558</u>
General Revenues			
Taxes			
Property Taxes, levied for General Purposes		\$	11,272,319
Property Taxes, levied for Community Service			971,785
Property Taxes, levied for Debt Service			19,220,315
State aid-formula grants			66,314,745
Other general revenues			1,266,671
Investments Earnings			1,415,984
Total General Revenues		\$	100,461,819
Change in net position		\$	187,606,377
Net position - beginning			(173,481,113)
Prior period adjustment - Note 1. T.			1,089,512
Restated net position - beginning		\$	(172,391,601)
Net position - ending		\$	15,214,776

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Balance Sheet  
GOVERNMENTAL FUNDS  
June 30, 2016

	General Fund	Capital Projects Fund
<b>Assets</b>		
Cash and temporary investments	\$ 7,405,898	\$ 3,694,451
Cash and investments with fiscal agent		
Taxes and credits receivable	9,295,920	
Accounts and interest receivable	190,875	
Due from		
Other Minnesota school districts	1,337,365	
Department of Education	8,096,300	16,806
Federal through Department of Education	2,914,295	
Federal - direct	67,952	
Other governmental units	84,426	
Inventory	83,916	
Prepayments	90,840	
	<hr/>	<hr/>
Total Assets	\$ 29,567,787	\$ 3,711,257
<b>Deferred Outflows of Resources</b>		
	<hr/>	<hr/>
Total Assets and deferred outflows of resources	<u>\$ 29,567,787</u>	<u>\$ 3,711,257</u>

Exhibit 3

Debt Service Fund	Other Funds	Total Governmental Funds
\$ 13,697,108	\$ 2,238,829	\$ 27,036,286
46,314,997		46,314,997
11,232,676	594,616	21,123,212
557,640	38,018	786,533
		1,337,365
209,043	400,338	8,722,487
	141,528	3,055,823
	694,299	762,251
		84,426
	102,138	186,054
	7,676	98,516
\$ 72,011,464	\$ 4,217,442	\$ 109,507,950
<u>\$ 72,011,464</u>	<u>\$ 4,217,442</u>	<u>\$ 109,507,950</u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Balance Sheet  
GOVERNMENTAL FUNDS  
June 30, 2016

	General Fund	Capital Projects Fund
	<hr/>	<hr/>
<b>Liabilities</b>		
Salaries payable	\$ 13,487,966	\$ 5,309
Accounts and interest payable	901,068	127,928
Due to		
Other funds	163,423	
Other governmental units	79,378	
Claims payable	181,741	
Construction contracts		449,352
Unearned revenue	162,734	
	<hr/>	<hr/>
Total Liabilities	\$ 14,976,310	\$ 582,589
	<hr/>	<hr/>
<b>Deferred inflows of resources</b>		
Property taxes levied for subsequent year's expenditures	\$ 10,753,267	
Unavailable revenue - delinquent property taxes	741,562	
	<hr/>	<hr/>
Total deferred inflows of resources	\$ 11,494,829	\$
	<hr/>	<hr/>

**Exhibit 3  
(Continued)**

<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 589,905	\$ 14,083,180
	185,528	1,214,524
	116,619	280,042
		79,378
		181,741
		449,352
	685	163,419
<u>\$ -</u>	<u>\$ 892,737</u>	<u>\$ 16,451,636</u>
\$ 19,916,075	\$ 1,020,508	\$ 31,689,850
<u>1,076,885</u>	<u>74,236</u>	<u>1,892,683</u>
<u>\$ 20,992,960</u>	<u>\$ 1,094,744</u>	<u>\$ 33,582,533</u>

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

**Balance Sheet  
GOVERNMENTAL FUNDS  
June 30, 2016**

	General Fund	Capital Projects Fund
<b>Fund Balance</b>		
NonSpendable:		
Inventory	\$ 83,916	\$
Prepayments	90,840	
Restricted for:		
Bond refunding	-	
Teacher Development & Evaluation	147,962	
Alternative facilities		1,058,761
Projects funded by COP		2,069,907
ALC	414,494	
Debt service		
Food service		
Community education		
Early childhood family education		
School readiness		
Adult basic education		
Community service		
Unassigned		
General	2,359,436	
Total Fund Balance	<u>\$ 3,096,648</u>	<u>\$ 3,128,668</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	 <u>\$ 29,567,787</u>	 <u>\$ 3,711,257</u>

**Exhibit 3  
(Continued)**

<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
\$	\$ 102,138	\$ 186,054
	7,676	98,516
46,314,997		46,314,997
		147,962
		1,058,761
		2,069,907
		414,494
4,703,507		4,703,507
	798,254	798,254
	694,419	694,419
	275,964	275,964
	226,145	226,145
	95,360	95,360
	30,005	30,005
		2,359,436
<u>\$ 51,018,504</u>	<u>\$ 2,229,961</u>	<u>\$ 59,473,781</u>
 <u>\$ 72,011,464</u>	 <u>\$ 4,217,442</u>	 <u>\$ 109,507,950</u>



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

**Exhibit 4**

**Reconciliation of the Balance Sheet to the  
Statement of Net Position  
Governmental Activities  
June 30, 2016**

Total fund balances - governmental funds	\$ 59,473,781
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	356,522,494
Less: accumulated depreciation	(54,850,916)
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	(93,785,000)
Certificates of participation	(195,215,425)
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.	(24,897,997)
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.	(306,488)
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.	1,892,683
Governmental funds do not report a liability for accrued interest until due and payable.	(7,197,412)
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	(58,075,035)
Deferred inflows of resources related to pensions	(2,348,228)
Deferred outflows of resources related to pensions	40,985,833
Changes in net other post-employment benefits obligations are reported only in the statement of activities.	(3,458,553)
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.	(3,658,221)
An internal service fund is used by management to charge the costs of dental insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	133,260
Total net position - governmental activities	<u>\$ 15,214,776</u>

This page left blank intentionally

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

**Statement of Revenues, Expenditures, and Changes in Fund Balance  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2016**

	General Fund	Capital Projects Fund
<b>Revenues</b>		
Local property tax levies	\$ 10,364,262	\$ 1,018,493
Interest income	46,758	1,969
Other local and county	4,135,457	-
State sources	78,961,138	168,064
Federal sources	6,293,531	
Insurance/Judgement recovery	3,365	
Sales and other conversions of assets	772,435	
Total Revenues	<u>\$ 100,576,946</u>	<u>\$ 1,188,526</u>
<b>Expenditures</b>		
Administration	\$ 5,178,207	\$
District support services	3,742,130	
Regular instruction	43,642,035	
Vocational instruction	1,270,918	
Special education instruction	22,447,130	
Community education and services		
Instructional support services	5,609,660	
Pupil support services	7,548,385	
Sites, buildings and equipment	7,548,440	302,644
Fiscal and other fixed cost programs	340,448	
Debt service		
Principal	1,780,000	
Interest and fiscal charges	1,608,785	
Capital outlay	757,674	3,355,353
Total Expenditures	<u>\$ 101,473,812</u>	<u>\$ 3,657,997</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (896,866)</u>	<u>\$ (2,469,471)</u>
<b>Other Financing Sources (Uses)</b>		
Sale of property	\$ 298,462	\$ -
Total Other Financing Sources (Uses)	<u>\$ 298,462</u>	<u>\$ -</u>
Net change in fund balance	\$ (598,404)	\$ (2,469,471)
<b>Fund Balance</b>		
Beginning of Year, restated	<u>3,695,052</u>	<u>5,598,139</u>
End of Year	<u><u>\$ 3,096,648</u></u>	<u><u>\$ 3,128,668</u></u>

Exhibit 5

Debt Service Fund	Other Funds	Total Governmental Funds
\$ 19,112,825	\$ 982,312	\$ 31,477,892
1,367,257		1,415,984
	2,079,045	6,214,502
2,090,428	2,505,427	83,725,057
972,302	4,449,839	11,715,672
	-	3,365
	1,157,949	1,930,384
<u>\$ 23,542,812</u>	<u>\$ 11,174,572</u>	<u>\$ 136,482,856</u>
\$	\$	\$ 5,178,207
		3,742,130
		43,642,035
		1,270,918
		22,447,130
	7,178,050	7,178,050
		5,609,660
	3,817,923	11,366,308
		7,851,084
		340,448
11,980,000		13,760,000
10,803,367		12,412,152
	81,931	4,194,958
<u>\$ 22,783,367</u>	<u>\$ 11,077,904</u>	<u>\$ 138,993,080</u>
<u>\$ 759,445</u>	<u>\$ 96,668</u>	<u>\$ (2,510,224)</u>
<u>\$</u>	<u>\$</u>	<u>\$ 298,462</u>
<u>\$ -</u>	<u>\$</u>	<u>\$ 298,462</u>
\$ 759,445	\$ 96,668	\$ (2,211,762)
<u>50,259,059</u>	<u>2,133,293</u>	<u>61,685,543</u>
<u>\$ 51,018,504</u>	<u>\$ 2,229,961</u>	<u>\$ 59,473,781</u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Exhibit 6

Reconciliation of the Statement of  
Revenues, Expenditures, and Changes in Fund Balance  
to the Statement of Activities  
Governmental Funds  
Year Ended June 30, 2016

Total net changes in fund balances - governmental funds	\$ (2,211,762)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	2,915,163
Disposal of capital assets	(54,339)
Depreciation expense	(7,255,612)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	13,760,000
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.	(713,059)
Net amortization of premiums and discounts.	304,632
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.	8,214,774
Payment of compensated absences is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	210,444
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	33,035,739
Change in deferred inflows of resources related to pensions	103,471,211
Change in net pension liability	35,884,541
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.	(13,473)
The change in net position of the internal service fund is reported with governmental activities.	58,118
Change in net position - governmental activities	<u>\$ 187,606,377</u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Exhibit 7

STATEMENT OF NET POSITION  
INTERNAL SERVICE FUND - DENTAL PLAN  
PROPRIETARY FUND  
JUNE 30, 2016

**Assets**

Current Assets

Cash and investments	\$ 325,821
Accounts and interest receivable	<u>1,098</u>

Total Assets	\$ 326,919
--------------	------------

**Deferred Outflows of Resources**

Total Assets and Deferred Outflows of Resources	<u>\$ 326,919</u>
---	-------------------

**Liabilities**

Current Liabilities

Claims payable	\$ 77,868
Unearned revenue	<u>115,791</u>

Total Liabilities	<u>\$ 193,659</u>
-------------------	-------------------

**Deferred Inflows of Resources**

**Net Position**

Unrestricted	<u>\$ 133,260</u>
--------------	-------------------

Total Net Position	<u>\$ 133,260</u>
--------------------	-------------------

Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 326,919</u>
--	-------------------

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Exhibit 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
INTERNAL SERVICE FUND - DENTAL PLAN  
PROPRIETARY FUND  
For the Year Ended June 30, 2016

**Operating revenues**

Charges for Premiums, Net of Refunds	\$ 831,494
--------------------------------------	------------

**Total Operating Revenues**

\$ 831,494
------------

**Operating expenses**

Employee benefits	\$ 718,127
Services, supplies, and fees	55,249

**Total Operating Expenses**

\$ 773,376
------------

Change in net position

\$ 58,118
-----------

Total Net Position - Beginning

75,142
--------

Total Net Position - Ending

\$ 133,260
------------

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, 2016

**Cash Flows from Operating Activities**

Receipts from Interfund Services Provided	\$ 515,729
Receipts from retirees	316,175
Payments for administrative costs	(55,249)
Payments for claims	<u>(716,161)</u>

Net Cash Provided by Operating Activities	\$ 60,494
---	-----------

Cash and Cash Equivalents - Beginning	<u>265,327</u>
---------------------------------------	----------------

Cash and Cash Equivalents - Ending	<u><u>\$ 325,821</u></u>
------------------------------------	--------------------------

**Reconciliation of Operating Income to Net Cash  
Provided by Operating Activities**

Changes in net position	\$ 58,118
Provided by Operating Activities	
(Increase) in Account Receivable	\$ (342)
Increase in Accounts Payable	1,965
Increase in Unearned Revenue	<u>753</u>

Total Adjustments	<u>\$ 2,376</u>
-------------------	-----------------

Net Cash Provided by Operating Activities	<u><u>\$ 60,494</u></u>
---	-------------------------



INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Exhibit 10

**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2016**

	Federal Employee Benefit Trust Fund	Private- Purpose Funds
	<u>                    </u>	<u>                    </u>
<b>Assets</b>		
Cash and temporary investments	\$ 1,475,323	\$ 150,453
Interest receivable	2,144	
Due from other funds	<u>280,042</u>	
Total Assets	<u><u>\$ 1,757,509</u></u>	<u><u>\$ 150,453</u></u>
<b>Liabilities</b>		
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>
<b>Net Position</b>		
Restricted for endowment	\$	\$ 132,120
Restricted for clock tower		18,333
Restricted for retirees	<u>1,757,509</u>	
Total Net Position	<u><u>\$ 1,757,509</u></u>	<u><u>\$ 150,453</u></u>
Total Liabilities and Net Position	<u><u>\$ 1,757,509</u></u>	<u><u>\$ 150,453</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Exhibit 11

Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
For the Year Ended June 30, 2016

	Federal Employee Benefit Trust Fund	Private- Purpose Funds
	<u>                    </u>	<u>                    </u>
<b>Additions</b>		
Interfund contribution	\$ 280,042	\$
Investment earnings		
Interest	<u>11,307</u>	<u>597</u>
Total Additions	<u>\$ 291,349</u>	<u>\$ 597</u>
<b>Deductions</b>		
Benefits	<u>\$ 200,000</u>	<u>\$</u>
Total Deductions	<u>\$ 200,000</u>	<u>\$</u>
Change in Net Position	\$ 91,349	\$ 597
Net Position - Beginning	<u>1,666,160</u>	<u>149,856</u>
Net Position - Ending	<u><u>\$ 1,757,509</u></u>	<u><u>\$ 150,453</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

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

**B. Financial Reporting Entity**

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

The District's financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

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

**C. Basic Financial Statement Presentation**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

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

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

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

**D. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift". Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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 12<sup>th</sup> 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 12<sup>th</sup> grade projects and payments of related interest. The assets of this fund are legally restricted to the aforementioned purpose.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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 12<sup>th</sup> 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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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, 2016, the allowance for uncollectible accounts was \$10,924. 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

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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



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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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, 2016.

**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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

**S. Implementation of New Standards**

GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 79, *Certain External Pools and Pool Participants* were implemented during fiscal year 2016. These statements provided guidance for determining fair value measurement for financial reporting purposes and guidance for applying fair value to certain investments and disclosures. The implementation did not affect the valuation of investments as previously reported. Disclosures for investment information included in Note 2 include the fair value disclosures, which were previously not disclosed.

**T. Prior Period Adjustment**

A prior period adjustment was made in the amount of \$1,089,512 to recognize tax levy revenue that should have been recognized in Fiscal Year 2015. An error was discovered in how the property tax shift reconciliation was recorded, which resulted in the understatement of tax levy revenue for Fiscal Year 2015.

	General Fund	Governmental Activities
As previously reported at June 30, 2015	\$ 2,605,540	\$ (173,481,113)
Correction	1,089,512	1,089,512
Restated at June 30, 2015	<u>\$ 3,695,052</u>	<u>\$ (172,391,601)</u>

**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, 2016, the District's deposits were not exposed to custodial credit risk.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**2. Deposits and Investments (continued)**

**B. Investments**

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

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

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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**2. Deposits and Investments (continued)**

The District has the following investments at June 30, 2016

Investment Type	Fair Value	Less than 1 Yr	1-3 Years	Over 3 Years
U.S. Government Securities	\$ 47,924,041	\$ 3,451,527	\$ 44,472,514	\$ -
External Investment Pools	21,327,553	21,327,553		
Money Market Funds	900,428	900,428		
Negotiable CD's	3,691,528	3,382,412	309,116	
<b>Total Investments</b>	<b>\$ 73,843,550</b>	<b>\$ 29,061,920</b>	<b>\$ 44,781,630</b>	<b>\$ -</b>

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

The District's exposure to credit risk as of June 30, 2016 is as follows:

S & P or Moody's Rating	Fair Value
Aaa	\$ 43,531,504
AAAm	22,227,981
AAA	4,392,537
Not rated	3,691,528
<b>Total Investments</b>	<b>\$ 73,843,550</b>

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2016, 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, 2016 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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**2. Deposits and Investments (continued)**

The District has the following investments valued at recurring fair value measurements at June 30, 2016:

		Active Markets for Identical Assets	Significant Observable Inputs	Other Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
<b>Investments by fair value level</b>				
		Total		
Debt securities				
Negotiable certificates of deposit				
	\$ 3,691,528	\$	\$ 3,691,528	\$
U.S. Gov Securities				
	47,924,041		47,924,041	
		\$	\$ 51,615,569	\$
<b>Investments measured at the net asset value (NAV)</b>				
External investment pools				
	21,327,553			
Money market funds				
	900,428			
	<u>\$ 73,843,550</u>			

The following table sets forth additional disclosures about the District's investments whose values are estimated using net asset value (NAV) as of June 30, 2016:

		Amount	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External					
Investment Pool -					
MSDLAF					
	\$ 1,911,053	\$	-	14 days*	24-hour notice
External					
Investment Pool -					
MNTrust					
	19,416,500		-	None	None
Money market					
fund					
	900,428		-		
	<u>\$ 22,227,981</u>				

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**2. Deposits and Investments (continued)**

The District's total cash and investments as of June 30, 2016 are as follows:

Petty Cash	\$ 2,605
Deposits	1,456,725
Investments	<u>73,843,550</u>
	<u><u>\$ 75,302,880</u></u>

The District's total cash and investments as of June 30, 2016 are presented in the basic financial statements as follows:

**Statement of Net Position**

Cash and temporary investments	\$ 23,667,656
Restricted Assets:	
Cash and investments for debt service	46,314,997
Cash and investments for capital projects	3,694,451

**Statement of Fiduciary Net Position**

Cash and Cash Equivalents	
Federal Employee Benefit Trust Fund	1,475,323
Private Purpose Funds	<u>150,453</u>
Total Cash and Investments	<u><u>\$ 75,302,880</u></u>

**3. Taxes and Credits Receivable**

Current taxes and credits receivable represent the uncollected balance of the 2015 levy, collectible in 2016, including related state property tax relief aid. Delinquent taxes receivable represent taxes due from levies of the prior six years. At June 30, 2016, property taxes and credits receivable consisted of:

<u>Fund</u>	<u>Current</u>	<u>Delinquent</u>	<u>Total</u>
General Fund	\$ 8,554,358	\$ 741,562	\$ 9,295,920
Community Services Fund	520,380	74,236	594,616
Debt Service Fund	<u>10,155,791</u>	<u>1,076,885</u>	<u>11,232,676</u>
Total	<u><u>\$ 19,230,529</u></u>	<u><u>\$ 1,892,683</u></u>	<u><u>\$ 21,123,212</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**4. Inventory**

Inventory at June 30, 2016, consisted of:

General Fund - Supplies	\$ 83,916
Food Service Fund - Food	102,138
Total	<u>\$ 186,054</u>

**5. Capital Assets**

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

<b>Capital Assets Not Depreciated</b>	<b>Balance 6/30/2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 6/30/2016</b>
Land	\$ 11,707,106	\$ 4,360	\$ (18,731)	\$ 11,692,735
Total Capital Assets				
Not Depreciated	<u>\$ 11,707,106</u>	<u>\$ 4,360</u>	<u>\$ (18,731)</u>	<u>\$ 11,692,735</u>
<b>Capital Assets Depreciated</b>				
Land Improvements	\$ 2,595,576	\$ -	\$ -	\$ 2,595,576
Buildings	332,181,283	2,373,352	(454,074)	334,100,561
Furniture & Equipment	7,762,136	537,451	(165,964)	8,133,622
Total Capital Assets				
Depreciated	\$ 342,538,995	\$ 2,910,803	\$ (620,039)	\$ 344,829,759
Less Accumulated Depreciation	(48,179,734)	(7,255,612)	584,430	(54,850,916)
Capital assets, being depreciated, net	\$ 294,359,261	\$ (4,344,810)	\$ (35,608)	\$ 289,978,843
Total capital assets, net of depreciation	<u>\$ 306,066,367</u>	<u>\$ (4,340,450)</u>	<u>\$ (54,339)</u>	<u>\$ 301,671,578</u>



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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**5. Capital Assets (continued)**

Depreciation expense was charged to governmental functions as follows:

	2016
<u>Program Code</u>	<u>Depreciation</u>
Administration	\$ 9,747
District Support Service	119,944
Elem/Sec Regular Instruction	38,941
Vocational Education Instruction	23,798
Special Education Instruction	5,114
Community Education and Service	33,445
Instructional Support Services	650
Pupil Support Services	169,587
Sites and Buildings	6,854,386
Total	<u>\$ 7,255,612</u>

Included in amounts reported for capital assets are land, buildings, and equipment related to closure hearings conducted by the School Board. The closure hearings included Central High School, Secondary Technical Center, Morgan Park Middle School and Rockridge Elementary. Morgan Park Middle School was sold in July, 2015. The net book value of the remaining assets total \$5,109,420.

**6. Lease Obligations**

Operating Leases

The District is committed under various operating leases for building space, parking facilities, and equipment. Rent expense for the year ended June 30, 2016, was \$516,508.

Future minimum lease payments under operating leases, which are not reflected in these financial statements, consist of the following at June 30, 2016:

<u>Year Ending June 30</u>	
2017	\$ 327,374
2018	222,002
2019	169,927
2020	2,320
Total	<u>\$ 721,623</u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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. \$ 86,925,000

\$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. 56,430,000

\$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. 28,570,000

\$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. 3,755,000

\$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. 1,190,000

\$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. 5,545,000

Total \$ 195,215,425

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**7. Long-Term Liabilities (continued)**

The annual requirements to amortize the principal and interest are:

Year Ended June 30	Total	Principal	Interest
2017	\$ 18,623,355	\$ 10,215,000	\$ 8,408,355
2018	18,843,530	10,845,000	7,998,530
2019	19,069,780	11,520,000	7,549,780
2020	19,308,080	12,235,000	7,073,080
2021	20,297,411	13,536,345	6,761,066
2022-2026	114,103,077	86,130,796	27,972,281
2027-2031	58,695,581	50,273,284	8,422,297
2032	484,150	460,000	24,150
Total	<u>\$ 269,424,964</u>	<u>\$ 195,215,425</u>	<u>\$ 74,209,539</u>

Bonds Payable

\$59,235,000 General Obligation Alternative Facilities Bonds (Series 2008A)  
due in annual installments of \$590,000 to \$5,200,000 plus 3.500 to 4.625  
percent interest from February 1, 2009 through February 1, 2028 \$ 49,990,000

\$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. 43,795,000

Total \$ 93,785,000

The annual requirements to amortize the principal and interest are:

Year Ended June 30	Total	Principal	Interest
2017	\$ 7,173,875	\$ 3,340,000	\$ 3,833,875
2018	7,188,025	3,470,000	3,718,025
2019	10,753,975	7,175,000	3,578,975
2020	10,728,050	7,445,000	3,283,050
2021	10,715,975	7,740,000	2,975,975
2022-2026	53,612,175	44,310,000	9,302,175
2027-2028	21,467,900	20,305,000	1,162,900
Total	<u>\$ 121,639,975</u>	<u>\$ 93,785,000</u>	<u>\$ 27,854,975</u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**7. Long-Term Liabilities (continued)**

Changes in long-term debt for the year ended June 30, 2016 are:

	Balance June 30, 2015	Increase	Payments/ Adjustments	Balance June 30, 2016
Certificates of participation	\$ 204,865,425		\$ 9,650,000	\$ 195,215,425
Bonds payable	97,895,000		4,110,000	93,785,000
OPEB	3,889,196	\$ 2,296,454	2,727,097	3,458,553
Severance obligation	32,682,128		7,784,131	24,897,997
Net pension liability	93,959,576	608,764	36,493,305	58,075,035
<b>Total</b>	<b>\$ 433,291,325</b>	<b>\$ 2,905,218</b>	<b>\$ 60,764,533</b>	<b>\$ 375,432,010</b>

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 \$972,302.

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, 2016.

	Current Portion	Long-term Portion	Total
Certificates of participation	\$ 10,215,000	\$ 185,000,425	\$ 195,215,425
Bonds payable	3,340,000	90,445,000	93,785,000
OPEB		3,458,553	3,458,553
Severance obligation	1,340,588	23,557,409	24,897,997
Net pension liability		58,075,035	58,075,035
<b>Total</b>	<b>\$ 14,895,588</b>	<b>\$ 360,536,422</b>	<b>\$ 375,432,010</b>

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, 2016 is approximately \$891,419,808.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**8. Compensated Absences**

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

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

At June 30, 2016, \$306,488 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 2016, 136 retirees received a total benefit of \$3,240,664. The District funds these expenditures as paid except for the severance for employees of federal programs, which is funded through the Federal Employee Benefit Trust.

Retained severance benefit obligations for retirees	\$ 1,165,482
Retained severance benefit obligations for qualified employees	<u>25,490,024</u>
Total termination benefits payable	\$ 26,655,506
Amount available in Federal Employee Benefit Trust Fund	<u>(1,757,509)</u>
Total	<u><u>\$ 24,897,997</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**10. Interfund Transactions**

Individual fund receivable and payable balances at June 30, 2016:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ -	\$ 163,423
Community Service Fund		116,619
Fiduciary Funds		
Federal Employee Benefit Trust Fund	\$ 280,042	
 Total Funds	 <u>\$ 280,042</u>	 <u>\$ 280,042</u>

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, 2016 are as follows:

- A. Restricted for Teacher Development & Evaluations – This represents amounts available for development and evaluations for teachers and principals.
- B. Restricted for Alternative Facilities – This amount represents the resources available for approved expenditures based on the ten-year plan for capital projects.
- C. Restricted for Projects funded by Certificates of Participation (COP) – Represents unspent COP bond issue proceeds available for construction projects identified in the District's Long-Range Facility Plan.
- D. Restricted for Area Learning Center – Represents available resources for students attending the Area Learning Center. Revenue is derived by state aid and expenditures are for salaries, benefits, and supplies.
- E. Restricted for Debt Service – This amount represents available resources for the payment of long-term debt. Revenues are derived from local tax levies, state aids, and federal sources and expenditures are for principal and interest costs.
- F. Restricted for Food Service - This amount represents available resources for food service programs. Revenues are derived from local, state, and federal sources and expenditures are for salaries, benefits and supplies.
- G. Restricted for Community Education – This amount represents available resources for community education classes. Revenues are derived from local tax levies and state aids and expenditures are for salaries, benefits and supplies.
- H. Restricted for Early Childhood and Family Education (ECFE) – This amount represents available resources for ECFE classes. Revenues are derived from local tax levies and state aids and expenditures are for salaries, benefits and supplies.
- I. Restricted for School Readiness – This amount represents available resources to provide services for learning readiness programs.
- J. Restricted for Adult Basic Education – This amount represents the balance of carryover monies for all activity involving Adult Basic Education
- K. Restricted for Community Service - This amount represents available resources to provide services for community service.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**11. Fund Balance (continued)**

Below is a detail description of the restricted fund balance amount reported on the Balance Sheet on June 30, 2016.

Teacher Development & Eval	\$ 147,962
Alternative facilities	1,058,761
Projects funded by COP	2,069,907
Area Learning Center	414,494
Debt service	51,018,504
Food Service	798,254
Community Education	694,419
Early childhood family education	275,964
School readiness	226,145
Adult basic education	95,360
Community service	30,005
Total Restricted Fund Balance	<u>\$ 56,829,775</u>

**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

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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, 2016:

Annual Required Contribution (ARC)/Annual OPEB Cost	
Annual Required Contribution (ARC)	\$ 2,368,744
Interest on net OPEB obligation	145,845
Adjustment to ARC	(218,135)
Annual OPEB Cost	<u>\$ 2,296,454</u>
Employer contributions	
Implicit subsidy benefits	<u>2,727,097</u>
Decrease in Net OPEB Obligation	\$ (430,643)
Net OPEB obligation, June 30, 2015	3,889,196
Net OPEB obligation, June 30, 2016	<u><u>\$ 3,458,553</u></u>

**Schedule of Employer Contributions**

Fiscal Year Ended	Annual OPEB Cost	Estimated Employer Contribution	% of Annual OPEB Cost Contribution	Net OPEB Obligation
June 30, 2014	\$ 796,219	\$ 595,141	74.7%	\$ 3,712,783
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

*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.



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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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 city of 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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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.

<u>Tier I Benefits</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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, and June 30, 2016, 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	\$ 340,207,590
Deduct employer contributions not related to future contribution efforts	(704,635)
Deduct TRA's contributions not included in allocation	<u>(435,999)</u>
Total employer contributions	\$ 339,066,956
Total non-employer contributions	<u>41,587,410</u>
Total contributions reported in Schedule of Employer and Non-Employer Allocations	<u><u>\$ 380,654,366</u></u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**13. Defined Benefit Pension Plans (Continued)**

**4. Merger of Duluth Teacher's Retirement Fund Association (DTRFA)**

Legislation enacted in 2014 merged the Duluth Teachers Retirement Fund Associated (DTRFA) with TRA effective June 30, 2015. The beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	<b>6/30/14 CAFR</b>	<b>Restated</b>
Total Pension Liability (A)	\$ 24,901,612,000	\$ 25,299,564,000
Plan Fiduciary Net Position (B)	<u>20,293,684,000</u>	<u>20,519,756,000</u>
Net Pension Liability (A-B)	<u>\$ 4,607,928,000</u>	<u>\$ 4,779,808,000</u>

**5. Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2015, 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:**

Measurement Date	June 30, 2015
Valuation Date	July 1, 2015
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0%
Inflation rate	3.0%
Projected Salary Increase	3.5% - 12.0%, based on years of service
Cost of living adjustment	2.0%
Mortality Assumption:	
Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years.
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years.
Post-disability	RP 2000 disabled retiree mortality, without adjustment.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
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	<u>100%</u>	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2015 is 5.73 years. The "Difference Between Expected and Actual Experience" and "Changes of Assumptions" use the amortization period of 5.73 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. The "Changes in Proportion" uses a rounded amortization period of 5.0 years.

**6. Discount Rate**

The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2016 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 available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**13. Defined Benefit Pension Plans (Continued)**

**7. Net Pension Liability**

At June 30, 2016, the District reported a liability of \$44,693,771 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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 .7225% at June 30, 2015.

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	\$	44,693,771
State's proportional share of net pension liability associated with the District	\$	5,481,972

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 with no increase to 2.5 percent projected. The prior year valuation assumed a 2.5 percent increase commencing July 1, 2034.

For the year ended June 30, 2016, the District recognized pension expense of \$11,906,728. It also recognized \$969,142 as an increase to pension expense for the support provided by direct aid.

At June 30, 2016, the District had deferred resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 42,425	
Net difference between projected and actual earnings on plan investments	4,431,793	
Changes in assumptions	3,435,762	
Contributions paid to TRA subsequent to the measurement period	3,385,682	
Changes in proportion	27,627,290	
Total	<u>\$ 38,922,952</u>	<u>\$ -</u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**13. Defined Benefit Pension Plans (Continued)**

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

<u>Year Ended June 30</u>	<u>Pension Expense Amount</u>
2017	\$ 12,135,799
2018	\$ 8,750,117
2019	\$ 8,750,117
2020	\$ 8,750,117
2021	\$ 536,802

**8. Pension Liability Sensitivity**

The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0%, as well as the liability measured using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount Rate	7.00%	8.00%	9.00%
District's proportionate share of the TRA net pension liability	\$ 68,029,704	\$44,693,771	\$ 25,219,260

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.

**9. Pension Plan Fiduciary Net Position**

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**13. Defined Benefit Pension Plans (Continued)**

**B. Public Employees Retirement Association (PERA)**

1. Plan Description

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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 status, or have fallen below 80%, are given 1% increases.

The benefit provisions described 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. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.



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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**13. Defined Benefit Pension Plans (Continued)**

3. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature.

GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% respectively, of their annual covered salary in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2016 were \$1,185,326. 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, 2016, the District reported a liability of \$13,381,264 for its proportionate share of GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.2582%, which was a decrease of 0.0137% from its proportion measured as of June 30, 2014.

GERF benefit provision changes during the measurement period included (1) the merger of the former Minneapolis Employees Retirement Fund division into GERF, effective January 1, 2015, and (2) revisions to Minnesota Statutes to make changes to contribution rates less prescriptive and more flexible.

The discount rate used to calculate liabilities for the June 30, 2015 measurement date was 7.9%. The Legislature has since set the discount rate in statute at 8%. Beginning with the June 30, 2016 measurement date the discount rate used when calculating liabilities based on GASB 68 accounting requirements will be increased to 8% to be consistent with the rate set in statute used for funding purposes.

For the year ended June 30, 2016, the District recognized pension expense of \$1,622,800 for its proportionate share of GERF's pension expense.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**13. Defined Benefit Pension Plans (Continued)**

At June 30, 2016, the District reported its proportionate share of the GERS's deferred outflows or resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 543,964
Changes in actuarial assumptions	877,555	
Net difference between projected and actual earnings on plan investments		1,321,596
Changes in proportion		482,668
Contributions paid to PERA subsequent to the measurement date	1,185,326	
Total	<u>\$ 2,062,881</u>	<u>\$ 2,348,228</u>

\$1,185,326 reported as a deferred outflow resources related to pensions resulting from the District's contribution to GERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Year Ended June 30	Pension Expense Amount
2017	\$ (427,747)
2018	(427,747)
2019	(931,863)
2020	316,684
2021	-

**5. Actuarial Assumptions**

The total pension liability in the June 30, 2015 actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**13. Defined Benefit Pension Plans (Continued)**

Salary increases were based on a service-related table. Mortality rates for active members, retiree, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimates 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 arithmetic real rates of return for each major asset class are summarized in the following table:

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

**6. Discount Rate**

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on these assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 table 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:

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**13. Defined Benefit Pension Plans (Continued)**

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	6.90%	7.90%	8.90%
District's proportionate share of the PERA net pension liability	\$ 21,040,103	\$ 13,381,264	\$ 7,056,239

**8. Pension Plan Fiduciary Net Position**

Detailed information about GERP's fiduciary net position is available in a separately-issued PERA financial report. That report can be obtained at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, #200, St. Paul, Minnesota, 55103-2088; or by calling (651)296-7460 or 1-800-652-9026.

**14. Expenditures Over Budget**

The following funds had expenditures in excess of appropriations for the year ended June 30, 2016:

Fund	Final Budget	Expenditures	Excess
Community Service	\$ 7,001,751	\$ 7,184,207	\$ (182,456)

**15. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**15. Dental Self-Insurance Plan (Continued)**

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

Fiscal Year Ended June 30	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2015	\$ 66,550	\$ 750,349	\$ 740,996	\$ 75,903
2016	75,903	773,376	771,411	77,868

**16. 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.

**17. Commitments**

At June 30, 2016, the District had commitments under various construction and service contracts totaling \$2,741,770. The construction commitments will be paid by the Capital Projects Fund.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**18. 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.

**19. Future Accounting Standards**

Government Accounting Standards Board (GASB) Statement No.75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, is effective for the District for the year ended June 30, 2018. This statement replaces the requirements of GASB 45, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement established 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 to 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.

**20. Subsequent Event**

Bond Refunding

On August 17, 2016, the District issued \$82,605,000 in Full Term Refunding Certificates of Participation (Series 2016A). The proceeds of the issuance have been placed in an escrow account to be used to pay the principal and interest obligations of Bond Series 2008B from 2/1/2017 until the call date of 2/1/2019. At that time, the balance of Bond Series 2008B will be redeemed.

**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, 2016**  
**With Comparative Actual Amounts for the Year Ended June 30, 2015**

	Budget			Over (Under)	Prior Year
	Original	Final	Actual	Final Budget	Actual Restated
<b>Revenues</b>					
Local property tax levies	\$ 10,689,404	\$ 10,689,404	\$ 10,364,262	\$ (325,142)	\$ 11,885,432
Interest income	59,099	44,099	46,758	2,659	41,062
Other local and county	2,816,749	3,257,933	4,135,457	877,524	4,411,637
State sources	82,894,905	82,197,600	78,961,138	(3,236,462)	77,281,302
Federal sources	6,408,584	7,138,729	6,293,531	(845,198)	6,932,240
Insurance/Judgement recovery			3,365	3,365	69,943
Sales and other conversions of assets	541,772	546,447	772,435	225,988	649,603
<b>Total Revenues</b>	<b>\$ 103,410,513</b>	<b>\$ 103,874,212</b>	<b>\$ 100,576,946</b>	<b>\$ (3,297,266)</b>	<b>\$ 101,271,219</b>
<b>Expenditures</b>					
Administration	\$ 5,051,112	\$ 5,719,162	\$ 5,178,207	\$ 540,955	\$ 4,827,951
District support services	3,494,222	4,394,426	3,742,130	652,296	3,963,373
Regular instruction	41,455,553	42,515,183	43,642,035	(1,126,852)	44,311,653
Vocational instruction	1,223,116	1,251,367	1,270,918	(19,551)	1,105,908
Special education instruction	21,680,177	21,650,173	22,447,130	(796,957)	22,064,993
Instructional support services	4,048,158	5,104,899	5,609,660	(504,761)	5,248,774
Pupil support services	8,259,857	8,313,222	7,548,385	764,837	7,486,867
Sites, buildings and equipment	9,863,673	7,986,672	7,548,440	438,232	7,598,980
Fiscal and other fixed cost programs	4,000,000	3,682,163	340,448	3,341,715	413,489
Debt Service					
Principal	1,780,000	1,780,000	1,780,000	-	1,730,000
Interest	1,608,785	1,608,785	1,608,785	-	1,674,360
Capital outlay	989,147	959,389	757,674	201,715	1,269,354
<b>Total Expenditures</b>	<b>\$ 103,453,800</b>	<b>\$ 104,965,441</b>	<b>\$ 101,473,812</b>	<b>\$ 3,491,629</b>	<b>\$ 101,695,702</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (43,287)</b>	<b>\$ (1,091,229)</b>	<b>\$ (896,866)</b>	<b>\$ 194,363</b>	<b>\$ (424,483)</b>
<b>Other Financing Sources (Uses)</b>					
Sale of property	\$ -	\$ -	\$ 298,462	\$ 298,462	\$ -
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 298,462</b>	<b>\$ 298,462</b>	<b>\$ -</b>
<b>Net change in fund balance</b>	<b>\$ (43,287)</b>	<b>\$ (1,091,229)</b>	<b>\$ (598,404)</b>	<b>\$ 492,825</b>	<b>\$ (424,483)</b>
<b>Fund Balance</b>					
Beginning of Year, restated			\$ 3,695,052		\$ 4,119,535
End of Year			\$ 3,096,648		\$ 3,695,052



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

**INFORMATION ABOUT THE DISTRICT'S OTHER POSTEMPLOYMENT  
HEALTH CARE PLAN  
June 30, 2016**

**Statement A- 2**

**Funded Status**

(a)	(b)	(c)	(d)=(c)-(b)	(e)=(b)/(c)	(f)	(g)=(d)/(f)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Estimated Covered Payroll	UAAAL 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 (UAAAL) 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, 2016

Statement A- 3

**Schedule of Employer Share of Net Pension Liability**

**A. Teacher's Retirement Association (TRA)/Duluth Teachers Retirement Fund Assn (DTRFA)**

Source	Measurement Date	
	June 30, 2015	June 30, 2014
District's proportion of the net pension liability	0.7225%	31.6004%
District's proportionate share of the net pension liability	\$ 44,693,771	81,187,076
State's proportionate share of the net pension liability	\$ 5,481,972	174,283,071
Total	\$ 50,175,743	255,470,147
District's covered-employee payroll	\$ 36,668,947	42,238,042
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	121.9%	192.2%
Plan fiduciary net position as a percentage of the total pension liability	76.8%	46.8%

**B. Public Employees Retirement Association (PERA)**

Source	Measurement Date	
	June 30, 2015	June 30, 2014
District's proportion of the net pension liability	0.2582%	0.2719%
District's proportionate share of the net pension liability	\$ 13,381,264	12,772,500
District's covered-employee payroll	\$ 14,926,453	14,262,165
District's proportionate share of the net pension liability (asset)	89.60%	89.60%
Plan fiduciary net position as a percentage of the total pension liability	78.2%	78.7%

**Schedule of Employer Contributions**

**A. Teacher's Retirement Association (TRA)**

Source	Fiscal Year End	
	June 30, 2016	June 30, 2015
Statutorily required contribution	\$ 3,385,682	2,750,171
Contributions in relation to the statutorily required contribution	\$ 3,385,682	2,750,171
Contribution deficiency (excess)	\$ -	-
District's covered-employee payroll	\$ 45,142,425	36,668,947
Contributions as a percentage of covered-employee payroll	7.50%	7.50%

**B. Public Employees Retirement Association (PERA)**

Source	Fiscal Year End	
	June 30, 2016	June 30, 2015
Statutorily required contribution	\$ 1,185,326	1,119,484
Contributions in relation to the statutorily required contribution	\$ 1,185,326	1,119,484
Contribution deficiency (excess)	\$ -	-
District's covered-employee payroll	\$ 15,804,347	14,926,453
Contributions as a percentage of covered-employee payroll	7.50%	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, 2016  
With Comparative Actual Amounts for the Year Ended June 30, 2015

	Budget		Actual	Over (Under) Final Budget	Prior Year Actual
	Original	Final			
<b>Revenues</b>					
Local property tax levies	\$ 1,018,493	\$ 1,018,493	\$ 1,018,493	\$	\$ 921,470
Interest income	-	-	1,969	1,969	1,070
Other local and county			-	-	5,236
State sources	168,064	168,064	168,064		168,064
<b>Total Revenues</b>	<u>\$ 1,186,557</u>	<u>\$ 1,186,557</u>	<u>\$ 1,188,526</u>	<u>\$ 1,969</u>	<u>\$ 1,095,840</u>
<b>Expenditures</b>					
Sites, buildings and equipment	\$ 170,000	\$ 316,360	\$ 302,644	\$ 13,716	\$ 249,381
Capital Outlay	5,067,509	4,921,149	3,355,353	1,565,796	1,479,456
<b>Total Expenditures</b>	<u>\$ 5,237,509</u>	<u>\$ 5,237,509</u>	<u>\$ 3,657,997</u>	<u>\$ 1,579,512</u>	<u>\$ 1,728,837</u>
Net change in fund balance	<u>\$ (4,050,952.00)</u>	<u>\$ (4,050,952)</u>	<u>\$ (2,469,471)</u>	<u>\$ 1,581,481</u>	<u>\$ (632,997)</u>
<b>Fund Balance</b>					
Beginning of Year			5,598,139		6,231,136
End of Year			<u>\$ 3,128,668</u>		<u>\$ 5,598,139</u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Statement C-1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
DEBT SERVICE FUND  
BUDGET AND ACTUAL  
Year Ended June 30, 2016  
With Comparative Actual Amounts for the Year Ended June 30, 2015

	Budget			Over (Under)	Prior Year
	Original	Final	Actual	Final Budget	Actual
<b>Revenues</b>					
Local property tax levies	\$ 18,009,775	\$ 18,009,775	\$ 19,112,825	\$ 1,103,050	\$ 19,002,903
Interest income			1,367,257	1,367,257	(255,080)
State sources	1,960,300	1,960,300	2,090,428	130,128	2,115,174
Federal sources	969,687	969,687	972,302	2,615	1,005,260
Total Revenues	\$ 20,939,762	\$ 20,939,762	\$ 23,542,812	\$ 2,603,050	\$ 21,868,257
<b>Expenditures</b>					
Principal	\$ 11,455,000	\$ 11,980,000	\$ 11,980,000	\$ -	\$ 11,315,000
Interest and fiscal charges	9,455,333	10,808,567	10,803,367	5,200	9,986,060
Total Expenditures	\$ 20,910,333	\$ 22,788,567	\$ 22,783,367	\$ 5,200	\$ 21,301,060
Excess (Deficiency) of Revenues Over Expenditures	\$ 29,429	\$ (1,848,805)	\$ 759,445	\$ 2,608,250	\$ 567,197
<b>Other Financing Sources (Uses)</b>					
Proceeds from bonds and loans, net	\$ -	\$ -	\$ -	\$ -	\$ 44,320,000
Premium on bonds			-	-	3,461,620
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -	\$ 47,781,620
Net change in fund balance	\$ 29,429	\$ (1,848,805)	\$ 759,445	\$ 2,608,250	\$ 48,348,817
<b>Fund Balance</b>					
Beginning of Year			50,259,059		1,910,242
End of Year			\$ 51,018,504		\$ 50,259,059

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Statement D-1

**COMBINING BALANCE SHEET  
OTHER FUNDS  
JUNE 30, 2016  
With Comparative Amounts at June 30, 2015**

	Food Service Fund	Community Services Fund	Totals	
			2016	2015
<b>Assets</b>				
Cash and investments	\$ 853,799	\$ 1,385,030	\$ 2,238,829	\$ 922,588
Taxes and credits receivable		594,616	594,616	635,531
Accounts and interest receivable	9,681	28,337	38,018	11,928
Due from				
Department of Education		400,338	400,338	311,307
Federal through Department of Education	60,639	80,889	141,528	249,605
Federal - direct		694,299	694,299	1,971,525
Inventory	102,138		102,138	94,318
Prepayments	979	6,697	7,676	6,913
<b>Total Assets</b>	<b>\$ 1,027,236</b>	<b>\$ 3,190,206</b>	<b>\$ 4,217,442</b>	<b>\$ 4,203,715</b>
<b>Deferred Outflows of Resources</b>				
Total assets and deferred outflows of resources	<u>\$ 1,027,236</u>	<u>\$ 3,190,206</u>	<u>\$ 4,217,442</u>	<u>\$ 4,203,715</u>
<b>Liabilities</b>				
Salaries payable	\$ 48,346	\$ 541,559	\$ 589,905	\$ 457,101
Accounts payable	77,519	108,009	185,528	140,378
Due to				
Other funds		116,619	116,619	281,558
Unearned revenue		685	685	52,063
<b>Total Liabilities</b>	<u>\$ 125,865</u>	<u>\$ 766,872</u>	<u>\$ 892,737</u>	<u>\$ 931,100</u>
<b>Deferred Inflows of Resources</b>				
Property taxes levied for subsequent year's expenditures	\$	\$ 1,020,508	\$ 1,020,508	\$ 1,054,559
Unavailable revenue - delinquent property taxes		74,236	74,236	84,763
<b>Total Deferred Inflows of Resources</b>	<u>\$</u>	<u>\$ 1,094,744</u>	<u>\$ 1,094,744</u>	<u>\$ 1,139,322</u>
<b>Fund Balance</b>				
NonSpendable:				
Inventory	\$ 102,138	\$	\$ 102,138	\$ 94,318
Prepayments	979	6,697	7,676	6,913
Restricted for:				
Community education		694,419	694,419	533,979
Early childhood family education		275,964	275,964	268,103
School readiness		226,145	226,145	87,770
Adult basic education		95,360	95,360	166,506
Community service		30,005	30,005	45,887
Food service	798,254		798,254	929,817
<b>Total Fund Balance</b>	<u>\$ 901,371</u>	<u>\$ 1,328,590</u>	<u>\$ 2,229,961</u>	<u>\$ 2,133,293</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<u>\$ 1,027,236</u>	<u>\$ 3,190,206</u>	<u>\$ 4,217,442</u>	<u>\$ 4,203,715</u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Statement D-2

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

Year Ended June 30, 2016

With Comparative Actual Amounts for the Year Ended June 30, 2015

	Food Service Fund	Community Services Fund	Totals	
			2016	2015
<b>Revenues</b>				
Local property tax levies	\$	\$ 982,312	\$ 982,312	\$ 972,115
Other local and county	10,029	2,069,016	2,079,045	1,835,681
State sources	232,015	2,273,412	2,505,427	2,305,858
Federal sources	2,369,971	2,079,868	4,449,839	4,517,751
Sales and other conversions of assets	1,157,949		1,157,949	1,189,912
	<u>\$ 3,769,964</u>	<u>\$ 7,404,608</u>	<u>\$ 11,174,572</u>	<u>\$ 10,821,317</u>
<b>Expenditures</b>				
Community education and services	\$	\$ 7,178,050	\$ 7,178,050	\$ 6,703,902
Pupil support services	3,817,923		3,817,923	3,764,136
Capital outlay	75,774	6,157	81,931	153,793
	<u>\$ 3,893,697</u>	<u>\$ 7,184,207</u>	<u>\$ 11,077,904</u>	<u>\$ 10,621,831</u>
<b>Net change in fund balance</b>	\$ (123,733)	\$ 220,401	\$ 96,668	\$ 199,486
<b>Fund Balance</b>				
Beginning of Year	<u>1,025,104</u>	<u>1,108,189</u>	<u>2,133,293</u>	<u>1,933,807</u>
End of Year	<u>\$ 901,371</u>	<u>\$ 1,328,590</u>	<u>\$ 2,229,961</u>	<u>\$ 2,133,293</u>

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

Schedule E - 1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOOD SERVICE FUND  
BUDGET AND ACTUAL  
Year Ended June 30, 2016  
With Comparative Actual Amounts for the Year Ended June 30, 2015

	Budget			Over (Under)	Prior Year
	Original	Final	Actual	Final Budget	Actual
<b>Revenues</b>					
Other local and county	\$ 13,800	\$ 13,800	\$ 10,029	\$ (3,771)	\$ 6,089
State sources	156,000	156,000	232,015	76,015	208,180
Federal sources	2,264,312	2,279,642	2,369,971	90,329	2,446,825
Sales and other conversions of assets	1,205,500	1,205,500	1,157,949	(47,551)	1,189,912
Total Revenues	\$ 3,639,612	\$ 3,654,942	\$ 3,769,964	\$ 115,022	\$ 3,851,006
<b>Expenditures</b>					
Pupil support services	\$ 3,867,630	\$ 3,905,635	\$ 3,817,923	\$ 87,712	\$ 3,764,136
Capital outlay	34,000	72,698	75,774	(3,076)	141,453
Total Expenditures	\$ 3,901,630	\$ 3,978,333	\$ 3,893,697	\$ 84,636	\$ 3,905,589
Excess (Deficiency) of Revenues Over Expenditures	\$	\$ (323,391)	\$ (123,733)	\$ 199,658	\$ (54,583)
<b>Fund Balance</b>					
Beginning of Year			1,025,104		1,079,687
End of Year			\$ 901,371		\$ 1,025,104



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, 2016  
With Comparative Actual Amounts for the Year Ended June 30, 2015

	Budget			Over (Under)	Prior Year
	Original	Final	Actual	Final Budget	Actual
<b>Revenues</b>					
Local property tax levies	\$ 962,959	\$ 962,959	\$ 982,312	\$ 19,353	\$ 972,115
Other local and county	1,755,325	1,786,118	2,069,016	282,898	1,829,592
State sources	1,911,585	2,009,709	2,273,412	263,703	2,097,678
Federal sources	1,934,625	1,935,740	2,079,868	144,128	2,070,926
Total Revenues	\$ 6,564,494	\$ 6,694,526	\$ 7,404,608	\$ 710,082	\$ 6,970,311
<b>Expenditures</b>					
Community education and services	\$ 6,859,588	\$ 6,987,832	\$ 7,178,050	\$ (190,218)	\$ 6,703,902
Capital outlay	11,824	13,919	6,157	7,762	12,340
Total Expenditures	\$ 6,871,412	\$ 7,001,751	\$ 7,184,207	\$ (182,456)	\$ 6,716,242
Net change in fund balance	\$ (306,918)	\$ (307,225)	\$ 220,401	\$ 527,626	\$ 254,069
<b>Fund Balance</b>					
Beginning of Year			1,108,189		854,120
End of Year			\$ 1,328,590		\$ 1,108,189

**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, 2016**

<b>Activity</b>	<b>Cash Balance 6/30/2015</b>	<b>Receipts and Transfers In</b>	<b>Disbursements and Transfers Out</b>	<b>Cash Balance 6/30/2016</b>
<b>High Schools</b>				
Denfeld	\$ 398,042	\$ 450,530	\$ 494,494	\$ 354,077
East	275,426	763,857	727,481	311,802
<b>Total High Schools</b>	<b>\$ 673,468</b>	<b>\$ 1,214,386</b>	<b>\$ 1,221,975</b>	<b>\$ 665,879</b>
<b>Middle Schools</b>				
Lincoln Park	\$ 53,346	\$ 24,961	\$ 28,209	\$ 50,098
Ordean East	137,266	40,565	60,532	117,299
<b>Total Middle Schools</b>	<b>\$ 190,612</b>	<b>\$ 65,527</b>	<b>\$ 88,741</b>	<b>\$ 167,398</b>
<b>Elementary Schools</b>				
Congdon Park	\$ 12,024	\$ 60,607	\$ 61,344	\$ 11,287
Homecroft	19,576	29,695	39,028	10,244
Lakewood	20,263	6,339	2,998	23,604
Laura MacArthur	17,017	26,476	24,737	18,756
Lester Park	24,466	44,350	43,627	25,189
Lowell	8,361	4,088	3,880	8,569
Myers-Wilkins	62,309	17,845	15,854	64,300
Piedmont	10,706	39,818	41,151	9,373
Stowe	46,828	19,086	18,958	46,956
<b>Total Elementary Schools</b>	<b>\$ 221,550</b>	<b>\$ 248,303</b>	<b>\$ 251,577</b>	<b>\$ 218,276</b>
<b>ALC/Unity</b>	<b>\$ 23,151</b>	<b>\$ 1,329</b>	<b>\$ 7,734</b>	<b>\$ 16,746</b>
<b>Barnes Early Childhood</b>	<b>4,537</b>	<b>4,149</b>	<b>3,598</b>	<b>5,088</b>
<b>Merritt Creek Academy</b>	<b>860</b>	<b>362</b>	<b>120</b>	<b>1,101</b>
<b>Public School Stadium</b>	<b>1,884</b>	<b>17,538</b>	<b>17,663</b>	<b>1,758</b>
<b>Woodland Hills</b>	<b>3,008</b>	<b>1,240</b>	<b>2,791</b>	<b>1,456</b>
<b>Total Student Activities</b>	<b>\$ 1,119,069</b>	<b>\$ 1,552,833</b>	<b>\$ 1,594,200</b>	<b>\$ 1,077,702</b>
<b>District Funds</b>				
Co-curricular	\$ 969,187	\$ 1,328,003	\$ 1,364,239	\$ 932,951
Extra-curricular	149,882	224,830	229,961	144,751
<b>Total Funds</b>	<b>\$ 1,119,069</b>	<b>\$ 1,552,833</b>	<b>\$ 1,594,200</b>	<b>\$ 1,077,702</b>

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

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

FISCAL COMPLIANCE TABLE  
FOR THE YEAR ENDED JUNE 30, 2016

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total revenues	\$ 100,576,946	\$ 100,576,947	\$ (1)	Total revenues	\$ 1,188,526	\$ 1,188,526	\$
Total expenditures	101,473,812	101,473,812		Total expenditures	3,657,997	3,657,997	
Non spendable				Non spendable			
460 Non spendable fund balance	174,756	174,756		460 Non spendable fund balance			
Restricted/Reserve				Restricted/Reserve			
403 Staff development				407 Down payment levy			
405 Deferred maintenance				409 Alternative facility program	1,058,761	1,058,761	
406 Health and safety				413 Projects funded by COP	2,069,907	2,069,907	
407 Capital Projects Levy				Restricted			
408 Cooperative revenue				464 Restricted fund balance			
411 Severance pay				Unassigned			
413 Project funded by COP				463 Unassigned fund balance			
414 Operating debt							
416 Levy reduction				<b>07 DEBT SERVICE</b>			
417 Taconite building maintenance				Total revenues	23,542,812	23,542,812	
423 Certain teacher programs				Total expenditures	22,783,367	22,783,367	
424 Operating capital				Non spendable			
426 \$25 Taconite				460 Non spendable fund balance			
427 Disabled accessibility				Restricted/Reserve			
428 Learning and development				425 Bond refundings	46,314,997	46,314,997	
434 Area learning center	414,494	414,494		451 QZAB payments			
435 Contracted alt. Programs				Restricted			
436 St. approved alt. Program				464 Restricted fund balance	4,703,507	4,703,507	
438 Gifted & talented				Unassigned			
440 Teacher Development and Eval	147,962	147,962		463 Unassigned fund balance			
441 Basic skills program							
445 Career and technical Programs				<b>08 TRUST</b>			
446 First Grade Preparedness				Total revenues	291,946	291,945	1
448 Safe schools levy				Total expenditures	200,000	200,000	
450 Prekindergarten				422 Net position	1,907,962	1,907,962	
451 QZAB payments							
452 OPEB liability not in trust				<b>20 INTERNAL SERVICE</b>			
453 Unfunded sev & retirement levy				Total revenues	831,494	831,494	
Restricted				Total expenditures	773,376	773,376	
464 Restricted fund balance				422 Net position	133,260	133,260	
Committed							
418 Committed for separation				<b>25 OPEB REVOCABLE TRUST FUND</b>			
461 Committed fund balance				Total revenues			
Assigned				Total expenditures			
462 Assigned fund balance				422 Net position			
Unassigned							
422 Unassigned fund balance	2,359,436	2,359,436		<b>45 OPEB IRREVOCABLE TRUST FUND</b>			
				Total revenues			
<b>02 FOOD SERVICE</b>				Total expenditures			
Total revenues	3,769,964	3,769,964		422 Net position			
Total expenditures	3,893,697	3,893,696	(1)				
Non spendable				<b>47 OPEB DEBT SERVICE FUND</b>			
460 Non spendable fund balance	103,117	103,117		Total revenues			
Restricted				Total expenditures			
452 OPEB liability not in trust				Non spendable			
464 Restricted fund balance	798,254	798,254		460 Non spendable fund balance			
Unassigned				Restricted			
463 Unassigned fund balance				425 Bond refundings			
				464 Restricted fund balance			
<b>04 COMMUNITY SERVICE</b>				Unassigned			
Total revenues	7,404,608	7,404,608		463 Unassigned fund balance			
Total expenditures	7,184,207	7,184,207					
Non spendable							
460 Non spendable fund balance	6,697	6,697					
Restricted/Reserve							
426 \$25 Taconite							
431 Community education	694,419	694,419					
432 ECFE	275,964	275,965	(1)				
440 Teacher dev and evaluation							
444 School readiness	226,145	226,145					
447 Adult Basic Education	95,360	95,360					
452 OPEB liability not in trust							
Restricted							
464 Restricted fund balance	30,005	30,005					
Unassigned							

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



## **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, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2016.

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*, except as described in the accompanying schedule of findings and responses. 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 District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in black ink that reads "Wipfli LLP".

Wipfli LLP

December 12, 2016  
Duluth, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 709  
DULUTH, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2016

MSA 118A (subd. 9) requires that annually, prior to an initial investment transaction with each broker, the District provide a written statement of investment restrictions to the broker (broker's acknowledgement form). The broker must acknowledge receipt of the investment restrictions and agree to handle the District's account in accordance with those restrictions. The District did not provide or obtain the required statement from a broker during the year.

**DISTRICT'S CORRECTIVE ACTION PLAN (CAP)**

1. Explanation of Disagreement

The District does not disagree with the audit finding.

2. Action Planned

The District will obtain the required statement from each broker.

3. Official Responsible

The Superintendent and Business Manager.

4. Planned Completion Date

Immediately.

5. Plan to Monitor

The School Board will monitor compliance with the corrective action plan.