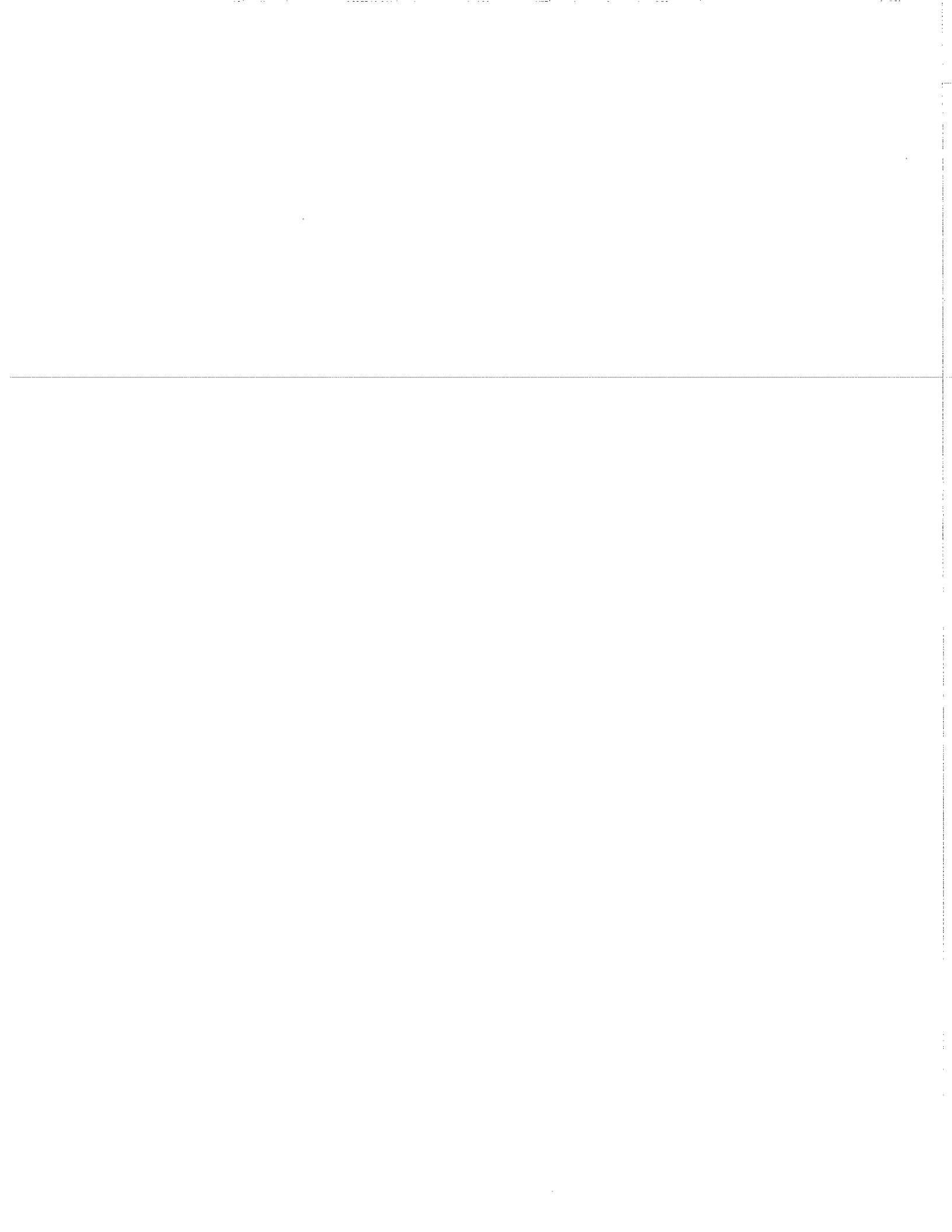


FINANCIAL STATEMENTS

**INDEPENDENT SCHOOL DISTRICT NO. 2689
PIPESTONE AREA SCHOOLS
PIPESTONE, MINNESOTA 56164**

FOR THE YEAR ENDING JUNE 30, 2019

**Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
P.O. Box 707
Pipestone, Minnesota 56164**



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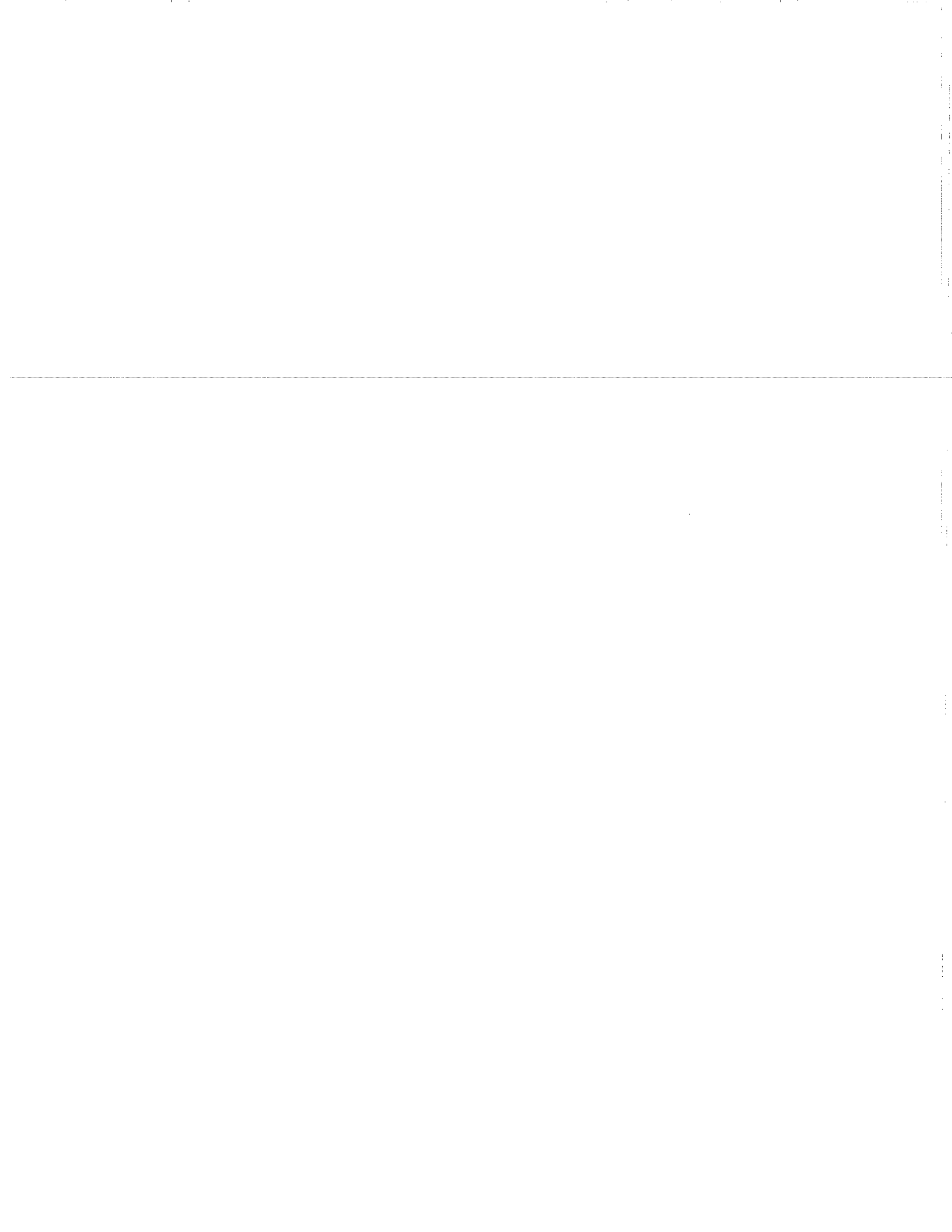
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Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

BOARD OF EDUCATION AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2019

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Wendy Claussen-Schoolmeester	Chairman (1/1/16-12/31/18)	12/31/18
Jeff Baatz	Chairman (1/1/19-present) Clerk (1/1/17-12/31/18)	12/31/22
Randy Erdman	Vice Chairman (1/1/19-present) Director (1/1/17-12/31/18)	12/31/20
Lance Oye	Clerk (1/1/19-present) Director (1/1/16-12/31/18)	12/31/20
Tami Taubert	Treasurer (1/1/17 – 12/31/18)	12/31/18
Katie Wiese	Treasurer (1/1/19-present) Director (1/1/17-12/31/18)	12/31/20
Marcy Pals	Director (1/1/19-present) Vice Chairman (1/1/17-12/31/18)	12/31/20
Brad Carson	Director (1/1/19-present)	12/31/22
Amy Nelson	Director (1/1/19-present)	12/31/22

ADMINISTRATIVE PERSONNEL

Kevin Enerson	Superintendent
Jacque Kennedy	Business Manager

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MEULEBROECK, TAUBERT & CO., PLLP
CERTIFIED PUBLIC ACCOUNTANTS

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507 247-3939
Lake Wilson, Minnesota 56151
507 879-3538
Marshall, Minnesota 56258
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Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
Daryl J. Kanthak, CPA
Blake R. Klinsing, CPA
Amy L. Mollberg, CPA

WITH THE FIRM

David L. Meulebroeck, CPA

INDEPENDENT AUDITOR'S REPORT

To The Board of Education
Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Independent School District No. 2689, Pipestone Area Schools, Pipestone, Minnesota, as of and for the year ended June 30, 2019, 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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financials 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The prior year partial comparative information has been derived from the District's financial statements for the year ended June 30, 2018, and in our report dated October 24, 2018, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

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 risk 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 and each major fund of the Independent School District No. 2689, Pipestone Area Schools, Pipestone, Minnesota as of June 30, 2019, and the respective changes in financial position, and the respective budgetary comparison for General Fund and the Major Special Revenue Funds (Food Service and Community Service) for the year ended in conformity with accounting principles generally accepted in the United States of America.

Report on Partial Comparative Information

We have previously audited the district's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Change in Accounting Principle

As Described in Note 1 to the financial statements, in fiscal year 2018 the District adopted new accounting guidance *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions (OPEB)*. Our opinion is not modified with respect to this matter.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 8-15, the Schedules of Proportionate Share of the Net Pension Liability and Employer Contributions, Schedule of Changes in the Districts Net OPEB Liability and Related Ratios on pages 65-67 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 2689's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 of America. In our opinion, the combining and individual fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2019, on our consideration of the Independent School District No. 2689's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Independent School District No. 2689's internal control over financial reporting and compliance.

Meulebroeck, Taubert & Co., PLLP
Meulebroeck, Taubert Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

October 16, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2019

This section of the Independent School District No. 2689's annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the other components of the District's annual financial report.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 -- *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments* issued in June 1999. Certain comparative information between the current year and the prior year is presented in the MD&A.

Financial Highlights

Key financial highlights for the 2018-2019 fiscal year include the following:

- Net position increased by \$4,977,352, or 184.0% over June 30, 2018 mainly due to an increase in inflows pertaining to GASB 68.
- Fund Balance decreased by \$92,254, or 1.6% over June 30, 2018.
- Total governmental revenues increased by \$589,184 or 3.6% in comparison to fiscal year 2018, while governmental expenditures decreased \$432,739 or 2.5% in comparison to fiscal year 2018.

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 basic financial statements include District-wide financial statements and fund financial statements and the notes to the financial statements.

Government-Wide Statements

The government-wide statements (statement of net position and statement of activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position -- the difference between the District's assets and liabilities -- is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. You also need to consider other nonfinancial factors, however, such as changes in the District's property tax base, pupil enrollment, and the condition of school facilities.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Fund Financial Statements

The fund financial statements include more detailed information about a District's individual funds.

The District maintains the following funds:

Governmental Funds - The District's services are included in this type of fund, which generally focuses on 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's activities. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

Fiduciary Funds – The district is the trustee, or fiduciary, for assets that belong to others. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The student activity fund is reported as an agency fund. All of the district's fiduciary activities are reported in a separate Statement of Cash Receipts and Disbursements. We exclude these activities from the district-wide financial statements because the district cannot use these assets to finance its operations.

Financial Analysis of the District As A Whole

As noted, net position may serve over time as a useful indicator of a government's financial position. In the case of the Independent School District No. 2689, assets exceeded liabilities by \$7,682,733 at the close of the most recent fiscal year. This was an increase of \$4,977,352 or 184.0% from the previous year total of \$2,705,381.

Table 1 is a summarized view of the District's Statement of Net Position.

Table 1		
Statement of Net Position		
As of June 30, 2019		
	<u>2019</u>	<u>2018</u>
Assets		
Current and other assets	10,678,195	10,315,060
Capital assets, net of depreciation	15,244,427	15,667,314
Total Assets	25,922,622	25,982,374
 Deferred Outflows of Resources		
Related to Pensions	<u>7,559,487</u>	<u>11,124,916</u>
Total Assets and Deferred Outflows of Resources	<u>33,482,109</u>	<u>37,107,290</u>
 Liabilities		
Current and other liabilities	1,854,020	1,496,518
Long-term liabilities, including due within one year	<u>10,392,888</u>	<u>25,580,122</u>
Total Liabilities	12,246,908	27,076,640
 Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year	3,101,230	2,956,567
Related to Pensions	<u>10,451,238</u>	<u>4,368,702</u>
Total Deferred Inflows of Resources	13,552,468	7,325,269
 Net Position		
Net Investment in capital assets	13,012,427	11,872,314
Restricted	1,848,902	1,716,203
Unrestricted	<u>(7,178,596)</u>	<u>(10,896,254)</u>
Net Position	<u>7,682,733</u>	<u>2,705,381</u>
Total Liabilities, Deferred Inflows of Resources & Net Position	<u>33,482,109</u>	<u>37,107,290</u>

The District's financial position is the product of numerous factors. Therefore, it is important to view the net position as a starting point to evaluate future years' results, rather than to just focus on the current balance.

Table 2 presents a condensed version of the change in net position of the District.

Table 2
Change in Net Position
For the year ended June 30, 2019

Revenues	<u>2019</u>	<u>2018</u>
Program Revenues		
Charges for Services	664,835	717,015
Operating Grants and Contributions	3,811,358	3,685,113
General Revenues		
Property Taxes	2,497,922	3,139,610
Unrestricted Federal and State Aid	9,721,918	8,630,817
Earnings on Investments	99,463	44,111
Other	<u>300,150</u>	<u>343,125</u>
Total revenues	17,095,646	16,559,791
 Expenses		
District and School Administration	914,932	907,881
District Support Services	414,364	332,465
Regular Instruction	2,371,548	9,622,163
Vocational Instruction	306,060	319,548
Exceptional Instruction	2,234,661	2,205,297
Instructional Support Services	658,340	693,619
Pupil Support Services	1,410,963	1,576,631
Site, Buildings, and Equipment	2,416,243	1,980,006
Fiscal and Other Fixed Cost Programs	88,298	84,445
Food Service	804,134	930,690
Community Service	427,812	476,651
Interest and Fiscal Charges on Long-term Liabilities	<u>70,939</u>	<u>87,035</u>
Total expenses	<u>12,118,294</u>	<u>19,216,431</u>
 Change in net position	4,977,352	(2,656,640)
 Beginning net position, as originally stated	2,705,381	5,589,991
Prior Period Adjustment		<u>(227,970)</u>
Beginning net position, as restated	<u>2,705,381</u>	<u>5,362,021</u>
Ending net position	<u>7,682,733</u>	<u>2,705,381</u>

The district's total revenue consisted of program revenues of \$4,476,193, property taxes of \$2,497,922, federal and state aid not restricted to specific purposes of \$9,721,918, unrestricted investment earnings of \$99,463 and other revenues of \$300,150.

The cost of all governmental activities this year was \$12,118,294.

- The users of the district programs paid for \$664,835 or 5.5% of the total costs.
- Operating grants and contributions consisting of federal and state aids restricted for specific purposes and donations totaled \$3,811,358 or 31.5% of total costs.
- The state government subsidized certain programs with aid not restricted for specific purposes. This totaled \$9,721,918 or 80.2% of total costs.

Figure A and Figure B show further analysis of these revenue sources and expenditure functions.

Figure A - Sources of Revenue for Fiscal Year 2019

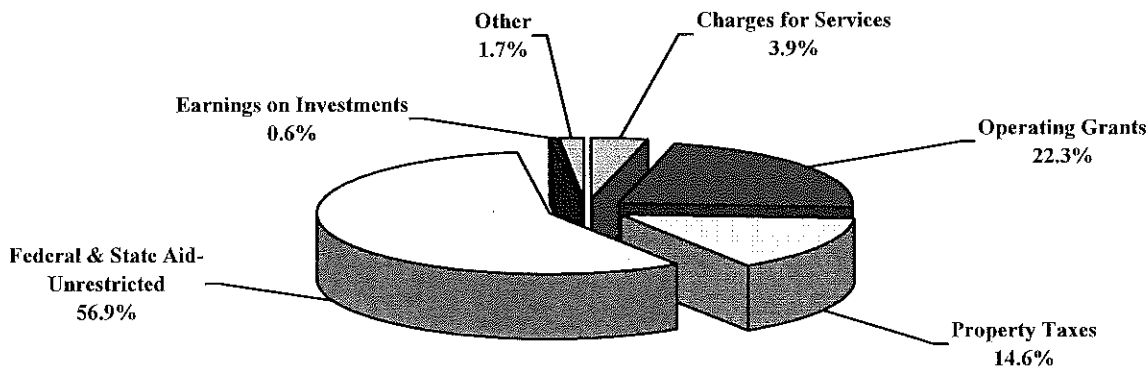
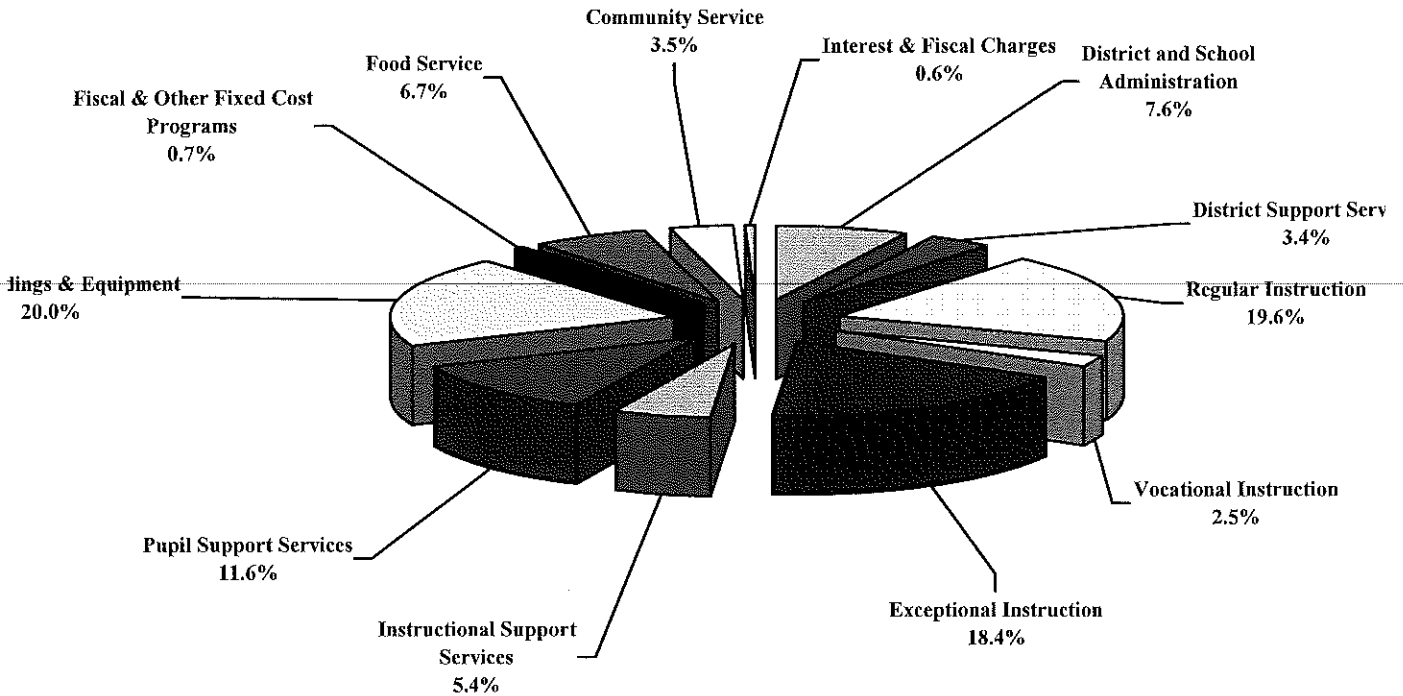


Figure B - Expenses for Fiscal Year 2019



Financial Analysis of the District's Funds (Fund Financial Statements)

Fund Balance

The financial performance of the district as a whole is reflected in its governmental funds as well. As the district completed the year, the governmental funds reported a combined fund balance of \$5,667,556, which is a decrease of \$92,254 over the prior year fund balance of \$5,759,810. The General Fund increase of \$50,064 is mainly due to increased revenue. The Food Service Fund had an increase of \$93,067, which was due mainly to decreased expenditures. The Community Service Fund had an increase of \$83,319, mainly due to an increase in revenues. The Capital Projects Fund had a decrease of \$327,714, due to the new building project expenditures. The Debt Service Fund had an increase of \$9,010.

Revenues and Expenditures

Revenues of the district's governmental funds totaled \$17,115,841 while total expenditures were \$17,208,095. A summary of the revenues and expenditures reported on the governmental financial statements is as follows:

	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	14,160,318	14,110,254	-0-	50,064
Food Service Fund	896,024	802,957	-0-	93,067
Community Service Fund	511,131	427,812	-0-	83,319
Capital Projects Fund		327,714	-0-	(327,714)
Debt Service Fund	<u>1,548,368</u>	<u>1,539,358</u>	<u>-0-</u>	<u>9,010</u>
Total	<u>17,115,841</u>	<u>17,208,095</u>	<u>-0-</u>	<u>(92,254)</u>

General Fund Budgetary Analysis

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District might amend that budget for known changes in circumstances such as legislative funding. For fiscal year 2019, the District did not revise the budget. The district's budget anticipated that expenditures would exceed revenues and other financing sources (uses) by \$893,042. The actual results for the year showed revenues exceeding expenditures by \$50,064.

- Actual general fund revenues exceeded the budget by \$274,188 primarily due to differences in state aids and other local and county revenues.
- Actual general fund expenditures were less than budget by \$668,918 primarily due to over budgeting expenditures for various items, including salaries, supplies, equipment purchases, travel and transportation, fuel and building improvements.

Capital Assets

Table 3 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal year ending June 30, 2019. More detailed information about the district's capital assets is presented in Note 6.

Table 3
Capital Assets

	<u>2019</u>	<u>2018</u>	Increase (Decrease)
Land	272,240	272,240	
Land Improvements	2,831,301	2,766,931	64,370
Buildings and Improvements	19,657,636	19,515,492	142,144
Equipment	4,999,779	4,901,095	98,684
Pupil Transportation Vehicles	203,931	198,883	5,048
Less: Accumulated Depreciation	<u>(12,720,460)</u>	<u>(11,987,327)</u>	<u>(733,133)</u>
Total	<u>15,244,427</u>	<u>15,667,314</u>	<u>(422,887)</u>
Depreciation Expense	<u>769,465</u>	<u>755,606</u>	<u>13,859</u>

Capital asset activity for the current fiscal year includes a JD lawn mower, 2019 Chevy Suburban, Paulsen Field restroom updates, crack fill and sealcoat at old tennis courts, chairlift replacement, handicap door replacement, new burner on high school boiler, computer upgrade HVAC system, and replacement lockers.

Long-Term Liabilities

In fiscal year 2019, long-term debt obligations were repaid in the amount of \$1,495,000, lease payments were paid in the amount of \$68,000, the net severance liability decreased by \$36,839, the net OPEB liability increased by \$15,805, and the net pension liability decreased by \$5,034,633. Pension benefits payable total \$7,532,906 at June 30, 2019. More detailed information about the district's long-term liabilities is presented in Note 9.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Factors Bearing on the District's Future

With the exception of voter-approved excess operating referendum, the District is dependent on the State of Minnesota for the vast majority of its funding. Recent experience shows uncertainty in state and federal funding.

Contacting the District's Management

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Independent School District No. 2689 at 1401 7th St. SW, Pipestone, Minnesota 56164.

STATEMENT OF NET POSITION
JUNE 30, 2019

	2019	2018
<u>Assets</u>		
Cash and Investments	7,424,146	6,914,272
Receivables:		
Property Taxes	1,799,402	1,713,363
Governmental Units	1,319,095	1,506,445
Other	35,745	58,080
Prepaid Expenses	99,807	122,900
Capital Assets:		
Non Depreciable	272,240	272,240
Depreciable - net of accumulated depreciation	14,972,187	15,395,074
Total Assets	25,922,622	25,982,374
 <u>Deferred Outflows of Resources</u>		
Related to Pensions	7,559,487	11,124,916
Total Assets and Deferred Outflows of Resources	33,482,109	37,107,290
 <u>Liabilities</u>		
Salaries Payable	673,195	614,002
Accounts Payable	1,096,080	811,858
Accrued Interest	8,557	14,786
Due to Other Governmental Units	62,616	44,286
Unearned Revenue	13,572	11,586
Long Term Liabilities:		
Portion Due Within One Year	1,598,736	1,593,859
Portion Due in More Than One Year	736,841	2,343,827
Pension Benefit Payable	7,532,906	21,133,836
Net OPEB Liability	524,405	508,600
Total Liabilities	12,246,908	27,076,640
 <u>Deferred Inflows of Resources</u>		
Property Taxes Levied for Subsequent Years	3,101,230	2,956,567
Related to Pensions	10,451,238	4,368,702
Total Deferred Inflows of Resources	13,552,468	7,325,269
 <u>Net Position</u>		
Net Investment in Capital Assets	13,012,427	11,872,314
Restricted for:		
General Fund State Mandated Purposes	907,483	973,298
Food Service	346,931	253,864
Community Service	261,947	178,628
Debt Service	332,541	323,531
Unrestricted	(7,178,596)	(10,896,254)
Total Net Position	7,682,733	2,705,381
Total Liabilities, Deferred Inflows of Resources and Net Position	33,482,109	37,107,290

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions	2019				2018
	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
	<u>For Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>	<u>Net (Expense)</u>
		<u>Contributions</u>	<u>Contributions</u>	<u>Net Position</u>	<u>Net Position</u>
				<u>Total</u>	<u>Total</u>
				<u>Governmental</u>	<u>Governmental</u>
				<u>Activities</u>	<u>Activities</u>
<u>Governmental Activities</u>					
District and School Administration	914,932			(914,932)	(907,881)
District Support Services	414,364			(414,364)	(332,465)
Regular Instruction	2,371,548	139,378	1,392,896	(839,274)	(7,828,853)
Vocational Instruction	306,060			(306,060)	(319,548)
Exceptional Instruction	2,234,661	71,252	1,783,628	(379,781)	(764,496)
Instructional Support Services	658,340			(658,340)	(693,619)
Pupil Support Services	1,410,963	225	21,186	(1,389,552)	(1,555,877)
Site, Buildings and Equipment	2,416,243			(2,416,243)	(1,980,006)
Fiscal and Other Fixed Cost Programs	88,298			(88,298)	(84,445)
Food Service	804,134	328,371	542,725	66,962	18,683
Community Service	427,812	125,609	70,923	(231,280)	(278,761)
Interest and Fiscal Charges on					
Long-term Liabilities	70,939			(70,939)	(87,035)
Total	<u>12,118,294</u>	<u>664,835</u>	<u>3,811,358</u>	<u>(7,642,101)</u>	<u>(14,814,303)</u>
<u>General Revenues</u>					
Property Taxes Levied for:					
General Purposes				1,366,795	1,583,494
Community Service				144,797	123,557
Debt Service				986,330	1,432,559
Federal and State Aid Not Restricted to Specific Purposes				9,721,918	8,630,817
Earnings on Investments				99,463	44,111
Miscellaneous				300,150	343,125
Total General Revenues				<u>12,619,453</u>	<u>12,157,663</u>
Change in Net Position				4,977,352	(2,656,640)
Net Position - Beginning, As Originally Stated				2,705,381	5,589,991
Prior Period Adjustment					(227,970)
Net Position - Beginning				<u>2,705,381</u>	<u>5,362,021</u>
Net Position - Ending				<u>7,682,733</u>	<u>2,705,381</u>

See accompanying notes to the financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	2019					2018	
	Major Funds					Total	Total
	General	Food Service	Community Service	Capital Projects	Debt Service	Governmental Funds	Governmental Funds
Assets							
Cash and Investments	5,854,904	412,766	313,784		842,692	7,424,146	6,914,272
Current Property Taxes Receivable	715,586		56,102		996,578	1,768,266	1,662,032
Delinquent Property Taxes Receivable	15,141		349		15,646	31,136	51,331
Accounts Receivable	11,014	22,106				33,120	58,080
Interest Receivable	2,625					2,625	
Due From Other Funds	107,163					107,163	
Due From Department of Education	1,035,026		6,751		54,562	1,096,339	1,184,812
Due From Federal Government Through the Department of Education	99,484	14,074				113,558	235,749
Due From Other Governmental Units	46,257	6,320	56,621			109,198	85,884
Prepaid Expenses	66,997					66,997	57,280
Total Assets	<u>7,954,197</u>	<u>455,266</u>	<u>433,607</u>	<u>-0-</u>	<u>1,909,478</u>	<u>10,752,548</u>	<u>10,249,440</u>
Liabilities, Deferred Inflows of Resources and Fund Balances							
Liabilities							
Salaries Payable	621,795		51,400			673,195	614,002
Accounts Payable	254,601	94,763	2,340	220,551		572,255	337,328
Due to Other Funds				107,163		107,163	
Due to Other Governmental Units	62,616					62,616	44,286
Payroll Deductions	523,825					523,825	474,530
Unearned Revenue		13,572				13,572	11,586
Total Liabilities	<u>1,462,837</u>	<u>108,335</u>	<u>53,740</u>	<u>327,714</u>	<u>-0-</u>	<u>1,952,626</u>	<u>1,481,732</u>
Deferred Inflows of Resources							
Unavailable Revenue-Delinquent Taxes	15,141		349		15,646	31,136	51,331
Property Taxes Levied for Subsequent Years	1,422,368		117,571		1,561,291	3,101,230	2,956,567
Total Deferred Inflows of Resources	<u>1,437,509</u>	<u>-0-</u>	<u>117,920</u>	<u>-0-</u>	<u>1,576,937</u>	<u>3,132,366</u>	<u>3,007,898</u>
Fund Balances							
Fund Balance-Nonspendable	66,997					66,997	57,280
Fund Balance-Restricted	907,483	346,931	261,947		332,541	1,848,902	1,729,321
Fund Balance-Committed	103,577					103,577	142,686
Fund Balance-Assigned	18,846					18,846	13,597
Fund Balance-Unassigned	3,956,948			(327,714)		3,629,234	3,816,926
Total Fund Balances	<u>5,053,851</u>	<u>346,931</u>	<u>261,947</u>	<u>(327,714)</u>	<u>332,541</u>	<u>5,667,556</u>	<u>5,759,810</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>7,954,197</u>	<u>455,266</u>	<u>433,607</u>	<u>-0-</u>	<u>1,909,478</u>	<u>10,752,548</u>	<u>10,249,440</u>

See accompanying notes to the financial statements.

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
 NET POSITION OF GOVERNMENTAL ACTIVITIES**
JUNE 30, 2019

	2019	2018
Total Governmental Fund Balances	5,667,556	5,759,810
Amounts reported in governmental activities in the statement of net position are different because:		
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds		
Cost of Capital Assets	27,964,887	27,654,641
Less: Accumulated Depreciation	<u>(12,720,460)</u>	<u>(11,987,327)</u>
	15,244,427	15,667,314
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as unavailable revenue.		
	31,136	51,331
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(8,557)	(14,786)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources related to Pensions	7,559,487	11,124,916
Deferred Inflows of Resources related to Pensions	<u>(10,451,238)</u>	<u>(4,368,702)</u>
	(2,891,751)	6,756,214
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:		
Severance Payable	(103,577)	(142,686)
Bonds Payable	(2,232,000)	(3,795,000)
Deferred Amount on Refunded Debt	32,810	65,620
Pension Benefits Payable	(7,532,906)	(21,133,836)
Net OPEB Liability	<u>(524,405)</u>	<u>(508,600)</u>
	(10,360,078)	(25,514,502)
Net Position of Governmental Activities	<u>7,682,733</u>	<u>2,705,381</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	2019					2018	
	Major Funds					Total	Total
Revenues	General	Food Service	Community Service	Capital Projects	Debt Service	Governmental Funds	Governmental Funds
Local Property Tax Levies	1,386,990		144,797		986,330	2,518,117	3,106,476
Other Local and County Revenues	398,318	24,928	293,391		16,414	733,051	702,410
Revenue from State Sources	12,020,528	63,501	70,923		545,624	12,700,576	11,411,104
Revenue from Federal Sources	353,476	479,224				832,700	904,826
Sales and Other Conversion of Assets	1,006	328,371	2,020			331,397	401,841
Total Revenues	14,160,318	896,024	511,131	-0-	1,548,368	17,115,841	16,526,657
<u>Expenditures</u>							
Current:							
District and School Administration	914,932					914,932	907,881
District Support Services	414,364					414,364	332,465
Regular Instruction	6,295,332					6,295,332	6,160,956
Vocational Instruction	306,060					306,060	319,548
Exceptional Instruction	2,234,661					2,234,661	2,205,297
Community Education and Services			427,812			427,812	476,651
Instructional Support Services	658,340					658,340	692,409
Pupil Support Services	1,437,922	802,957				2,240,879	2,547,163
Site, Buildings and Equipment	1,760,345			327,714		2,088,059	2,374,861
Fiscal and Other Fixed Cost Programs	88,298					88,298	84,445
Debt Service:							
Principal					1,495,000	1,495,000	1,480,000
Interest and Fiscal Charges					44,358	44,358	59,158
Total Expenditures	14,110,254	802,957	427,812	327,714	1,539,358	17,208,095	17,640,834
Excess Revenues (Expenditures)							
Before Other Financing Sources (Uses)	50,064	93,067	83,319	(327,714)	9,010	(92,254)	(1,114,177)
<u>Other Financing Sources (Uses)</u>							
Lease-Purchase Proceeds							790,000
	-0-	-0-	-0-	-0-	-0-	-0-	790,000
Net Change in Fund Balance	50,064	93,067	83,319	(327,714)	9,010	(92,254)	(324,177)
Fund Balance-Beginning	5,003,787	253,864	178,628		323,531	5,759,810	6,083,987
Fund Balance-Ending	<u>5,053,851</u>	<u>346,931</u>	<u>261,947</u>	<u>(327,714)</u>	<u>332,541</u>	<u>5,667,556</u>	<u>5,759,810</u>

See accompanying notes to the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2019**

	2019	2018
Net Change in Governmental Fund Balances	(92,254)	(324,177)
Amounts reported for the governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures, however, in statement of activities, assets with an initial, individual cost of more than \$10,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period		
Capital Outlay	346,578	1,155,989
Disposals		(28,385)
Depreciation Expense	(769,465)	(755,606)
	(422,887)	371,998
Governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues. The net effect of these differences is as follows:		
Lease-Purchase Proceeds		(790,000)
Lease Payments	68,000	
Repayment of Bond Principal	1,495,000	1,480,000
Interest Expense - General Obligation Bonds	6,229	4,933
Amortization of Deferred Amount on Refunded Debt	(32,810)	(32,810)
Severance Payments	36,839	81,432
	1,573,258	743,555
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for current period's expenditures, and therefore deferred in the funds.	(20,195)	33,134
In the statement of activities, severance benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
Severance	2,270	2,133
Pension Benefits	(9,647,965)	(8,481,783)
	(9,645,695)	(8,479,650)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in Pension Benefits	13,600,930	5,034,633
Change in Net OPEB liability	(15,805)	(36,133)
	13,585,125	4,998,500
Change in Net Position of Governmental Activities	4,977,352	(2,656,640)

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local Property Tax Levies	1,382,954	1,382,954	1,386,990	4,036
Other Local and County Revenues	387,745	387,745	398,318	10,573
Revenue from State Sources	11,791,572	11,791,572	12,020,528	228,956
Revenue from Federal Sources	317,959	317,959	353,476	35,517
Sales and Other Conversion of Assets	5,900	5,900	1,006	(4,894)
Total Revenues	<u>13,886,130</u>	<u>13,886,130</u>	<u>14,160,318</u>	<u>274,188</u>
<u>Expenditures</u>				
District and School Administration	989,253	946,616	914,932	(31,684)
District Support Services	436,011	469,111	414,364	(54,747)
Regular Instruction	6,326,708	6,373,382	6,295,332	(78,050)
Vocational Instruction	188,029	208,589	306,060	97,471
Exceptional Instruction	2,594,364	2,554,306	2,234,661	(319,645)
Instructional Support Services	673,117	690,990	658,340	(32,650)
Pupil Support Services	1,687,536	1,599,481	1,437,922	(161,559)
Site, Building and Equipment	1,798,454	1,848,497	1,760,345	(88,152)
Fiscal and Other Fixed Cost Programs	85,700	88,200	88,298	98
Total Expenditures	<u>14,779,172</u>	<u>14,779,172</u>	<u>14,110,254</u>	<u>(668,918)</u>
Net Change in Fund Balance	<u>(893,042)</u>	<u>(893,042)</u>	50,064	<u>943,106</u>
Fund Balance-Beginning			<u>5,003,787</u>	
Fund Balance-Ending			<u>5,053,851</u>	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Other Local and County Revenues	937	937	24,928	23,991
Revenue from State Sources	62,300	62,300	63,501	1,201
Revenue from Federal Sources	540,650	540,650	479,224	(61,426)
Sales and Other Conversion of Assets	345,200	345,200	328,371	(16,829)
Total Revenues	<u>949,087</u>	<u>949,087</u>	<u>896,024</u>	<u>(53,063)</u>
<u>Expenditures</u>				
Pupil Support Services	<u>909,634</u>	<u>909,634</u>	<u>802,957</u>	<u>(106,677)</u>
Total Expenditures	<u>909,634</u>	<u>909,634</u>	<u>802,957</u>	<u>(106,677)</u>
Net Change in Fund Balance	<u>39,453</u>	<u>39,453</u>	93,067	<u>53,614</u>
Fund Balance-Beginning			<u>253,864</u>	
Fund Balance-Ending			<u>346,931</u>	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR COMMUNITY SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local Property Tax Levies	119,058	119,058	144,797	25,739
Other Local and County Revenues	266,850	266,850	293,391	26,541
Revenue from State Sources	66,529	66,529	70,923	4,394
Sales and Other Conversion of Assets	2,000	2,000	2,020	20
Total Revenues	<u>454,437</u>	<u>454,437</u>	<u>511,131</u>	<u>56,694</u>
<u>Expenditures</u>				
Community Education and Services	423,886	423,886	427,812	3,926
Total Expenditures	<u>423,886</u>	<u>423,886</u>	<u>427,812</u>	<u>3,926</u>
Net Change in Fund Balance	<u>30,551</u>	<u>30,551</u>	83,319	<u>52,768</u>
Fund Balance-Beginning			<u>178,628</u>	
Fund Balance-Ending			<u>261,947</u>	

See accompanying notes to the financial statements.

STATEMENT OF FIDUCIARY ASSETS
AGENCY FUND
JUNE 30, 2019

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Cash and Investments	<u>345</u>	<u>500</u>
 <u>Liabilities and Net Position</u>		
<u>Liabilities</u>		
Unearned Revenue	345	500
 <u>Net Position</u>		
Total Liabilities and Net Position	<u>-0-</u> <u>345</u>	<u>-0-</u> <u>500</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of Independent School District No. 2689 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Changes in Accounting Principles

During fiscal year 2018, the District adopted new accounting guidance by implementing the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 12 in the notes to the financial statements for additional information regarding the District's postemployment benefits other than pensions

C. Financial Reporting Entity

Independent School District 2689, Pipestone, was formed and operates pursuant to applicable Minnesota laws and statutes. The District operates under an elected seven member Board of Education form of government. The Board has control over all activities related to the public school education in the District.

As required by generally accepted accounting principles, these financial statements present the District and its component units, entities for which the government 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.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 Summary of Significant Accounting Policies - continued

D. Basic Financial Statements Presentation

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: expendable trust, and agency. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

Proprietary funds are used to report business-type activities carried on by a school district. No activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

E. Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund 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 proprietary 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 **Summary of Significant Accounting Policies - continued**

E. **Basis of Accounting and Measurement Focus - continued**

Property taxes are recognized as revenues in the year for which they are levied, except for amounts advance recognized in accordance with a statutory “tax shift” described later in these notes. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Revenues are recognized as soon as they are both 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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 60 days of fiscal year-end. Federal revenue is recorded in the year in which the related expenditure is made. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

All major revenues are susceptible to accrual. Property tax revenues for all funds, which are payable by property owners on a calendar-year basis, are recognized as revenues in the fiscal years for which they apply according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year.

The District reports unavailable revenue on its balance sheet. Unavailable revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unavailable revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurring qualified expenditures. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for unavailable revenue is removed and revenue is recognized.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 **Summary of Significant Accounting Policies - continued**

E. **Basis of Accounting and Measurement Focus - continued**

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

Governmental Funds

General Fund

The General Fund includes all financial transactions relating to the administration, instruction, maintenance, transportation, and capital expenditures of the District, which are not accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for expenditures for specified purposes. These funds include the Food Service and Community Service funds.

The Food Service fund is used to account for food service revenues and expenditures.

The Community Service fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, or other similar services.

Capital Projects Fund

The Capital Projects Fund is used to record all operations of the District's new building project.

Debt Service Fund

Debt Service Funds account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

Agency Fund

The Agency Fund is used to account for donations specifically used to apply to food service accounts and community education fees. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 Summary of Significant Accounting Policies – continued

F. Budgets and Budgetary Accounting

The budgeted amounts included in the statement of revenues and expenditures were accounted for and presented on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles. The budgets are prepared by the school personnel and approved by the school board. Encumbrances are not considered in the budget process or in the regular district accounting.

Once a budget is approved, school personnel can amend it with approval by the school board. Amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

G. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

The school District uses the average cash balance method of allocating investment income to the various funds.

H. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 **Summary of Significant Accounting Policies - continued**

I. Inventories

Inventories consist of expendable supplies held for consumption and are stated at moving, weighted average cost. Inventory of the General Fund is recorded as expenditure when items are issued from central stores. Accordingly inventory items on hand at the school are not included in inventory.

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as expenditure at the time of consumption.

K. Property Tax Recognition

The levy certification is made in December of each year. The tax levy is collectible as of January 2nd of the following year and the taxes are due to the county treasurer in May and October of each year. The taxes levied during the fall of the year are recognized in the subsequent fiscal year for the school district.

Current taxes receivable includes the amount of Homestead Market Value Credit Aid, Disparity Reduction Aid, and School Building Bond Ag Credit to be received after July 1, 2019, and will be recognized as revenue during the fiscal year ending June 30, 2020. The delinquent taxes receivable are reserved as 100% uncollectible except for the amount received during the first sixty days of the subsequent fiscal year.

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 at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$10,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 **Summary of Significant Accounting Policies - continued**

L. **Capital Assets - continued**

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. Since surplus assets are sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for buildings and improvements, and 5 to 20 years for equipment and vehicles. Land is not depreciated.

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

M. **Long-Term Obligations**

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 straight-line method. Bond issuance costs, if material, are also reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. **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 a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The District has two types, Related to pensions and Related to OPEB Obligations, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 **Summary of Significant Accounting Policies - continued**

N. **Deferred Outflows/Inflows of Resources - continued**

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 two types, Property Taxes Levied for Subsequent Years and Related to Pensions, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category. Accordingly, the items, unavailable revenue, are reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

O. **Fund Equity**

Fund balance is divided into five classifications based primarily on the extent to which the district is bound to observe constraints imposed upon the use of the resources in the governmental funds. The following are the five fund balance categories used by the district:

Non-Spendable Fund Balance

Fund balance amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

Restricted Fund Balance

Fund balance amounts that can be spent only for specific purposes imposed by laws or regulations, external resource providers, constitutional provisions or enabling legislation.

Committed Fund Balance

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The District's highest level of decision making authority is the district school board. In order to establish, modify or rescind a committed fund balance amount, the school board would need to approve the action at a school board meeting.

Assigned Fund Balance

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The District school board has delegated the authority to assign fund balance amounts to the business manager and/or superintendent. Assigned amounts or changes to assigned amounts are presented to the school board for review.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 Summary of Significant Accounting Policies - continued

O. Fund Equity - continued

Unassigned Fund Balance

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

The school district will strive to maintain a fund balance of between 25% and 34% of total operating expenditures to fund balance. The fund balance shall be defined as the sum of the restricted, committed, assigned and unassigned fund balances in the General Fund, Food Service Fund and the Community Service Fund. Total operating expenditures will include the expenditures in the funds noted above.

If resources from more than one fund balance classification could be spent, the school district established the following order for resource use: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance. Journal entries at the end of the fiscal year may be used to accomplish this.

P. Net Position

Net position represents the difference between assets and liabilities in the District-wide and Fiduciary Fund financial statements. Net investment 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 is reported as restricted in the District-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Q. Pensions

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 **Summary of Significant Accounting Policies - continued**

R. **Certain Comparative Data and Reclassifications**

Certain comparative total data for the prior year have been presented in the District-wide and fund financial statements in order to provide an understanding of the changes in the financial position and operations. Such comparative total data does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

S. **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

T. **Subsequent Events**

Subsequent events have been evaluated through December 9, 2019, which is the date the financial statements were available to be issued.

Note 2 **Cash and Investments**

A. **Deposits**

Minnesota Stat. 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Stat. 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or 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 standby 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2 Cash and Investments - continued

A. Deposits - continued

Custodial Credit Risk

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 does not have a deposit policy for custodial credit risk. As of June 30, 2019, none of the District's bank balance of \$3,193,960 (includes student activity fund account) was exposed to custodial credit risk because it was not insured and properly collateralized with securities held by the pledging financial institution's trust department or agent in the district's name.

B. Investments

Minnesota Stat. 118A.04 and 118A.05 generally authorize 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 Minnesota Stat. 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2 Cash and Investments - continued

B. Investments - continued

The District's investments are potentially subject to various risks including the following:

Custodial Credit Risk

The risk that in the event of a failure of the counter party to an investment transaction, a district will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Credit Risk

The risk that an issuer or other counter party to an investment will not fulfill its obligations to the holder of the investment.

Concentration of Credit Risk

The risk of loss that may be caused by the District's investment in a single issuer.

Interest Rate Risk

The risk that changes in the market interest rates will adversely affect the fair value of an investment.

The District has no internal policies that limit deposits on investment choices or address these potential risks beyond the statutory limitations described above.

	<u>Credit Risk</u>		<u>Concentration Risk</u>	<u>Interest Rate Risk</u>	
	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Over 5% of Portfolio</u>	<u>Maturity Date</u>	<u>Carrying Value</u>
Investment Pools:					
MN Trust					
Investment Shares Portfolio	AAA	S & P	23.44%	N/A	1,060,154
Certificate of Deposit	AAA	S & P	32.33%	2/25/20-5/17/21	1,462,200
Term Series	AAA	S & P	44.22%	7/25/19	<u>2,000,000</u>
Total Investments					4,522,354
Checking & Money Market Accounts (not including Student Activity and Agency Funds)					2,898,582
Petty Cash					3,210
Total Cash and Investments					<u>7,424,146</u>

The MN Trust Investment Shares Portfolio is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 3 Due From Department of Education

Amounts due from the Department of Education are aids and reimbursements receivable for the fiscal years as follows:

	June 30	
General Fund	2019	2018
General Education Aid	916,228	1,185,583
Other State Aids	13,912	11,113
Special Education	104,886	(25,911)
Total General Fund	1,035,026	1,170,785
<u>Special Revenue Funds</u>		
Community Service Fund		
Other State Credits	6,751	5,982
<u>Debt Service Fund</u>		
Other State Credits	54,562	8,045
Total All Funds	1,096,339	1,184,812

Note 4 Due From Federal Government Through the Department of Education

Amounts due from the federal government through the Department of Education are as follows:

	June 30	
General Fund	2019	2018
Title I	80,743	149,697
Title II	18,741	19,879
Other		53,678
Total General Fund	99,484	223,254
<u>Special Revenue Funds</u>		
Food Service Fund		
Summer Food Program	14,074	12,495
Total Food Service Fund	14,074	12,495
Total All Funds	113,558	235,749

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 5 **Due From Other Governmental Units**
 Amounts due from Other Governmental Units are as follows:

	June 30	
<u>General Fund</u>	<u>2019</u>	<u>2018</u>
SW/WC Service Coop	7,898	
SW Health & Human Services	13,400	13,480
City of Pipestone	10,431	11,108
Minnesota West		65
State of MN	13,818	6,128
Pipestone Area Coalition	710	125
Total General Fund	46,257	30,906
<u>Special Revenue Funds</u>		
<u>Food Service Fund</u>		
Blue Mound Learning Center	6,320	
<u>Community Service Fund</u>		
Pipestone County Medical Center	228	228
City of Pipestone	56,393	54,750
Total Community Service Fund	56,621	54,978
Total Special Revenue Funds	62,941	54,978
Total All Funds	109,198	85,884

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 6 **Capital Assets**

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Balance</u> <u>7/01/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/19</u>
Capital assets not depreciated				
Land	272,240			272,240
<hr/>				
Capital assets depreciated				
Land Improvements	2,766,931	64,370		2,831,301
Buildings	19,515,492	142,144		19,657,636
Equipment	4,901,095	98,683		4,999,778
Pupil Transportation Vehicles	<u>198,883</u>	<u>41,381</u>	(36,333)	<u>203,931</u>
Total Capital assets depreciated	27,382,401	346,578	(36,333)	27,692,646
Less accumulated depreciation for				
Land Improvements	1,320,283	133,115		1,453,398
Buildings	6,501,587	388,743		6,890,330
Equipment	4,020,742	233,186		4,253,928
Pupil Transportation Vehicles	<u>144,715</u>	<u>14,421</u>	(36,333)	<u>122,803</u>
Total accum depreciation	<u>11,987,327</u>	<u>769,465</u>	(36,333)	<u>12,720,459</u>
Total capital assets depreciated-net	<u>15,395,074</u>	(422,887)	-0-	<u>14,972,187</u>
Net Capital Assets	<u>15,667,314</u>	(422,887)	-0-	<u>15,244,427</u>

Depreciation expense of \$769,465 for the year ended June 30, 2019 was charged to the following governmental functions:

Regular Instruction	52,485
Pupil Support Services	14,421
Sites, Buildings, and Equipment	701,382
Food Service	<u>1,177</u>
Total	<u>769,465</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 7 Due to Other Governmental Units

Amounts due to Other Governmental Units are as follows:

	June 30	
<u>General Fund</u>	<u>2019</u>	<u>2018</u>
City of Pipestone	171	3,342
ISD 991 - SW/WC Service Coop	35,561	23,543
ISD 347 - Willmar		1,961
ISD 049-5 Sioux Falls		1,618
MN West	65	
New Dominion School	9,203	247
MN Employment & Economic Dev	1,909	
Pipestone County Medical Center	4,871	2,880
Pipestone County Sheriff's Office	10,836	10,599
State of MN – Fire Marshall		96
Total General Fund	<u>62,616</u>	<u>44,286</u>

Note 8 Unearned Revenue

Unearned revenues are as follows:

	June 30	
<u>Special Revenue Funds</u>	<u>2019</u>	<u>2018</u>
<u>Food Service Fund</u>		
Lunch Sales	<u>13,572</u>	<u>11,586</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 9 Long-Term Liabilities

A. Severance Payable

Contract employees who are at least 55 years of age and who have completed 15 years of teaching with at least ten years of service with Independent School District 2689 are eligible to receive an early retirement incentive payment. The maximum payment amount is limited to 100 days of pay calculated at the daily rate of pay during the last year of service, excluding pay for additional assignments. Payments will be paid in the following manner: one-third the amount due to the employee will be paid in July following retirement, one-third of the amount due to the employee will be paid the following January, and the remaining one-third will be paid in January one year later. The Board approves a maximum of five teachers in any given fiscal year.

The District estimates its vested severance pay obligations to be \$103,577 and \$142,686 at June 30, 2019 and 2018, respectively and the amount is designated in the fund balance of the General fund at those dates.

B. General Obligation School Building Refunding Bonds

On May 23, 2013, Pipestone Area Schools issued general obligation bonds of \$8,830,000 with an interest rate ranging from 1 to 1.7 percent. Proceeds from the 2013 bonds were used as a crossover refunding of \$8,690,000 of the Series 2004A bonds with an interest rate of 4 to 5 percent. The Series 2004A bonds matured annually on March 1, 2010 through 2020, and were callable on March 1, 2014. The 2013A refunding bonds were issued at a premium, and after paying issuance costs of \$43,320, the net proceeds were \$8,763,142. The net proceeds from the issuance of the refunding bonds were used to purchase U.S. Treasury Securities and those securities were deposited into an irrevocable trust with an escrow agent to provide debt service payments until the Series 2004A bonds were called on March 1, 2014.

The following is a summary of the bond transactions of the District for the year ending June 30, 2019:

Bonds Payable at July 1	3,005,000
Net Bonds Issued (Redeemed)	<u>(1,495,000)</u>
Bonds Payable at June 30	<u>1,510,000</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 9 Long-Term Liabilities - continued

B. Defeased Debt/General Obligation Bonds - continued
General Obligation Bonds

Bonded debt payable at June 30, 2019 is comprised of the following issues:

\$8,830,000 General Obligation School Building Refunding Bonds, Series 2013A, due in annual installments of \$1,430,000 to \$1,510,000 from March 1, 2015 through March 1, 2020, interest at 1.0 to 1.7 percent \$1,510,000

The annual requirements to amortize the bonds outstanding as of June 30, 2019, including interest payments, are listed below.

Year Ended	Principal	Interest	Total
<u>June 30</u>			
2020	<u>1,510,000</u>	<u>25,670</u>	<u>1,535,670</u>
Total	<u>1,510,000</u>	<u>25,670</u>	<u>1,535,670</u>

C. Lease-Purchase Agreement

On July 25, 2017 the District entered into a Lease-Purchase Agreement for the construction of tennis courts on the District property as follows:

\$790,000 Lease-Purchase Agreement, due in semi-annual payments of \$91,814 to \$93,867 from February 2, 2018 to August 1, 2027, interest rate of 3.15%. \$722,000

The annual requirements to amortize the Lease-Purchase Agreement outstanding as of June 30, 2018, including interest payments, are listed below.

Year Ended	Principal	Interest	Total
<u>June 30</u>			
2020	71,000	21,625	92,625
2021	73,000	19,357	92,357
2022	75,000	17,026	92,026
2023	77,000	14,632	91,632
2024	80,000	12,159	92,159
2025-2028	<u>346,000</u>	<u>22,271</u>	<u>368,271</u>
Total	<u>722,000</u>	<u>107,070</u>	<u>829,070</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 9 Long-Term Liabilities - continued

D. Changes in Long-Term Liabilities

	<u>Balance</u> <u>7/01/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/19</u>	<u>Due Within</u> <u>One Year</u>
GO Refunding Bonds					
Series 2013A	3,005,000		1,495,000	1,510,000	1,510,000
Lease-Purchase					
Agreement	790,000		68,000	722,000	71,000
Severance	<u>142,686</u>		<u>39,109</u>	<u>103,577</u>	<u>17,736</u>
Total	<u>3,937,686</u>	<u>-0-</u>	<u>1,602,109</u>	<u>2,335,577</u>	<u>1,598,736</u>

Note 10 Fund Balances

Non-Spendable Fund Balance

The District has the following non-spendable fund balances as of June 30, 2019:

General Fund

Prepaid Items	<u>66,997</u>
Total Funds	<u>66,997</u>

Restricted Fund Balance

The District has various restricted fund balances that are based on state requirements to track certain program funding, to provide funding for long-term debt requirements, or for other requirements. The District has the following restricted fund balances as of June 30, 2019:

General Fund

Staff Development	243,342
Operating Capital	48,436
Learning and Development	946
Gifted and Talented	193,970
Basic Skills	226,096
Basic Skills Ext Time	26,975
Safe Schools Levy	61,864
Restricted	7,315
Long Term Facility Maintenance	95,264
Medical Assistance	<u>3,275</u>
Total General Fund	907,483

Special Revenue Funds

Food Service Fund

Restricted	346,931
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 10 **Fund Balances - continued**

Restricted Fund Balance – continued

Community Service Fund

Community Education	167,597
Early Childhood and Family Education	102,434
Learning Readiness	(23,753)
Restricted	<u>15,669</u>
Total Community Service Fund	<u>261,947</u>
Total Special Revenue funds	<u>608,878</u>

Debt Service Fund

Restricted	<u>332,541</u>
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Total All Funds	<u>1,848,902</u>
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Committed Fund Balance

The District has the following committed fund balances as of June 30, 2019:

General Fund

Severance	<u>103,577</u>
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Assigned Fund Balance

The District has the following assigned fund balances as of June 30, 2019:

General Fund

Health Cost Management	529
Athletic Help Fund	12,397
Help Fund	3,188
Elem Help	1,573
Arrow Way	<u>1,159</u>
Total General Fund	<u>18,846</u>

Unassigned Fund Balance

The District has the following unassigned fund balances as of June 30, 2019:

<u>General Fund</u>	3,956,948
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<u>Capital Projects Fund</u>	<u>(327,714)</u>
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Total Funds	<u>3,629,234</u>
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Stabilization Amounts

Amounts formally set aside by the governmental unit for use in emergency situations such as revenue shortages or budgetary imbalances.

The District has no stabilization amounts as of June 30, 2019.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans

A. Public Employees Retirement Association (PERA)

1. Plan Description

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

General Employees Retirement Plan (GERF)

All full-time and certain part-time employees of the District are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

2. Benefits Provided

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

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 % increase. If the General Employees Plan is at least 90% funded for two consecutive years, the benefit increase will revert to 2.5%. If, after reverting to a 2.5% benefit increase, the funding ratio declines to less than 80% for one year or less than 85% for two consecutive years, the benefit increase will decrease to 1.0%. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA)-continued

2. Benefits Provided – continued

Benefit increases are provided to benefit recipients each January. General Employees Plan benefit recipients receive a future annual increase equal to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

3. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2019, were \$121,205. The District's contributions were equal to the required contributions for each year as set by state statute.

4. Pension Costs

At June 30, 2019, the District reported a liability of \$1,314,779 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$43,167. The net pension liability was measured as of June 30, 2018, 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 proportionate share 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, 2017, through June 30, 2018 relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0237 percent at the end of the measurement period and 0.0243 percent for the beginning of the period.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA)-continued

4. Pension Costs - continued

District's proportionate share of the net pension liability 1,314,779

State of Minnesota's proportionate share of the net
 pension liability associated with the District 43,167

Total 1,357,946

For the year ended June 30, 2019, the District recognized pension expense of \$76,249 for its proportionate share of GERS's pension expense. In addition, the District recognized an additional \$10,066 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2019, the District reported its proportionate share of GERS's deferred outflows of 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	\$35,642	\$48,054
Changes in actuarial assumptions	\$157,391	\$150,290
Difference between projected and actual investment earnings		\$94,098
Changes in proportion		\$275,165
Contributions paid to PERA subsequent to the measurement date	\$121,205	
Total	\$314,238	\$567,607

\$121,205 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2019	(\$54,059)
2020	(\$175,188)
2021	(\$117,885)
2022	(\$27,442)
2023	\$0

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

5. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2018:

General Employees Fund

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

5. Actuarial Assumptions - continued

- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal
- Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
Total	100%	

6. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

7. Pension Liability Sensitivity

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

Sensitivity Analysis (In Thousands)		
<i>Net Pension Liability (Asset) at Different Discount Rates</i>		
	General Employees Fund	
1% Lower	6.50%	2,136,684
Current Discount Rate	7.50%	1,314,779
1% Higher	8.50%	636,320

8. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

B. Teachers Retirement Association

1. Plan Description

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. 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.

Educators employed in Minnesota's public elementary and secondary school, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through Minnesota State's Individual Retirement Account Plan (IRAP) within one year of eligible employment.

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

2. Benefits Provided - continued

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 as described.

Tier I Benefits

<u>Tier 1</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	First ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2 percent per year
	First ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are up to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3 percent per year early retirement reduction factors for all years under normal retirement age.
- (c) 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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

2. Benefits Provided - continued

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, for favorable to the members, 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 (A-1) 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 which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

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

3. Contribution Rate

Per Minnesota Statute, Chapter 354 sets the contribution rates for employers and employees. Rates for each fiscal year ended June 30, 2017, June 30, 2018, and June 30, 2019 were:

	June 30, 2017		June 30, 2018		June 30, 2019	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.00%	11.50%	11.00%	11.50%	11.00%	11.71%
Coordinated	7.50%	7.50%	7.50%	7.50%	7.50%	7.71%

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued
3. Contribution Rate – continued

	<i>In thousands</i>
Employer contributions reported in TRA’s CAFR Statement of Changes in Fiduciary Net Position	\$378,728
Add employer contributions not related to future contribution efforts	522
Deduct TRA’s contributions not included in allocations	<u>(471)</u>
Total employer contributions	\$378,779
Total non-employer contributions	<u>35,588</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u>\$414,367</u>

Amounts reported in the allocation schedules may not precisely agree with the 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.

4. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued
4. Actuarial Assumptions – continued

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation Date	July 1, 2018
Experience Study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.5%
Price Inflation	2.50%
Wage growth rate	2.85% for 10 years and 3.25% thereafter
Projected Salary Increase	2.85 to 8.85% for 10 years and 3.25 to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.
Mortality Assumptions	
Pre-Retirement	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-Retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-Disability	RP-2014 disabled retiree mortality table, without adjustment.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses 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:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued
4. Actuarial Assumptions – continued

Asset Class	Allocations of June 30, 2018	Final Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33%	36%	5.10%
International Equity	16%	17%	5.30%
Private Markets	25%	25%	5.90%
Fixed Income	16%	20%	0.75%
Treasuries	8%	0%	0.50%
Unallocated Cash	2%	2%	0.00%
Total	100%	100%	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is six years. The *Difference between expected and actual experience, Changes of Assumptions, and Changes in Proportion* use the amortization period of 6 years in the schedule presented. The amortization period for *Net difference between projected and actual investment earnings on pension plan investments* is five years as required by GASB 68.

Changes in actuarial assumptions since the 2017 valuation:

- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

4. Actuarial Assumptions – continued

- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

5. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. This is an increase from the discount rate at the prior measurement date of 5.12 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2018 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be depleted and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR).

6. Net Pension Liability

On June 30, 2019, the District reported a liability of \$6,218,127 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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. District proportionate share was 0.0990% at the end of the measurement period and 0.0981% for the beginning of the year.

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

District’s proportionate share of net pension liability	\$6,218,127
State’s proportionate share of the net pension Liability associated with the District	\$584,205

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

6. Net Pension Liability - continued

For the year ended June 30, 2019, the District recognized pension expense of (\$4,223,158). It also recognized (\$407,737) as an increase to pension expense for the support provided by direct aid.

On June 30, 2018, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$1,506	\$115,078
Net difference between projected and actual earnings on plan inv.		\$369,788
Change in assumptions	\$6,708,791	\$9,047,386
Changes in proportion	\$124,761	\$351,379
Contributions paid to TRA subsequent to measurement date	\$410,191	
Total	\$7,245,249	\$9,883,631

\$410,191 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in the pension expense as follows:

2019	\$1,278,726
2020	\$1,048,346
2021	\$(2,528,979)
2022	\$(1,471,221)
2023	\$(1,375,445)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 11 Defined Benefit Pension Plans – continued

B. Teachers Retirement Association - continued

7. Pension Liability Sensitivity

The following presents the net pension liability of TRA calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate.

Sensitivity of Net Pension Liability (NPL) to changes in the discount rate		
1 percent decrease (6.50%)	Current (7.50%)	1 percent increase (8.50%)
\$9,868,142	\$6,218,127	\$3,206,888

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

8. Pension Plan Fiduciary Net Position

Detailed information about the plan’s fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St Paul MN 55103-4000; or by calling (651)296-2409 or (800) 657-3669.

Note 12 Other Postemployment Benefits

The District has implemented Governmental Accounting Standards Board (GASB), Statement No. 75, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.

General Information about the OPEB Plan

Plan Description

The District provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses.

Benefits Provided

The plan offers medical insurance benefits. Benefits are provided through a third-party insurer. Retirees and their spouses contribute to the healthcare plan at the same cost as District employees.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 12 Other Postemployment Benefits – continued

Employees covered by benefit terms

At June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	6
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>161</u>
	<u>167</u>

Contributions

The contribution requirements of the plan members and the District are established and may be amended by the Board of Education. For the year ended June 30, 2018, the District's average contribution rate was 8.0 percent of covered-employee payroll.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	3.0%
Investment rate of return	3.4%
Healthcare cost trend rates	6.5% for 2017, grading to 5.0% over 6 years

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2015-July 1, 2016.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 12 Other Postemployment Benefits – continued

The long-term expected rate of return on OPEB 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 OPEB 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 weighing 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 arithmetic real rates of return for each major class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	0%	0%
Fixed income	0%	0%
Private equity	0%	0%
Real estate	0%	0%
Cash	0%	0%

As of the year ended June 30, 2019, the District had no plan assets.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.4 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 7/1/2018	508,600	-0-	508,600
Changes for the year:			
Service cost	36,384		36,384
Interest cost	17,881		17,881
Benefit Payment	<u>(38,460)</u>	-0-	<u>(38,460)</u>
Net changes	<u>15,805</u>		<u>15,805</u>
Balances at 6/30/2019	<u>524,405</u>	-0-	<u>524,405</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 12 Other Postemployment Benefits - continued

Sensitivity of the net OPEB liability to changes in discount rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.4 percent) or 1-percentage-point higher (4.4 percent) than the current discount rate:

	1% Decrease (2.4%)	Discount Rate (3.4%)	1% Increase (4.4%)
Net OPEB liability	\$553,998	\$524,405	\$495,848

Sensitivity of the net OPEB liability to changes in healthcare cost trend rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.5 percent decreasing to 4.0 percent) or 1-percentage-point higher (7.5 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	1% Decrease (5.5% decreasing To 4.0%)	Healthcare Cost Trend Rates (6.5% decreasing to 5.0%)	1% Increase (7.5% decreasing to 6.0%)
Net OPEB Liability	\$476,796	\$524,405	\$580,031

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of \$54,265. At June 30, 2019, the District reported deferred outflow of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions paid to plan subsequent to measurement date	\$35,200	-
	<u>\$35,200</u>	

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

June 30, 2019	\$0
June 30, 2020	\$0
June 30, 2021	\$0
June 30, 2022	\$0
June 30, 2023	\$0

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 12 **Other Postemployment Benefits – continued**
Payable to the OPEB Plan

At June 30, 2019, the District reported a payable of \$0 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2019.

Note 13 **Vacation and Sick Leave**

Under the terms of contracts, certain employees accrue vacation at varying rates, which can be carried over to future years. The majority of vacation leave is lost if not taken each year, therefore a liability for accrued vacation is not recorded in the financial statements. Vacation pay is charged to operations when taken by the employees of the district.

Substantially all District employees are entitled to sick leave at various rates. Upon termination or retirement, employees are not entitled to receive compensation for their accrued sick leave. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Note 14 **Risk Management**

The District is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss associated with workers' compensation claims are insured through participation in the Minnesota School Boards Association Insurance Trust. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

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

Note 15 **Excess Expenditures over Budget Appropriations**

The following governmental funds had excess expenditures over budget appropriations:

Community Service	3,926
Capital Projects	327,714

The excess expenditures were due primarily to the expenditures for the construction of a new school building to start in the spring of 2020. Program needs will be monitored in the future to alleviate expenditure excesses in these funds.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Note 16 Deficit Fund Balance

The following fund had a deficit fund balance at June 30, 2019:

Capital Projects Fund (327,714)

Note 17 Due To/From Other Funds

Below is a schedule of interfund receivables and payables at June 30, 2019:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	107,163	
Capital Projects Fund		107,163

Note 18 Prior Period Adjustment

The beginning net position of the governmental activities as of July 1, 2017 was decreased to reflect a change in accounting principle. As mentioned in Note 1, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, which records the District's proportionate share of the collective OPEB liability, deferred inflows of resources and deferred outflows of resources and OPEB expense on the District's government-wide financial statements. Beginning governmental activities net position as of July 1, 2017 was restated from \$(5,589,991) to \$(5,362,021), a decrease of \$227,970.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
DEFINED BENEFIT PENSION PLANS
JUNE 30, 2019

Actuarial Valuation Date	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable) (b)	Total (a+b)	District's Covered- Employee Payroll (c)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA							
June 30, 2014	0.0354%	1,662,915		1,662,915	1,860,279	89.4%	78.7%
June 30, 2015	0.0318%	1,648,041		1,648,041	1,887,731	87.3%	78.2%
June 30, 2016	0.0297%	2,411,493	31,508	2,443,001	1,923,321	127.0%	68.9%
June 30, 2017	0.0243%	1,551,296	19,509	1,570,805	1,487,907	105.6%	75.9%
June 30, 2018	0.0237%	1,314,779	43,167	1,357,946	1,616,067	84.0%	79.5%
TRA							
June 30, 2014	0.0112%	5,156,271		5,156,271	5,107,987	100.9%	81.5%
June 30, 2015	0.0103%	6,346,825		6,346,825	5,238,958	121.1%	76.8%
June 30, 2016	0.0996%	23,756,976	2,384,641	26,141,617	5,182,320	504.4%	44.9%
June 30, 2017	0.0981%	19,582,540	1,893,280	21,475,820	5,281,646	406.6%	51.6%
June 30, 2018	0.0990%	6,218,127	584,205	6,802,332	5,469,213	124.4%	78.1%

See Note 11, Defined Benefit Pension Plans, for more information

Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
DEFINED BENEFIT PENSION PLANS
JUNE 30, 2019

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a - b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
<u>Pensions</u>					
PERA					
June 30, 2014	134,731	134,731	-0-	1,860,279	7.2%
June 30, 2015	138,002	138,094	(92)	1,887,731	7.3%
June 30, 2016	138,146	138,146	-0-	1,887,731	7.3%
June 30, 2017	111,593	111,593	-0-	1,487,907	7.5%
June 30, 2018	121,205	121,205	-0-	1,616,067	7.5%
TRA					
June 30, 2014	357,559	357,559	-0-	5,107,987	7.0%
June 30, 2015	390,392	389,399	993	5,238,958	7.4%
June 30, 2016	388,674	388,674	-0-	5,182,320	7.5%
June 30, 2017	396,123	396,123	-0-	5,281,646	7.5%
June 30, 2018	410,191	410,191	-0-	5,469,213	7.5%

See Note 11, Defined Benefit Pension Plans, for more information

Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CHANGES IN THE DISTRICT'S
NET OPEB LIABILITY AND RELATED RATIOS
JUNE 30, 2019

Total OPEB liability	2019
Service Cost	36,384
Interest Cost	17,881
Benefit Payments	(38,460)
Net change in total OPEB liability	15,805
Total OPEB liability - beginning	508,600
Total OPEB liability - ending (a)	524,405
Plan fiduciary net position (b)	-0-
District's Net OPEB liability - ending (a) - (b)	524,405
Plan fiduciary net position as a percentage of Total OPEB liability	7.93%
Covered-employee payroll	6,614,006
District's Net OPEB liability as a percentage of covered-employee payroll	7.93%

See Note 12, Other Postemployment Benefits, for more information.

Multi-year trend information is not available at this time.

The District will report the above RSI information prospectively as the information becomes available.

GENERAL FUND
BALANCE SHEET
JUNE 30, 2019

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Cash	4,040,662	3,994,447
Investments	1,814,242	1,517,118
Current Property Taxes Receivable	715,586	630,491
Delinquent Property Taxes Receivable	15,141	49,420
Accounts Receivable	11,014	22,539
Interest Receivable	2,625	
Due from Other Funds	107,163	
Due From Department of Education	1,035,026	1,170,785
Due From Federal Government Through the Department of Education	99,484	223,254
Due From Other Governmental Units	46,257	30,906
Prepaid Expenses	66,997	57,280
Total Assets	<u>7,954,197</u>	<u>7,696,240</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Salaries Payable	621,795	603,837
Accounts Payable	254,601	221,249
Due to Other Governmental Units	62,616	44,286
Accrued Payroll Liabilities	523,825	474,530
Total Liabilities	<u>1,462,837</u>	<u>1,343,902</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue-Delinquent Taxes	15,141	49,420
Property Taxes Levied for Subsequent Years	1,422,368	1,299,131
Total Deferred Inflows of Resources	<u>1,437,509</u>	<u>1,348,551</u>
<u>Fund Balances</u>		
Fund Balance-Nonspendable	66,997	57,280
Fund Balance-Restricted	907,483	973,298
Fund Balance-Committed	103,577	142,686
Fund Balance-Assigned	18,846	13,597
Fund Balance-Unassigned	3,956,948	3,816,926
Total Fund Balances	<u>5,053,851</u>	<u>5,003,787</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>7,954,197</u>	<u>7,696,240</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Year Ended June 30</u>			
	<u>2019</u>			<u>2018</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
<u>Revenues</u>				
<u>Local Property Tax Levy</u>				
County Apportionment	25,000	21,094	(3,906)	29,303
Local Tax Levy	1,345,954	1,337,742	(8,212)	1,505,851
Miscellaneous Tax Revenue	12,000	28,154	16,154	15,206
Total Local Property Tax Levy	<u>1,382,954</u>	<u>1,386,990</u>	<u>4,036</u>	<u>1,550,360</u>
<u>Other Local and County Revenues</u>				
Admissions	70,100	64,582	(5,518)	71,587
Fees	46,800	49,041	2,241	49,101
Gifts and Bequests	30,000	9,583	(20,417)	32,693
Interest Income	22,800	48,904	26,104	24,489
Medical Assistance Revenue	70,000	71,252	1,252	50,208
Other Miscellaneous Income	130,045	129,599	(446)	161,576
Rent of Facilities	18,000	17,459	(541)	14,913
Tuition from Other Minnesota School Districts		7,898	7,898	
Total Other Local and County Revenues	<u>387,745</u>	<u>398,318</u>	<u>10,573</u>	<u>404,567</u>
<u>Revenue From State Sources</u>				
Disparity	13,000	14,816	1,816	14,953
Education Homestead Credit	16,000	17,506	1,506	18,024
Endowment Fund Apportionment	40,162	47,837	7,675	43,954
General Education Aid	10,099,618	10,080,809	(18,809)	9,789,801
Other State Aids	112,879	119,443	6,564	63,665
Special Education	1,509,913	1,740,117	230,204	1,275,006
Total Revenue From State Sources	<u>11,791,572</u>	<u>12,020,528</u>	<u>228,956</u>	<u>11,205,403</u>
<u>Revenue From Federal Sources</u>				
Title Programs	273,959	297,711	23,752	289,580
Federal Aid Programs	44,000	55,765	11,765	118,387
Total Revenue From Federal Sources	<u>317,959</u>	<u>353,476</u>	<u>35,517</u>	<u>407,967</u>
<u>Sales and Other Conversion of Assets</u>				
Insurance Recovery	5,000	383	(4,617)	3,457
Sales of Material	900	623	(277)	6,054
Total Sales and Other				
Conversion of Assets	<u>5,900</u>	<u>1,006</u>	<u>(4,894)</u>	<u>9,511</u>
Total Revenues	<u>13,886,130</u>	<u>14,160,318</u>	<u>274,188</u>	<u>13,577,808</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Year Ended June 30			
	2019	2019	Variance with Final Budget	2018
<u>Expenditures</u>	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
<u>District and School Administration</u>				
<u>Administration</u>				
Dues and Membership	14,175	11,983	(2,192)	12,902
Equipment	5,550		(5,550)	5,485
Fixed Charges and Employee Benefits	218,369	220,999	2,630	210,693
Instructional Supplies				2,091
Other	55,042		(55,042)	
Professional Services	80,900	72,471	(8,429)	74,626
Rent	600		(600)	150
Salaries	541,930	573,951	32,021	568,301
Supplies	23,000	27,685	4,685	27,640
Travel and Transportation	5,550	6,458	908	4,443
Utilities	1,500	1,385	(115)	1,550
Total Administration	<u>946,616</u>	<u>914,932</u>	<u>(31,684)</u>	<u>907,881</u>
<u>District Support Services</u>				
Dues and Membership	250		(250)	220
Equipment	7,497	2,306	(5,191)	10,318
Fixed Charges and Employee Benefits	80,100	60,656	(19,444)	54,770
Other	99,111	91,502	(7,609)	2,178
Professional Services	46,518	36,982	(9,536)	34,044
Rentals and Leases	78,181	67,972	(10,209)	76,693
Repairs and Maintenance				235
Salaries	157,354	154,044	(3,310)	150,855
Supplies		902	902	3,152
Travel	100		(100)	
Total District Support Services	<u>469,111</u>	<u>414,364</u>	<u>(54,747)</u>	<u>332,465</u>
<u>Regular Instruction</u>				
<u>District Wide</u>				
Dues and Memberships	750	244	(506)	245
Equipment				2,000
Fixed Charges and Employee Benefits	63,755	57,775	(5,980)	57,638
Instructional Supplies		6,810	6,810	5,746
Other				49
Professional Services	6,836	2,581	(4,255)	8,385
Rent		285	285	
Repair and Maintenance	1,427	4,054	2,627	1,586
Salaries	360,367	396,395	36,028	404,343
Supplies	2,049	5,045	2,996	3,634
Travel and Transportation	6,135	2,941	(3,194)	4,362
Total District Wide	<u>441,319</u>	<u>476,130</u>	<u>34,811</u>	<u>487,988</u>
<u>Elementary School</u>				
Dues and Membership	1,825	565	(1,260)	639
Equipment		9,012	9,012	12,347
Fixed Charges and Employee Benefits	412,225	464,002	51,777	388,547
Instructional Supplies	226,290	206,016	(20,274)	144,900
Reimbursements to other MN Districts		616	616	
Professional Services	6,000	11,794	5,794	5,235
Salaries	1,747,660	1,799,629	51,969	1,700,153
Supplies	21,000	12,596	(8,404)	9,199
Travel and Transportation	6,200	9,610	3,410	6,505
Total Elementary School	<u>2,421,200</u>	<u>2,513,840</u>	<u>92,640</u>	<u>2,267,525</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Year Ended June 30			
	2019		2018	
<u>Expenditures - continued</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
<u>Regular Instruction - continued</u>				
<u>Middle School</u>				
Equipment		798	798	
Fixed Charges and Employee Benefits	255,813	272,813	17,000	243,892
Instructional Supplies	8,720	29,761	21,041	71,527
Professional Services		9,080	9,080	
Reimbursements to other MN Districts		1,356	1,356	
Salaries	991,350	999,670	8,320	1,026,192
Supplies		6,150	6,150	4,548
Travel and Transportation	8,670	8,167	(503)	10,816
Total Middle School	1,264,553	1,327,795	63,242	1,356,975
<u>Secondary School</u>				
Dues and Memberships	3,075	2,534	(541)	2,290
Equipment	79,609	82,688	3,079	172,971
Fixed Charges and Employee Benefits	272,775	247,675	(25,100)	242,226
Instructional Supplies	76,148	67,151	(8,997)	64,578
Professional Services	54,700	37,775	(16,925)	40,403
Reimbursements to Other Agencies/Districts	121,000	125,004	4,004	112,473
Reimbursements to Other MN Districts	1,000	6,078	5,078	247
Rentals and Leases	1,500	1,355	(145)	1,355
Repair and Maintenance	7,158	8,878	1,720	7,266
Salaries	1,397,695	1,204,708	(192,987)	1,209,025
Supplies	82,835	75,752	(7,083)	60,553
Travel and Transportation	148,815	117,969	(30,846)	135,081
Total Secondary School	2,246,310	1,977,567	(268,743)	2,048,468
Total Regular Instruction	6,373,382	6,295,332	(78,050)	6,160,956
<u>Vocational Instruction</u>				
Equipment				4,623
Fixed Charges and Employee Benefits	32,643	43,245	10,602	45,185
Instructional Supplies	30,310	49,152	18,842	32,691
Rentals and Leases	8,568	8,400	(168)	8,400
Salaries	122,568	193,103	70,535	212,217
Supplies	1,500	494	(1,006)	2,544
Travel and Transportation	13,000	11,495	(1,505)	13,888
Utilities		171	171	
Total Vocational Instruction	208,589	306,060	97,471	319,548

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Year Ended June 30			2018 Actual
	2019 Budget	2019 Actual	Variance with Final Budget	
Expenditures - continued				
<u>Exceptional Instruction</u>				
Equipment	2,000	1,571	(429)	3,223
Fixed Charges and Employee Benefits	266,466	232,692	(33,774)	208,448
Instructional Supplies	21,576	22,202	626	11,253
Professional Services	405,550	330,976	(74,574)	437,328
Reimbursements to Other Agencies/Districts	202,600	154,066	(48,534)	114,089
Reimbursements to Other MN Districts	352,618	355,571	2,953	369,506
Rentals and Leases	25,000		(25,000)	
Salaries	1,269,634	1,118,986	(150,648)	1,046,822
Supplies	1,500	2,913	1,413	4,244
Travel and Transportation	7,362	15,684	8,322	10,357
Total Exceptional Instruction	2,554,306	2,234,661	(319,645)	2,205,270
<u>Instructional Support Services</u>				
Dues	1,350	4,738	3,388	2,750
Equipment	14,000	21,291	7,291	141,600
Fixed Charges and Employee Benefits	85,160	85,863	703	75,784
Instructional Supplies	62,400	48,915	(13,485)	43,936
Professional Services	84,602	85,917	1,315	100,296
Repair and Maintenance		7,784	7,784	4,980
Salaries	321,629	290,352	(31,277)	234,417
Supplies	47,774	59,032	11,258	43,425
Travel and Transportation	73,575	53,948	(19,627)	44,721
Utilities	500	500		500
Total Instructional Support	690,990	658,340	(32,650)	692,409
<u>Pupil Support Services</u>				
Fixed Charges and Employee Benefits	72,694	44,301	(28,393)	55,979
Instructional Supplies		55	55	36
Other		27,424	27,424	
Professional Services	44,416	45,109	693	43,828
Reimbursements to Other MN Districts	32,000	31,654	(346)	
Rentals and Leases	110	105	(5)	105
Repair and Maintenance		102	102	199
Salaries	262,989	206,279	(56,710)	217,085
Supplies	350	9,467	9,117	10,772
Travel and Transportation	1,186,922	1,073,426	(113,496)	1,292,035
Total Pupil Support Services	1,599,481	1,437,922	(161,559)	1,620,039

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Year Ended June 30</u>			<u>2018</u>
	<u>2019</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
<u>Expenditures - continued</u>				
<u>Site, Building and Equipment</u>				
Building Improvements	228,000	222,402	(5,598)	227,669
Dues and Memberships	610	1,300	690	2,841
Equipment	157,461	147,389	(10,072)	119,082
Fixed Charges and Employee Benefits	205,001	173,400	(31,601)	165,997
Fuel	92,696	89,772	(2,924)	81,937
Lease Interest	23,814	23,814		13,203
Lease Principle	68,000	68,000		
Professional Services	17,280	31,485	14,205	26,308
Repair and Maintenance	186,100	164,737	(21,363)	158,158
Salaries	337,744	348,642	10,898	329,018
Site and Ground Acquisition	80,000	75,098	(4,902)	55,715
Supplies	109,731	85,976	(23,755)	78,752
Travel and Transportation	1,750	1,811	61	1,033
Utilities	340,310	326,519	(13,791)	325,148
Total Site, Building and Equipment	<u>1,848,497</u>	<u>1,760,345</u>	<u>(88,152)</u>	<u>1,584,861</u>
<u>Fixed Cost Programs</u>				
Property Insurance	88,200	88,298	98	84,445
Total Fixed Cost Programs	<u>88,200</u>	<u>88,298</u>	<u>98</u>	<u>84,445</u>
Total Expenditures	<u>14,779,172</u>	<u>14,110,254</u>	<u>(668,918)</u>	<u>13,907,874</u>
Excess Revenues (Expenditures)	<u>(893,042)</u>	50,064	<u>943,106</u>	(330,066)
Fund Balance-July 1		<u>5,003,787</u>		<u>5,333,853</u>
Fund Balance-June 30		<u>5,053,851</u>		<u>5,003,787</u>

ALL SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2019

<u>Assets</u>	<u>Food Service</u>	<u>Community Service</u>	<u>Total (Memo Only)</u>	
			<u>2019</u>	<u>2018</u>
Cash and Investments	412,766	313,784	726,550	528,264
Current Property Taxes Receivable		56,102	56,102	58,371
Delinquent Property Taxes Receivable		349	349	682
Accounts Receivable	22,106		22,106	35,541
Due from Department of Education		6,751	6,751	5,982
Due from Federal Government Through the Department of Education	14,074		14,074	12,495
Due from other Governmental Units	6,320	56,621	62,941	54,978
Total Assets	<u>455,266</u>	<u>433,607</u>	<u>888,873</u>	<u>696,313</u>
 <u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
<u>Liabilities</u>				
Salaries Payable		51,400	51,400	10,165
Accounts Payable	94,763	2,340	97,103	116,079
Unearned Revenue	13,572		13,572	11,586
Total Liabilities	<u>108,335</u>	<u>53,740</u>	<u>162,075</u>	<u>137,830</u>
 <u>Deferred Inflows of Resources</u>				
Unavailable Revenue-Delinquent Taxes		349	349	682
Property Taxes Levied for Subsequent Years Expenditures		117,571	117,571	125,309
Total Deferred Inflows of Resources	<u>-0-</u>	<u>117,920</u>	<u>117,920</u>	<u>125,991</u>
 <u>Fund Balances</u>				
Fund Balance-Restricted	346,931	261,947	608,878	432,492
Total Fund Balances	<u>346,931</u>	<u>261,947</u>	<u>608,878</u>	<u>432,492</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>455,266</u>	<u>433,607</u>	<u>888,873</u>	<u>696,313</u>

SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

<u>Revenues</u>	<u>Food Service</u>	<u>Community Service</u>	Total (Memo Only)	
			<u>2019</u>	<u>2018</u>
Local Property Tax Levy		144,797	144,797	123,557
Other Local and County Revenues	24,928	293,391	318,319	291,528
Revenue from State Sources	63,501	70,923	134,424	125,301
Revenue from Federal Sources	479,224		479,224	496,810
Other	328,371	2,020	330,391	392,330
Total Revenues	<u>896,024</u>	<u>511,131</u>	<u>1,407,155</u>	<u>1,429,526</u>
<u>Expenditures</u>				
Community Education and Services		427,812	427,812	476,651
Pupil Support Services	802,957		802,957	927,151
Total Expenditures	<u>802,957</u>	<u>427,812</u>	<u>1,230,769</u>	<u>1,403,802</u>
Excess Revenues (Expenditures)	93,067	83,319	176,386	25,724
Fund Balance-July 1	<u>253,864</u>	<u>178,628</u>	<u>432,492</u>	<u>406,768</u>
Fund Balance-June 30	<u><u>346,931</u></u>	<u><u>261,947</u></u>	<u><u>608,878</u></u>	<u><u>432,492</u></u>

FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Year Ended June 30</u>			<u>2018</u>
	<u>2019</u>	<u>Variance with</u>		
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>	<u>Actual</u>
<u>Other Local and County Revenues</u>				
Interest Income	937	19,928	18,991	8,658
Miscellaneous		5,000	5,000	
Total Other Local and County Revenues	937	24,928	23,991	8,658
<u>Revenue From State Sources</u>				
Breakfast Reimbursement	31,400	33,176	1,776	32,254
Lunch Reimbursement	30,200	29,745	(455)	29,958
Summer Food Service Program	700	580	(120)	643
Total Revenue From State Sources	62,300	63,501	1,201	62,855
<u>Revenue From Federal Sources</u>				
Breakfast Reimbursement	145,000	125,403	(19,597)	131,894
Commodities	74,000	52,607	(21,393)	52,531
Lunch Reimbursement	282,500	266,842	(15,658)	276,858
Special Milk Program	150		(150)	150
Summer Food Service Program	39,000	34,372	(4,628)	35,377
Total Revenue From Federal Sources	540,650	479,224	(61,426)	496,810
<u>Sales and Other Conversion of Assets</u>				
Lunch and Breakfast Sales	345,200	328,371	(16,829)	389,708
Total Revenues	949,087	896,024	(53,063)	958,031
<u>Expenditures</u>				
<u>Pupil Support Services</u>				
Commodities	74,000	52,607	(21,393)	52,531
Equipment	56,000	18,904	(37,096)	36,418
Fixed Charges and Employee Benefits		424	424	1,362
Food	10,800		(10,800)	11,113
Milk				774
Professional Services	750,000	703,058	(46,942)	806,587
Repairs and Maintenance	5,000	8,523	3,523	4,507
Supplies	12,634	18,759	6,125	12,699
Travel and Transportation	1,200	682	(518)	1,160
Total Expenditures	909,634	802,957	(106,677)	927,151
Excess Revenues (Expenditures)	39,453	93,067	53,614	30,880
Fund Balance-July 1		253,864		222,984
Fund Balance-June 30		346,931		253,864

COMMUNITY SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Year Ended June 30			
	2019	2018		2018
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	119,058	144,797	25,739	123,557
Total Local Property Tax Levy	119,058	144,797	25,739	123,557
<u>Other Local and County Revenues</u>				
Fees	30,700	26,590	(4,110)	31,562
Gifts and Bequests		7,500	7,500	12,981
Interest Income	1,250	14,217	12,967	4,649
Other Miscellaneous Income	135,925	148,085	12,160	132,418
Tuition from Patrons	98,975	96,999	(1,976)	101,260
Total Other Local and County Revenues	266,850	293,391	26,541	282,870
<u>Revenue From State Sources</u>				
Disparity	2,500	2,979	479	2,757
Market Value Credits	3,750	3,519	(231)	3,323
Other State Aids	60,279	64,425	4,146	56,366
Total Revenue From State Sources	66,529	70,923	4,394	62,446
<u>Sales and Other Conversion of Assets</u>				
Sales of Materials	2,000	2,020	20	2,622
Total Sales and Other Conversion of Assets	2,000	2,020	20	2,622
Total Revenues	454,437	511,131	56,694	471,495
<u>Expenditures</u>				
<u>Community Education and Services</u>				
Dues and Memberships	650	538	(112)	528
Equipment	1,050	3,500	2,450	1,310
Fixed Charges	58,372	62,312	3,940	67,243
Instructional Supplies	44,952	30,444	(14,508)	43,795
Other Non-Education Agencies	17,000	24,494	7,494	29,318
Professional Services	5,200	9,045	3,845	4,641
Rentals and Leases	962	27,294	26,332	15,625
Repair and Maintenance	2,050	1,151	(899)	1,381
Salaries	278,822	240,121	(38,701)	301,397
Supplies	13,378	23,257	9,879	9,831
Travel and Transportation	1,450	4,896	3,446	1,582
Utilities		760	760	
Total Expenditures	423,886	427,812	3,926	476,651
Excess Revenues (Expenditures)	30,551	83,319	52,768	(5,156)
Fund Balance-July 1		178,628		183,784
Fund Balance-June 30		261,947		178,628

CAPITAL PROJECTS FUND
BALANCE SHEET
JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
<u>Assets</u>	<u>-0-</u>	<u>-0-</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	220,551	
Due to Other Funds	<u>107,163</u>	
Total Liabilities	<u>327,714</u>	<u>-0-</u>
<u>Fund Balances</u>		
Fund Balance-Unassigned	<u>(327,714)</u>	
Total Fund Balances	<u>(327,714)</u>	<u>-0-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>-0-</u>	<u>-0-</u>

CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Year Ended June 30</u>			<u>2018</u>
	<u>2019</u>		<u>Variance with</u>	
	<u>Budget</u>	<u>Actual</u>		
<u>Revenues</u>	-0-	-0-		-0-
<u>Expenditures</u>				
<u>Site, Building and Equipment</u>				
Building		15	15	767,750
Fixed Charges and Employee Benefits		1	1	
Professional Services		322,700	322,700	22,250
Salaries		201	201	
Supplies		4,749	4,749	
Travel and Transportation		48	48	
Total Expenditures	-0-	327,714	327,714	790,000
Excess Revenues (Expenditures)		(327,714)	(327,714)	(790,000)
<u>Other Financing Sources (Uses)</u>				
Lease Proceeds				790,000
Total Other Financing Sources (Uses)	-0-	-0-	-0-	790,000
Excess Revenues and Other Financing Sources Over Expenditures and Other Uses	-0-	(327,714)	(327,714)	-0-
Fund Balance-July 1				
Fund Balance-June 30		(327,714)		-0-

DEBT SERVICE FUND
BALANCE SHEET
JUNE 30, 2019

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Cash	178,515	687,193
Investments	664,177	187,250
Current Property Taxes Receivable	996,578	973,170
Delinquent Property Taxes Receivable	15,646	1,229
Due from Department of Education	54,562	8,045
Total Assets	<u>1,909,478</u>	<u>1,856,887</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue-Delinquent Taxes	15,646	1,229
Property Taxes Levied for Subsequent Years	<u>1,561,291</u>	<u>1,532,127</u>
Total Liabilities	1,576,937	1,533,356
<u>Fund Balances</u>		
Fund Balance-Restricted	<u>332,541</u>	<u>323,531</u>
Total Fund Balances	<u>332,541</u>	<u>323,531</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>1,909,478</u>	<u>1,856,887</u>

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Year Ended June 30</u>			
	<u>2019</u>	<u>2018</u>	<u>Variance with</u>	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	1,464,127	986,330	(477,797)	1,432,559
Total Local Property Tax Levy	<u>1,464,127</u>	<u>986,330</u>	<u>(477,797)</u>	<u>1,432,559</u>
<u>Other Local and County Revenues</u>				
Interest Income	4,500	16,414	11,914	6,315
Total Other Local and County Revenues	<u>4,500</u>	<u>16,414</u>	<u>11,914</u>	<u>6,315</u>
<u>Revenue From State Sources</u>				
Disparity Reduction	38,000	36,394	(1,606)	36,479
Market Value Credits	30,000	43,002	13,002	43,970
School Building Bond Ag Credit		466,228	466,228	
Total Revenue From State Sources	<u>68,000</u>	<u>545,624</u>	<u>477,624</u>	<u>80,449</u>
Total Revenue	<u>1,536,627</u>	<u>1,548,368</u>	<u>11,741</u>	<u>1,519,323</u>
<u>Expenditures</u>				
<u>Fiscal and Other Fixed Cost Programs</u>				
Interest and Fiscal Charges	44,358	44,358		59,158
Principal	1,495,000	1,495,000		1,480,000
Total Expenditures	<u>1,539,358</u>	<u>1,539,358</u>	<u>-0-</u>	<u>1,539,158</u>
Excess Revenues (Expenditures)	<u>(2,731)</u>	9,010	<u>11,741</u>	(19,835)
Fund Balance-July 1		323,531		343,366
Fund Balance-June 30		<u>332,541</u>		<u>323,531</u>

UNIFORM FINANCIAL ACCOUNTING & REPORTING STANDARDS
COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2019

	Audit	UFARS	Audit - UFARS
<u>01 GENERAL FUND</u>			
Total Revenues	<u>14,160,318</u>	<u>14,160,318</u>	<u>0</u>
Total Expenditures	<u>14,110,254</u>	<u>14,110,254</u>	<u>0</u>
Nonspendable:			
460 Non Spendable Fund Balance	66,997	66,997	0
Restricted/Reserve:			
403 Staff Development	243,342	243,342	0
424 Operating Capital	48,436	48,435	1
428 Learning & Development	946	946	0
438 Gifted & Talented	193,970	193,970	0
441 Basic Skills Programs	226,096	226,096	0
449 Safe Schools Levy	61,864	61,864	0
459 Basic Skills Ext Time	26,975	26,974	1
467 Long Term Facility Maintenance	95,264	95,264	0
472 Medical Assistance	3,275	3,275	0
Restricted:			
464 Restricted Fund Balance	7,315	7,315	0
Committed:			
418 Committed for Separation	103,577	103,577	0
Assigned:			
462 Assigned Fund Balance	18,846	18,846	0
Unassigned:			
422 Unassigned Fund Balance	3,956,948	3,956,948	0
<u>02 FOOD SERVICE</u>			
Total Revenues	<u>896,024</u>	<u>896,024</u>	<u>0</u>
Total Expenditures	<u>802,957</u>	<u>802,958</u>	<u>-1</u>
Restricted:			
464 Restricted Fund Balance	346,931	346,931	0
<u>04 COMMUNITY SERVICE</u>			
Total Revenues	<u>511,131</u>	<u>511,131</u>	<u>0</u>
Total Expenditures	<u>427,812</u>	<u>427,812</u>	<u>0</u>
Restricted/Reserve:			
431 Community Education	167,597	167,597	0
432 Early Childhood and Family Education	102,434	102,434	0
444 Learning Readiness	(23,753)	(23,753)	0
Restricted:			
464 Restricted Fund Balance	15,669	15,669	0
<u>06 BUILDING CONSTRUCTION</u>			
Total Revenues			
Total Expenditures	<u>327,714</u>	<u>327,714</u>	<u>0</u>
Unassigned:			
463 Unassigned	(327,714)	(327,714)	0
<u>07 DEBT SERVICE</u>			
Total Revenues	<u>1,548,368</u>	<u>1,548,368</u>	<u>0</u>
Total Expenditures	<u>1,539,358</u>	<u>1,539,358</u>	<u>0</u>
Restricted:			
464 Restricted Fund Balance	332,541	332,541	0

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To The Board of Education
Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Independent School District No. 2689, Pipestone Area Schools, Pipestone, Minnesota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Independent School District No. 2689's basic financial statements and have issued our report thereon dated October 16, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Independent School District No. 2689's internal control over financial reporting to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Independent School District No. 2689's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Independent School District No. 2689's internal control over financial reporting.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Independent School District No. 2689's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations, as items 1999-001 and 2007-001 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Independent School District No. 2689's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for School District's*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven main 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 study included all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Independent School District No. 2689 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School District's*. 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 Independent School District No. 2689's noncompliance with the above referenced provisions.


Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Independent School District No. 2689's Response to Findings

The Independent School District No. 2689's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The Independent School District No. 2689's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.


Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

October 16, 2019

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INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To The Board of Education
Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the Independent School District No. 2869, Pipestone Area Schools, Pipestone, Minnesota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Independent School District No. 2869's major federal programs for the year ended June 30, 2019. Independent School District No. 2689's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, federal statements, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Independent School District No. 2869's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 2869's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Independent School District No. 2869's compliance.

Opinion on Each Major Federal Program

In our opinion, the Independent School District No. 2869, Pipestone Area Schools, Pipestone, Minnesota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Independent School District No. 2869, Pipestone Area Schools, Pipestone, Minnesota, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No. 2869's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Independent School District No. 2689's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and recommendations as items 2000-003 to be a material weakness.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Independent School District No. 2869's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Independent School District No. 2869's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

October 16, 2019

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INDEPENDENT AUDITOR'S REPORT ON THE
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
OF THE STUDENT ACTIVITY FUND

To the Board of Education
Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Report on the Financial Statements

We have audited the statement of cash receipts and disbursements of the student activity fund of Independent School District No. 2689, Pipestone Area Schools, Pipestone, Minnesota for the year ended June 30, 2019.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; 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 error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 District's preparation and fair presentation of 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 District'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.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

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

Basis for Qualified Opinion

The district has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practicable for us to extend our audit of such cash collections beyond the accounts recorded.

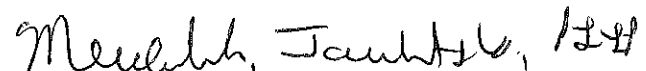
Because these financial statements are prepared on the basis of cash receipts and disbursements, revenue is recorded when received rather than when earned and expenses are recognized when paid rather than when the obligations are incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operation in conformity with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the cash transactions of the district’s student activity account for the year ended June 30, 2019, and the cash balance at that date.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated October 16, 2019 on our consideration of the District’s compliance with the provisions of the *Manual for Activity Fund Accounting* issued by the Minnesota Department of Education, pursuant to Minnesota Statutes §123B.49. The purpose of that report is to determine if the district has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.


Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

October 16, 2019

STUDENT ACTIVITIES FUND
STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

Organization	07-01-18			06-30-19
	Balance	Receipts	Disbursements	Balance
Baseball Club	3,632.38	5,337.98	6,116.71	2,853.65
Boys Basketball	376.20	750.00	1,015.00	111.20
Boys Tennis	126.55		10.00	116.55
Cheerleaders	635.02	3,443.43	2,940.69	1,137.76
Class of 2019	4,030.59	2,801.79	1,426.65	5,405.73
Class of 2020	619.86	1,359.50	937.50	1,041.86
Class of 2021	-	723.70		723.70
Class Emergency Fund	1,384.65	100.00	81.32	1,403.33
Cross Country	1,200.55	1,174.50	674.00	1,701.05
FFA	3,173.24	45,808.89	44,990.55	3,991.58
Football Club	1,857.08	438.00	771.15	1,523.93
French Club	3,855.40	6,702.24	7,702.64	2,855.00
Girls Basketball	711.96	1,927.60	880.00	1,759.56
Girls Tennis	2,791.36	1,105.23	1,620.65	2,275.94
Golf Club	1,180.10	516.00	1,403.24	292.86
Gymnastics	1,893.12	1,142.55	1,335.51	1,700.16
High School Student Council	1,285.96	1,344.66	1,943.15	687.47
Homecoming	557.03	718.21	527.96	747.28
Journalism	2,171.74	3,940.84	3,335.75	2,776.83
Middle School Student Council	2,043.57	836.50	524.65	2,355.42
National Honor Society	2,090.09	716.99	319.44	2,487.64
One Act Play	64.94			64.94
Peer Helpers	1,860.96			1,860.96
Prom	4,174.07	11,160.31	9,351.34	5,983.04
Robotics	5,960.15	5,423.64	471.00	10,912.79
School Store/Concessions	9,829.78	17,553.51	19,107.74	8,275.55
Softball	1,269.54	450.00	350.00	1,369.54
Spanish Club	4,137.71	5,848.65	9,183.73	802.63
Speech	4,601.18	7.88		4,609.06
STARS	1,287.83	179.32	230.12	1,237.03
Swing Choir	8,544.54	19,366.07	17,192.38	10,718.23
Volleyball	3,825.91	9,542.40	10,317.20	3,051.11
Wrestling Club	1,203.86	303.75	1,036.42	471.19
Total	82,376.92	150,724.14	145,796.49	87,304.57

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WITH THE FIRM

David L. Meulebroeck, CPA

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS
APPLICABLE TO THE STUDENT ACTIVITY FUND

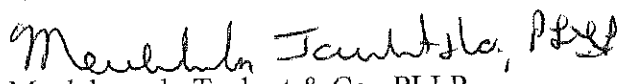
To the Board of Education
Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the Statement of Cash Receipts and Disbursements of the student activity accounts of Independent School District No. 2689, Pipestone Area Schools, Pipestone, Minnesota for the year ended June 30, 2019, and have issued our report thereon dated October 16, 2019.

The *Manual for Student Activity Accounting*, issued by the Minnesota Department of Education, pursuant to *Minnesota Statutes* Section 123.49, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual.

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 *Manual for Student Activity Accounting*. 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 referenced provisions.

The purpose of this report is solely to describe the scope of our testing 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.


Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota
October 16, 2019

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

<u>Federal Grantor/ Pass Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Expenditures to Subrecipients</u>
U.S. Department of Agriculture/			
Passed Through Minnesota Department of Children Families and Learning/ Child Nutrition Cluster:			
School Breakfast Program	10.553	125,403 *	None
National School Lunch Program	10.555	319,449 * #	None
Summer Food Service Program for Children	10.559	34,372 *	None
		<u>479,224</u>	
U.S. Department of Education/			
Passed Through Southwest/West Central Educational Coop			
Special Education-Grants to States (IDEA, Part B)	84.027	43,511	None
Passed Through Minnesota Department of Children, Families and Learning			
Improving Teacher Quality State Grants (Title II, Part A)	84.367	58,145	None
Title I Grants to Local Educational Agencies	84.010	239,230	None
Title III, Part A, English Language Acquisition, Language Enhancement and Academic Achievement	84.365A	336	None
Special Education Preschool Grant, Classroom Engagement Model	84.173A	12,254	None
Total		<u><u>832,700</u></u>	

Notes

- 1) * Denotes Major Program
- 2) Major programs were determined using the 40% coverage rules.
All programs are Type B.
- 3) Basis of Presentation
The accompanying schedule of expenditures of federal awards includes the federal grant activity of Independent School District No. 2689 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of the basic financial statements.
- 4) # Includes \$52,607 of Federal Food Commodities received
- 5) The 10% de-minimis indirect cost rate was not elected.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2019

I. Summary of Auditor's Results

- A. Our report expresses an unqualified opinion on the general purpose financial statements of Independent School District No. 2689, Pipestone Area Schools.
- B. Matters involving internal control over financial reporting were reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards." Items 1999-001 and 2007-001 are material weaknesses.
- C. No instances of noncompliance material to the financial statements of Independent School District 2689 were disclosed during the audit.
- D. Significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance. Item 2000-003 is a material weakness.
- E. The Auditor's Report on compliance for the major federal award programs for Independent School District 2689 expresses an unqualified opinion.
- F. A finding was disclosed that is required to be reported in accordance with the Uniform Guidance.
- G. The major programs are:

<u>Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559

- H. The threshold for distinguishing between Types A and B programs was \$750,000.
- I. Independent School District No. 2689 was not determined to be a low-risk auditee.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2019

II. Financial Statement Audit—Internal Controls

Previously Reported Items Not Resolved

1999-001 **Internal Accounting Controls**

Criteria: Internal control should include an adequate segregation of duties in the accounting functions.

Condition: Due to a limited number of office personnel, proper segregation of duties in the accounting functions is not always possible.

Cause: This condition is not unusual where staffing size can result in an improper segregation of duties. Management has determined that given the size and resource limitations the desirable level of segregation of duties necessary may not be feasible.

Effect: Without an adequate segregation of duties these are opportunities for errors or fraudulent activities to occur and remain undetected.

Recommendation: We recommend that the District's management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff and encourage additional controls as they become available due to changes in staff, etc.

2007-001 **GAAP Financial Statements**

Personnel that lack the necessary expertise are responsible for financial statements required to be prepared in accordance with generally accepted accounting principles.

Criteria: Personnel in the District should prepare the financial statements in accordance with generally accepted accounting principles.

Condition: It was determined that the personnel lacked the necessary expertise to prepare the financial statements in accordance with generally accepted accounting principles.

Cause: Personnel in the District do not have the experience or expertise to prepare the financial statements in accordance with generally accepted accounting principles.

Effect: As the District personnel were unable to prepare the financial statements in accordance with generally accepted accounting principles, the District had the audit firm assist with the preparation of the financial statements in accordance with generally accepted accounting principles.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2019

III. Major Federal Award Programs—Internal Controls Over Compliance

Previously Reported Items Not Resolved

2000-003 Internal Accounting Controls

Criteria: Internal control should include an adequate segregation of duties in the accounting functions.

Condition: Due to a limited number of office personnel, proper segregation of duties in the accounting functions is not always possible.

Cause: This condition is not unusual where staffing size can result in an improper segregation of duties. Management has determined that given the size and resource limitations the desirable level of segregation of duties necessary may not be feasible.

Effect: Without an adequate segregation of duties these are opportunities for errors or fraudulent activities to occur and remain undetected.

Recommendation: We recommend that the District's management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff and encourage additional controls as they become available due to changes in staff, etc.

IV. Corrective Action Plan

2000-003 Name and Contact Person Responsible For Corrective Action

Jacque Kennedy, Business Manager

Corrective Action Plan (CAP)

Because it is economically infeasible to hire additional staff to adequately provide for the proper segregation of duties, the District will utilize staff and board members to segregate duties to the extent possible.

Planned completion date for CAP:

N/A – requires ongoing monitoring

Plan to monitor completion of CAP:

The Business Manager and Board Members will monitor the internal control system to ensure oversight procedures are functioning as intended.