

FINANCIAL STATEMENTS

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

FOR THE YEAR ENDING JUNE 30, 2018

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

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Pipestone, Minnesota

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

BOARD OF EDUCATION AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2018

BOARD OF EDUCATION

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

ADMINISTRATIVE PERSONNEL

Kevin Enerson	Superintendent
Jacque Kennedy	Business Manager

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Lake Wilson, Minnesota 56151
507 879-3538
Marshall, Minnesota 56258
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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, 2018, 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, 2017, and in our report dated October 11, 2017, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 11, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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, and Schedule of District Contributions to OPEB on pages 63 - 66 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 24, 2018, 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
Certified Public Accountants
Pipestone, Minnesota
October 24, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2018

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, 2018. 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 2017-2018 fiscal year include the following:

- Net position decreased by \$2,884,610, or 51.6% over June 30, 2017 mainly due to a decrease in outflows pertaining to GASB.
- Fund Balance decreased by \$324,177, or 5.3% over June 30, 2017.
- Total governmental revenues increased \$298,112 or 1.8% in comparison to fiscal year 2017, while governmental expenditures increased \$1,866,532 or 11.8% in comparison to fiscal year 2017, primarily due to the 790,000 for the tennis courts and fixed asset additions.

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 \$2,705,381 at the close of the most recent fiscal year. This was a decrease of \$2,884,610 or 51.6% from the previous year total of \$5,589,991.

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

Assets	<u>2018</u>	<u>2017</u>
Current and other assets	10,315,060	10,683,726
Capital assets, net of depreciation	<u>15,667,314</u>	<u>15,295,316</u>
Total Assets	25,982,374	25,979,042
 Deferred Outflows of Resources		
Related to Pensions	<u>11,124,916</u>	<u>15,973,691</u>
Total Assets and Deferred Outflows of Resources	<u>37,107,290</u>	<u>41,952,733</u>
 Liabilities		
Current and other liabilities	3,090,377	2,956,898
Long-term liabilities	<u>23,986,263</u>	<u>29,562,785</u>
Total Liabilities	27,076,640	32,519,683
 Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year	2,956,567	3,107,365
Related to Pensions	<u>4,368,702</u>	<u>735,694</u>
Total Deferred Inflows of Resources	7,325,269	3,843,059
 Net Position		
Net Investment in capital assets	11,872,314	10,810,316
Restricted	1,716,203	1,689,661
Unrestricted	<u>(10,896,254)</u>	<u>(6,909,986)</u>
Net Position	<u>2,705,381</u>	<u>5,589,991</u>
Total Liabilities, Deferred Inflows of Resources & Net Position	<u>37,107,290</u>	<u>41,952,733</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, 2018

Revenues	<u>2018</u>	<u>2017</u>
Program Revenues		
Charges for Services	717,015	724,043
Operating Grants and Contributions	3,685,113	3,842,780
General Revenues		
Property Taxes	3,139,610	2,883,128
Unrestricted Federal and State Aid	8,630,817	8,451,073
Earnings on Investments	44,111	32,321
Other	<u>343,125</u>	<u>297,726</u>
Total revenues	16,559,791	16,231,071
Expenses		
District and School Administration	907,881	879,031
District Support Services	332,465	344,804
Regular Instruction	9,622,163	10,220,223
Vocational Instruction	319,548	257,867
Exceptional Instruction	2,205,297	2,255,054
Instructional Support Services	693,619	592,018
Pupil Support Services	1,576,631	1,451,104
Site, Buildings, and Equipment	1,980,006	1,763,289
Fiscal and Other Fixed Cost Programs	84,445	81,956
Food Service	930,690	844,787
Community Service	476,651	340,841
Interest and Fiscal Charges on		
Long-term Liabilities	<u>87,035</u>	<u>101,699</u>
Total expenses	<u>19,216,431</u>	<u>19,132,673</u>
Change in net position	(2,656,640)	(2,901,602)
Beginning net position, as originally stated	5,589,991	8,491,593
Prior Period Adjustment	<u>(227,970)</u>	<u> </u>
Beginning net position, as restated	<u>5,362,021</u>	<u>8,491,593</u>
Ending net position	<u>2,705,381</u>	<u>5,589,991</u>

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

The district's total revenue consisted of program revenues of \$4,402,128, property taxes of \$3,139,610, federal and state aid not restricted to specific purposes of \$8,630,817, unrestricted investment earnings of \$41,111 and other revenues of \$343,125.

The cost of all governmental activities this year was \$19,216,431.

- The users of the district programs paid for \$717,015 or 3.7% of the total costs.
- Operating grants and contributions consisting of federal and state aids restricted for specific purposes and donations totaled \$3,685,113 or 19.2% of total costs.
- The state government subsidized certain programs with aid not restricted for specific purposes. This totaled \$8,630,817 or 44.9% 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 2018

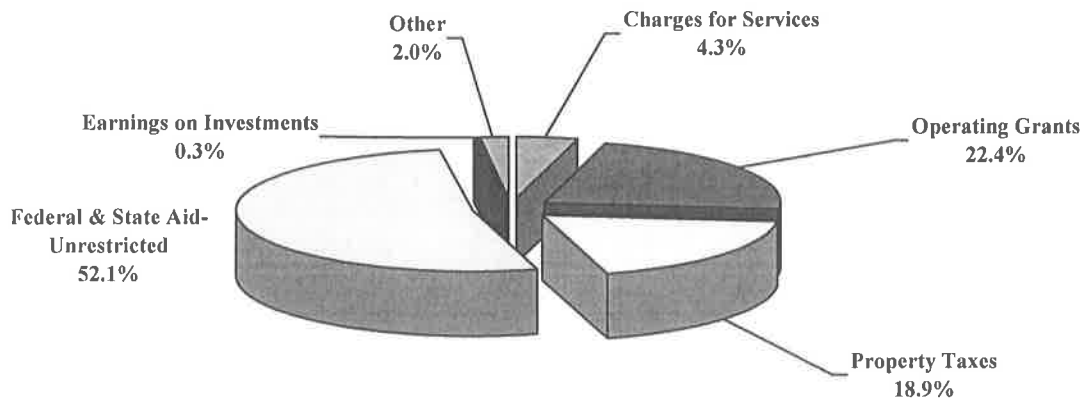
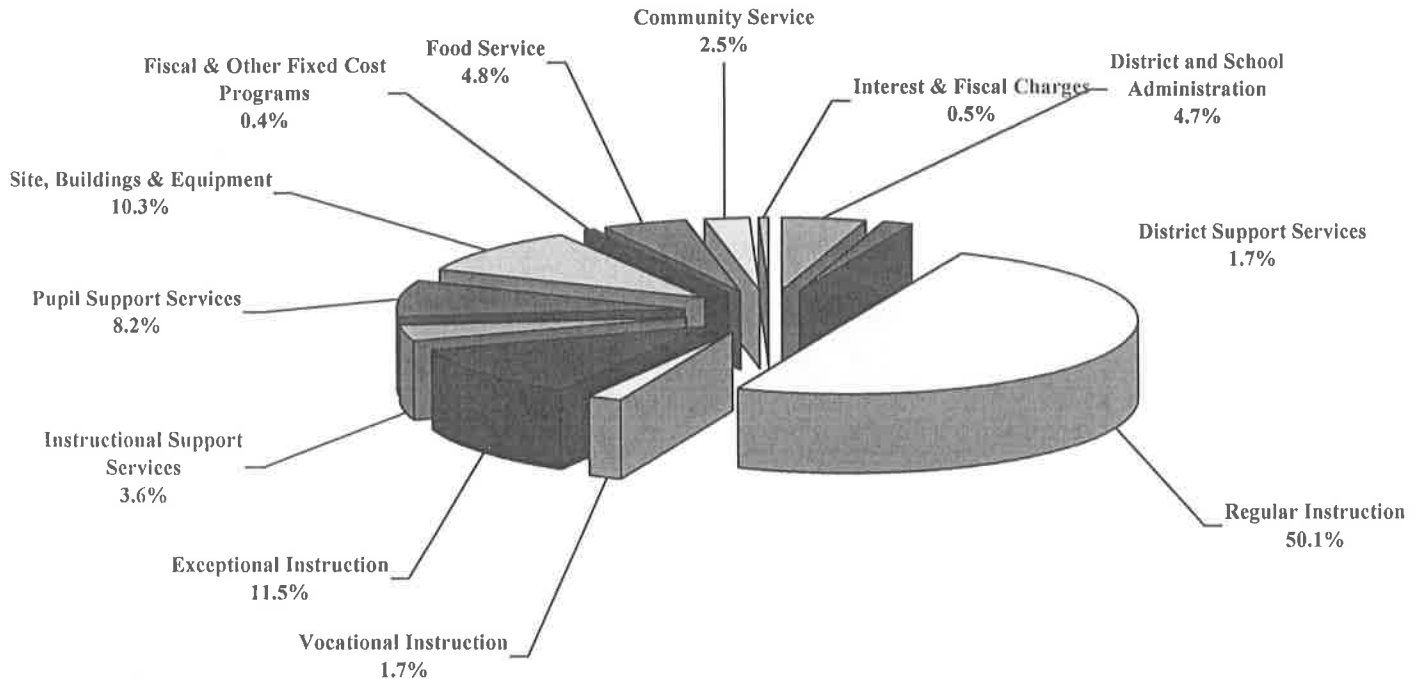


Figure B - Expenses for Fiscal Year 2018



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 \$5,759,810, which is a decrease of \$324,177 over the prior year fund balance of \$6,083,987. The General Fund decrease of \$330,066 is mainly due to increased revenue. The Food Service Fund had an increase of \$30,880, which was due mainly to increased revenues. The Community Service Fund had a decrease of \$5,156, mainly due to a decrease in expenditures. The Debt Service Fund had a decrease of \$19,835.

Revenues and Expenditures

Revenues of the district's governmental funds totaled \$16,526,657 while total expenditures were \$17,640,834, and other financing sources and (uses) was \$790,000. 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	13,577,808	13,907,874	-0-	(330,066)
Food Service Fund	958,031	927,151	-0-	30,880
Community Service Fund	471,495	476,651	-0-	(5,156)
Capital Projects Fund		790,000	790,000	-0-
Debt Service Fund	<u>1,519,323</u>	<u>1,539,158</u>	<u>-0-</u>	<u>(19,835)</u>
Total	<u>16,526,657</u>	<u>17,640,834</u>	<u>790,000</u>	<u>(324,177)</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 2018, the District revised the budget. The district’s revised budget anticipated that expenditures would exceed revenues and other financing sources (uses) by \$455,559. The actual results for the year showed a decrease of \$330,066.

- Actual general fund revenues exceeded the budget by \$31,496 primarily due to differences in state aids and other local and county revenues.
- Actual general fund expenditures were less than budget by \$93,997 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, 2018. More detailed information about the district’s capital assets is presented in Note 6.

Table 3
Capital Assets

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
Land	272,240	272,240	
Land Improvements	2,766,931	1,866,496	900,435
Buildings and Improvements	19,515,492	19,364,652	150,840
Equipment	4,901,095	4,860,115	40,980
Pupil Transportation Vehicles	198,883	199,867	(984)
Less: Accumulated Depreciation	(11,987,327)	(11,268,054)	(719,273)
Total	<u>15,667,314</u>	<u>15,295,316</u>	<u>371,998</u>
Depreciation Expense	<u>755,606</u>	<u>741,442</u>	<u>4,164</u>

Capital asset activity for the current fiscal year includes the construction of new tennis courts, a new Chevy Suburban, a IP Phone System and Lockers at Hill School.

Long-Term Liabilities

In fiscal year 2018, long-term debt obligations were repaid in the amount of \$1,480,000, the net severance liability decreased by \$81,432, the net OPEB liability increased by \$264,103, and the net pension liability decreased by \$5,034,633. Pension benefits payable total \$21,133,836 at June 30, 2018. More detailed information about the district’s long-term liabilities is presented in Note 9.

Factors Bearing on the District's Future

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

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, 2018

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Cash and Investments	6,914,272	7,430,091
Receivables:		
Property Taxes	1,713,363	1,546,986
Governmental Units	1,506,445	1,446,327
Other	58,080	37,173
Prepaid Expenses	122,900	173,108
Inventory		50,041
Capital Assets:		
Non Depreciable	272,240	272,240
Depreciable - net of accumulated depreciation	<u>15,395,074</u>	<u>15,023,076</u>
Total Assets	<u>25,982,374</u>	<u>25,979,042</u>
 <u>Deferred Outflows of Resources</u>		
Related to Pensions	<u>11,124,916</u>	<u>15,973,691</u>
Total Assets and Deferred Outflows of Resources	<u><u>37,107,290</u></u>	<u><u>41,952,733</u></u>
 <u>Liabilities</u>		
Salaries Payable	614,002	582,915
Accounts Payable	811,858	738,771
Accrued Interest	14,786	19,719
Due to Other Governmental Units	44,286	38,175
Unearned Revenue	11,586	15,886
Long Term Liabilities:		
Portion Due Within One Year	1,593,859	1,561,432
Portion Due in More Than One Year	2,343,827	3,149,819
Pension Benefit Payable	21,133,836	26,168,469
Net OPEB Liability	<u>508,600</u>	<u>244,497</u>
Total Liabilities	<u>27,076,640</u>	<u>32,519,683</u>
 <u>Deferred Inflows of Resources</u>		
Property Taxes Levied for Subsequent Years	2,956,567	3,107,365
Related to Pensions	<u>4,368,702</u>	<u>735,694</u>
Total Deferred Inflows of Resources	<u>7,325,269</u>	<u>3,843,059</u>
 <u>Net Position</u>		
Net Investment in Capital Assets	11,872,314	10,810,316
Restricted for:		
General Fund State Mandated Purposes	973,298	939,527
Food Service	253,864	222,984
Community Service	178,628	183,784
Debt Service	323,531	343,366
Unrestricted	<u>(10,896,254)</u>	<u>(6,909,986)</u>
Total Net Position	<u>2,705,381</u>	<u>5,589,991</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>37,107,290</u></u>	<u><u>41,952,733</u></u>

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions	2018				2017
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
			<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
					<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental Activities					
District and School Administration	907,881				(907,881)
District Support Services	332,465				(332,465)
Regular Instruction	9,622,163	141,250	1,652,060		(7,828,853)
Vocational Instruction	319,548				(319,548)
Exceptional Instruction	2,205,297	50,208	1,390,593		(764,496)
Instructional Support Services	693,619				(693,619)
Pupil Support Services	1,576,631	405	20,349		(1,555,877)
Site, Buildings and Equipment	1,980,006				(1,980,006)
Fiscal and Other Fixed Cost Programs	84,445				(84,445)
Food Service	930,690	389,708	559,665		18,683
Community Education	476,651	135,444	62,446		(278,761)
Interest and Fiscal Charges on Long-term Liabilities	87,035				(87,035)
Total	19,216,431	717,015	3,685,113	-0-	(14,814,303)
General Revenues					
Property Taxes Levied for:					
General Purposes				1,583,494	1,347,586
Community Service				123,557	110,935
Debt Service				1,432,559	1,424,607
Federal and State Aid Not Restricted to Specific Purposes				8,630,817	8,451,073
Earnings on Investments				44,111	32,321
Miscellaneous				343,125	297,726
Total General Revenues				12,157,663	11,664,248
Change in Net Position				(2,656,640)	(2,901,602)
Net Position - Beginning, As Originally Stated				5,589,991	
Prior Period Adjustment				(227,970)	
Net Position - Beginning				5,362,021	8,491,593
Net Position - Ending				2,705,381	5,589,991

See accompanying notes to the financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	2018				2017	
	<u>Major Funds</u>				Total	Total
	<u>General</u>	<u>Food Service</u>	<u>Community Service</u>	<u>Debt Service</u>	<u>Governmental Funds</u>	<u>Governmental Funds</u>
<u>Assets</u>						
Cash and Investments	5,511,565	307,665	220,599	874,443	6,914,272	7,430,091
Current Property Taxes Receivable	630,491		58,371	973,170	1,662,032	1,528,789
Delinquent Property Taxes Receivable	49,420		682	1,229	51,331	18,197
Accounts Receivable	22,539	34,967	574		58,080	37,173
Due From Other Funds						21,800
Due From Department of Education	1,170,785		5,982	8,045	1,184,812	1,126,615
Due From Federal Government Through the Department of Education	223,254	12,495			235,749	268,508
Due From Other Governmental Units	30,906		54,978		85,884	51,204
Prepaid Expenses	57,280				57,280	74,678
Inventory						50,041
Total Assets	<u>7,696,240</u>	<u>355,127</u>	<u>341,186</u>	<u>1,856,887</u>	<u>10,249,440</u>	<u>10,607,096</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>						
<u>Liabilities</u>						
Salaries Payable	603,837		10,165		614,002	582,915
Accounts Payable	221,249	89,677	26,402		337,328	171,528
Due to Other Funds						21,800
Due to Other Governmental Units	44,286				44,286	38,175
Payroll Deductions	474,530				474,530	567,243
Unearned Revenue		11,586			11,586	15,886
Total Liabilities	<u>1,343,902</u>	<u>101,263</u>	<u>36,567</u>	<u>-0-</u>	<u>1,481,732</u>	<u>1,397,547</u>
<u>Deferred Inflows of Resources</u>						
Unavailable Revenue-Delinquent Taxes Property Taxes Levied for Subsequent Years	49,420		682	1,229	51,331	18,197
Total Deferred Inflows of Resources	<u>1,299,131</u>		<u>125,309</u>	<u>1,532,127</u>	<u>2,956,567</u>	<u>3,107,365</u>
Total Deferred Inflows of Resources	<u>1,348,551</u>	<u>-0-</u>	<u>125,991</u>	<u>1,533,356</u>	<u>3,007,898</u>	<u>3,125,562</u>
<u>Fund Balances</u>						
Fund Balance-Nonspendable	57,280				57,280	124,719
Fund Balance-Restricted	973,298	253,864	178,628	323,531	1,729,321	1,639,620
Fund Balance-Committed	142,686				142,686	226,251
Fund Balance-Assigned	13,597				13,597	8,630
Fund Balance-Unassigned	3,816,926				3,816,926	4,084,767
Total Fund Balances	<u>5,003,787</u>	<u>253,864</u>	<u>178,628</u>	<u>323,531</u>	<u>5,759,810</u>	<u>6,083,987</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>7,696,240</u>	<u>355,127</u>	<u>341,186</u>	<u>1,856,887</u>	<u>10,249,440</u>	<u>10,607,096</u>

See accompanying notes to the financial statements.

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
 NET POSITION OF GOVERNMENTAL ACTIVITIES
 JUNE 30, 2018**

	2018	2017
Total Governmental Fund Balances	5,759,810	6,083,987
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	27,654,641	26,563,370
Less: Accumulated Depreciation	(11,987,327)	(11,268,054)
	15,667,314	15,295,316
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.		
	51,331	18,197
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(14,786)	(19,719)
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	11,124,916	15,973,691
Deferred Inflows of Resources related to Pensions	(4,368,702)	(735,694)
	6,756,214	15,237,997
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	(142,686)	(226,251)
Bonds Payable	(3,795,000)	(4,485,000)
Deferred Amount on Refunded Debt	65,620	98,430
Pension Benefits Payable	(21,133,836)	(26,168,469)
Net OPEB Liability	(508,600)	(244,497)
	(25,514,502)	(31,025,787)
Net Position of Governmental Activities	2,705,381	5,589,991

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	2018					2017	2017
	General	Food Service	Major Funds Community Service	Capital Projects	Debt Service	Total Governmental Funds	Total Governmental Funds
Revenues							
Local Property Tax Levies	1,550,360		123,557		1,432,559	3,106,476	2,880,602
Other Local and County Revenues	404,567	8,658	282,870		6,315	702,410	693,706
Revenue from State Sources	11,205,354	62,855	62,446		80,449	11,411,104	11,275,929
Revenue from Federal Sources	408,016	496,810				904,826	1,017,924
Sales and Other Conversion of Assets	9,511	389,708	2,622			401,841	360,384
Total Revenues	13,577,808	958,031	471,495	-0-	1,519,323	16,526,657	16,228,545
Expenditures							
Current:							
District and School Administration	907,881					907,881	879,031
District Support Services	332,465					332,465	344,804
Regular Instruction	6,160,956					6,160,956	5,857,790
Vocational Instruction	319,548					319,548	257,867
Exceptional Instruction	2,205,297					2,205,297	2,255,054
Community Education and Services			476,651			476,651	340,841
Instructional Support Services	692,409					692,409	589,598
Pupil Support Services	1,620,012	927,151				2,547,163	2,282,568
Site, Buildings and Equipment	1,584,861			790,000		2,374,861	1,351,036
Fiscal and Other Fixed Cost Programs	84,445					84,445	81,956
Debt Service:							
Principal					1,480,000	1,480,000	1,460,000
Interest and Fiscal Charges					59,158	59,158	73,757
Total Expenditures	13,907,874	927,151	476,651	790,000	1,539,158	17,640,834	15,774,302
Excess Revenues (Expenditures)							
Before Other Financing Sources (Uses)	(330,066)	30,880	(5,156)	(790,000)	(19,835)	(1,114,177)	454,243
Other Financing Sources (Uses)							
Lease-Purchase Proceeds				790,000			
	-0-	-0-	-0-	790,000	-0-	790,000	-0-
Net Change in Fund Balance	(330,066)	30,880	(5,156)	-0-	(19,835)	(324,177)	454,243
Fund Balance-Beginning	5,333,853	222,984	183,784		343,366	6,083,987	5,629,744
Fund Balance-Ending	5,003,787	253,864	178,628	-0-	323,531	5,759,810	6,083,987

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, 2018**

	2018	2017
Net Change in Governmental Fund Balances	(324,177)	454,243
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	1,155,989	239,341
Disposals	(28,385)	(6,746)
Depreciation Expense	(755,606)	(741,442)
	371,998	(508,847)
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)	
Repayment of Bond Principal	1,480,000	1,460,000
Interest Expense - General Obligation Bonds	4,933	4,867
Amortization of Deferred Amount on Refunded Debt	(32,810)	(32,809)
Severance Payments	81,432	94,830
	743,555	1,526,888
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.		
	33,134	2,526
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	2,133	(3,480)
Pension Benefits	(8,481,783)	13,835,234
	(8,479,650)	13,831,754
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	5,034,633	(18,173,603)
Change in Net OPEB liability	(36,133)	(34,563)
	4,998,500	(18,208,166)
Change in Net Position of Governmental Activities	<u>(2,656,640)</u>	<u>(2,901,602)</u>

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, 2018

	<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	1,579,794	1,579,794	1,550,360	(29,434)
Other Local and County Revenues	412,500	430,768	404,567	(26,201)
Revenue from State Sources	11,134,450	11,134,450	11,205,354	70,904
Revenue from Federal Sources	400,600	400,600	408,016	7,416
Sales and Other Conversion of Assets	700	700	9,511	8,811
Total Revenues	<u>13,528,044</u>	<u>13,546,312</u>	<u>13,577,808</u>	<u>31,496</u>
<u>Expenditures</u>				
District and School Administration	960,712	872,085	907,881	35,796
District Support Services	361,741	357,241	332,465	(24,776)
Regular Instruction	6,236,610	6,088,186	6,160,956	72,770
Vocational Instruction	248,760	255,410	319,548	64,138
Exceptional Instruction	2,357,596	2,369,758	2,205,297	(164,461)
Instructional Support Services	736,334	703,641	692,409	(11,232)
Pupil Support Services	1,488,878	1,660,078	1,620,012	(40,066)
Site, Building and Equipment	1,511,771	1,610,972	1,584,861	(26,111)
Fiscal and Other Fixed Cost Programs	82,200	84,500	84,445	(55)
Total Expenditures	<u>13,984,602</u>	<u>14,001,871</u>	<u>13,907,874</u>	<u>(93,997)</u>
Net Change in Fund Balance	<u>(456,558)</u>	<u>(455,559)</u>	<u>(330,066)</u>	<u>125,493</u>
Fund Balance-Beginning			<u>5,333,853</u>	
Fund Balance-Ending			<u>5,003,787</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, 2018

	<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	1,337	1,337	8,658	7,321
Revenue from State Sources	64,100	64,100	62,855	(1,245)
Revenue from Federal Sources	498,540	498,540	496,810	(1,730)
Sales and Other Conversion of Assets	351,500	351,500	389,708	38,208
Total Revenues	<u>915,477</u>	<u>915,477</u>	<u>958,031</u>	<u>42,554</u>
<u>Expenditures</u>				
Pupil Support Services	<u>833,696</u>	<u>833,696</u>	<u>927,151</u>	<u>93,455</u>
Total Expenditures	<u>833,696</u>	<u>833,696</u>	<u>927,151</u>	<u>93,455</u>
Net Change in Fund Balance	<u>81,781</u>	<u>81,781</u>	30,880	<u>(50,901)</u>
Fund Balance-Beginning			<u>222,984</u>	
Fund Balance-Ending			<u>253,864</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, 2018

	<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	108,780	108,780	123,557	14,777
Other Local and County Revenues	267,930	267,930	282,870	14,940
Revenue from State Sources	60,659	60,659	62,446	1,787
Sales and Other Conversion of Assets	2,000	2,000	2,622	622
Total Revenues	<u>439,369</u>	<u>439,369</u>	<u>471,495</u>	<u>32,126</u>
<u>Expenditures</u>				
Community Education and Services	<u>424,437</u>	<u>424,437</u>	<u>476,651</u>	<u>52,214</u>
Total Expenditures	<u>424,437</u>	<u>424,437</u>	<u>476,651</u>	<u>52,214</u>
Net Change in Fund Balance	<u>14,932</u>	<u>14,932</u>	(5,156)	<u>(20,088)</u>
Fund Balance-Beginning			<u>183,784</u>	
Fund Balance-Ending			<u>178,628</u>	

See accompanying notes to the financial statements.

STATEMENT OF FIDUCIARY ASSETS
AGENCY FUND
JUNE 30, 2018

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Cash and Investments	<u>500</u>	<u>500</u>
 <u>Liabilities and Net Position</u>		
<u>Liabilities</u>		
Unearned Revenue	500	500
 <u>Net Position</u>	 <u>-0-</u>	 <u>-0-</u>
Total Liabilities and Net Position	<u>500</u>	<u>500</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018

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, 2018

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, 2018

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 tennis court 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, 2018

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, 2018

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 and Disparity Reduction Aid to be received after July 1, 2018, and will be recognized as revenue during the fiscal year ending June 30, 2019. 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, 2018

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, 2018

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, 2018

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, 2018

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, 2017, 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 14, 2018, 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, 2018

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, 2018, none of the District's bank balance of \$3,878,965 (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, 2018

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:					
Minnesota School District Liquid Asset Fund Plus					
Liquid Class	AAAm	S & P	2.85%	N/A	53,818
MAX Class	AAAm	S & P	97.15%	N/A	<u>3,102,177</u>
Total Investments					3,155,995
Checking & Money Market Accounts (not including Student Activity and Agency Funds)					3,755,067
Petty Cash					<u>3,210</u>
Total Cash and Investments					<u>6,914,272</u>

The Minnesota School District Liquid Asset Fund 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.

The Minnesota School District Liquid Asset Fund issues a publicly available financial report. That report may be obtained on the Internet at www.msdlaf.org.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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	
<u>General Fund</u>	2018	2017
General Education Aid	1,185,583	1,038,247
Other State Aids	11,113	14,341
Special Education	(25,911)	59,633
Total General Fund	1,170,785	1,112,221
<u>Special Revenue Funds</u>		
<u>Community Service Fund</u>		
Other State Credits	5,982	5,903
<u>Debt Service Fund</u>		
Other State Credits	8,045	8,491
Total All Funds	1,184,812	1,126,615

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	
<u>General Fund</u>	2018	2017
Title I	149,697	149,847
Title II	19,879	26,004
Other	53,678	67,728
Total General Fund	223,254	243,579
<u>Special Revenue Funds</u>		
<u>Food Service Fund</u>		
Lunch	7,149	7,149
Breakfast	1,650	1,650
Summer Food Program	12,495	16,130
Total Food Service Fund	12,495	24,929
Total All Funds	235,749	268,508

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 5 Due From Other Governmental Units

Amounts due from Other Governmental Units are as follows:

	June 30	
<u>General Fund</u>	<u>2018</u>	<u>2017</u>
SW/WC Service Coop	12,383	12,383
SW Health & Human Services	16,000	16,000
City of Pipestone	11,349	11,349
Minnesota West	693	693
Canby Public Schools	702	702
State of MN	5,768	9,089
MN Office of Mgmt & Budget		<u>532</u>
Total General Fund	<u>30,906</u>	<u>50,748</u>
<u>Special Revenue Funds</u>		
<u>Community Service Fund</u>		
Pipestone County Medical Center	228	456
City of Pipestone	<u>54,750</u>	
Total Community Service Fund	<u>54,978</u>	<u>456</u>
Total All Funds	<u>85,884</u>	<u>51,204</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 6 Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Balance</u> <u>7/01/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/18</u>
Capital assets not depreciated				
Land	272,240			272,240
Capital assets depreciated				
Land Improvements	1,866,496	900,435		2,766,931
Buildings	19,364,652	150,840		19,515,492
Equipment	4,860,115	69,365	(28,385)	4,901,095
Pupil Transportation Vehicles	199,867	35,349	(36,333)	199,883
Total Capital assets depreciated	26,291,130	1,155,989	(64,718)	27,382,401
Less accumulated depreciation for				
Land Improvements	1,211,287	108,996		1,211,287
Buildings	6,116,982	384,605		6,501,587
Equipment	3,768,362	252,380		4,020,742
Pupil Transportation Vehicles	171,423	9,625	(36,333)	144,715
Total accum depreciation	11,268,054	755,606	(36,333)	11,987,327
Total capital assets depreciated-net	15,023,076	400,383	(28,385)	15,395,074
Net Capital Assets	15,295,316	400,383	(28,385)	15,667,314

Depreciation expense of \$755,606 for the year ended June 30, 2018 was charged to the following governmental functions:

Regular Instruction	69,097
Instruction Support Services	1,210
Pupil Support Services	9,625
Sites, Buildings, and Equipment	672,134
Food Service	3,540
Total	<u>755,606</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 7 Due to Other Governmental Units

Amounts due to Other Governmental Units are as follows:

	June 30	
General Fund	2018	2017
City of Pipestone	3,342	
ISD 991 - SW/WC Service Coop	23,543	28,494
ISD 347 - Willmar	1,961	49
ISD 508 - St. Peter		905
ISD 287		672
ISD 049-5 Sioux Falls	1,618	742
Meeker & Wright Special Ed		15
New Dominion School	247	3,909
MN Employment & Economic Dev		45
Pipestone County Medical Center	2,880	
Pipestone County Sheriff's Office	10,599	
Southwestern Youth Services		3,040
State of MN – Fire Marshall	96	
Total General Fund	44,286	37,871
<u>Special Revenue Funds</u>		
Food Service Fund		
MN Employment & Economic Dev	—	304
Total All Funds	44,286	38,175

Note 8 Unearned Revenue

Unearned revenues are as follows:

	June 30	
Special Revenue Funds	2018	2017
Food Service Fund		
Lunch Sales	11,586	15,816
Community Service Fund		
Community Education	—	70
Total All Funds	11,586	15,886

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 \$142,686 and \$226,251 at June 30, 2018 and 2017, 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, 2018:

Bonds Payable at July 1	4,485,000
Net Bonds Issued (Redeemed)	<u>(1,480,000)</u>
Bonds Payable at June 30	<u>3,005,000</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 9 Long-Term Liabilities - continued

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

Bonded debt payable at June 30, 2018 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 \$3,005,000

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

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2019	1,495,000	44,358	1,539,358
2020	<u>1,510,000</u>	<u>25,670</u>	<u>1,535,670</u>
Total	<u>3,005,000</u>	<u>70,028</u>	<u>3,075,028</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%. \$790,000

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

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2019	68,000	23,814	91,814
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	82,000	9,608	91,608
2026	85,000	6,977	91,977
2027	88,000	4,253	92,253
2028	<u>91,000</u>	<u>1,433</u>	<u>92,433</u>
Total	<u>790,000</u>	<u>130,884</u>	<u>920,884</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 9 Long-Term Liabilities - continued

D. Changes in Long-Term Liabilities

	<u>Balance</u> <u>7/01/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/18</u>	<u>Due Within</u> <u>One Year</u>
GO Refunding Bonds					
Series 2013A	4,485,000		1,480,000	3,005,000	1,495,000
Net OPEB liability	244,497	264,103		508,600	
Lease-Purchase Agreement		790,000		790,000	68,000
Pension Benefits	26,168,469		5,034,633	21,133,836	
Severance	226,251		83,565	142,686	30,859
Total	<u>31,124,217</u>	<u>1,054,103</u>	<u>6,598,198</u>	<u>25,580,122</u>	<u>1,593,859</u>

Note 10 Fund Balances

Non-Spendable Fund Balance

The District has the following non-spendable fund balances as of June 30, 2018:

General Fund

 Prepaid Items 57,280

 Total Funds 57,280

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, 2018:

General Fund

Staff Development	245,976
Health and Safety	40,436
Learning and Development	66,468
Gifted and Talented	177,620
Basic Skills	278,293
Basic Skills Ext Time	13,118
Safe Schools Levy	59,321
Restricted	7,315
Long Term Facility Maintenance	<u>84,751</u>
Total General Fund	973,298

Special Revenue Funds

Food Service Fund

 Restricted 253,864

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 Fund Balances - continued

Restricted Fund Balance – continued

Community Service Fund

Community Education	132,419
Early Childhood and Family Education	47,816
Learning Readiness	(29,285)
Restricted	<u>27,678</u>
Total Community Service Fund	<u>178,628</u>
Total Special Revenue funds	432,492

Debt Service Fund

Restricted	<u>323,531</u>
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Total All Funds	<u><u>1,729,321</u></u>
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Committed Fund Balance

The District has the following committed fund balances as of June 30, 2018:

General Fund

Severance	<u>142,686</u>
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Assigned Fund Balance

The District has the following assigned fund balances as of June 30, 2018:

General Fund

Health Cost Management	529
Athletic Help Fund	9,048
Help Fund	<u>4,020</u>
Total General Fund	<u>13,597</u>

Unassigned Fund Balance

The District has the following unassigned fund balances as of June 30, 2018:

<u>General Fund</u>	<u>3,816,926</u>
Total Funds	<u>3,816,926</u>

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, 2018.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 11 Defined Benefit Pension Plans

A. Public Employees Retirement Association (PERA)

1. Plan Description

The District participates in the following 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 other than teachers 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.

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

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them 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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 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. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA)-continued

3. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2018; 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, 2018, were \$111,593. The District's contributions were equal to the required contributions for each year as set by state statute.

4. Pension Costs

At June 30, 2018, the District reported a liability of \$1,551,296 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 to the fund in 2018. 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 \$19,509. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion share was 0.0243 percent, which was a decrease of .0004 percent from its proportion share as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$63,631 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$563 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, 2018, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA)-continued

4. Pension Costs - continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$51,126	\$123,805
Changes in actuarial assumptions	\$314,781	\$155,518
Difference between projected and actual investment earnings		\$23,976
Changes in proportion		\$431,952
Contributions paid to PERA subsequent to the measurement date	\$111,593	
Total	\$477,500	\$736,251

\$111,593 reported as deferred outflows of resources related to pensions resulting from District contributions to GERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERS pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2019	(\$179,318)
2020	(\$2,023)
2020	(\$123,153)
2021	(\$65,850)
2022	\$0

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%

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

5. Actuarial Assumptions -continued

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-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 arithmetic 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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Total	100%	

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

6. Discount Rate

The discount rate used to measure the total pension liability in 2017 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.

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 of Net Pension Liability at Current Single Discount Rate		
	General Employees Fund	
1% Lower	6.50%	2,406,175
Current Discount Rate	7.50%	1,551,296
1% Higher	8.50%	851,422

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association – continued

1. Plan Description - continued

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

2. Benefits Provided

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

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

Tier 1 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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

2. Benefits Provided - continued

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 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 provisions in effect at the time they last terminated their public service.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association – continued

3. Contribution Rate

Per Minnesota Statute, Chapter 354 sets the contribution rates for employers and employees. Rates for each fiscal year ended June 30, 2016, June 30, 2017, and June 30, 2018 were:

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

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.

Employer contributions reported in TRA’s CAFR	<i>In thousands</i>
Statement of Changes in Fiduciary Net Position	\$367,791
Add employer contributions not related to future contribution efforts	810
Deduct TRA’s contributions not included in allocations	<u>(456)</u>
Total employer contributions	\$368,145
Total non-employer contributions	<u>35,588</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u>\$403,733</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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2017
Experience Study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	4.12%, from the Single Equivalent Interest Rate calculation
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	2.0%
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, 2018

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Unallocated Cash	2%	0.00%
Total	<u>100%</u>	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The *Difference between expected and actual experience*, *Changes of Assumptions*, and *Changes in Proportion* use the amortization period of 6 years in the schedule presented. The amortization period for *Net difference between projected and actual investment earnings on pension plan investments* is over a period of 5 years as required by GASB 68.

Changes in actuarial assumptions since the 2016 valuation:

- The cost of living adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5 percent, but remain at 2.0 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0% and the non-vested inactive load increased from 4.0 percent to 9.0 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 11 **Defined Benefit Pension Plans - continued**

5. Discount Rate

The discount rate used to measure the total pension liability was 5.12 percent. This is an increase from the discount rate at the prior measurement date of 4.66 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01 percent).

6. Net Pension Liability

On June 30, 2018, the District reported a liability of \$19,582,540 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.0981% at the end of the measurement period and 0.0996% 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	\$19,582,540
State’s proportionate share of the net pension Liability associated with the District	\$1,893,280

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

6. Net Pension Liability - continued

For the year ended June 30, 2018, the District recognized pension expense of \$451,862. It also recognized \$36,312 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	\$113,005	\$137,487
Net difference between projected and actual earnings on plan inv.	\$10,124,174	\$2,743,205
Change in assumptions		\$175,046
Changes in proportion		\$576,713
Contributions paid to TRA subsequent to measurement date	\$410,237	
Total	\$10,647,416	\$3,632,451

\$410,237 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in the pension expense as follows:

2018	\$2,392,974
2019	\$2,749,947
2020	\$2,519,567
2021	\$(1,057,759)
2022	\$

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 11 Defined Benefit Pension Plans – continued

B. Teachers Retirement Association - continued

7. Pension Liability Sensitivity

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 8.0 percent as well as the liability measured using one percent lower and one percent higher.

District’s proportionate share of NPL		
1 percent decrease (4.12%)	Current (5.12%)	1 percent increase (6.12%)
\$25,845,179	\$19,582,540	\$14,302,373

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, 2018

Note 12 Other Postemployment Benefits – continued

Employees covered by benefit terms

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	3
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>175</u>
	<u>178</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, 2018, 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, 2018

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, 2018, 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 7/1/2017	472,467	-0-	472,467
Changes for the year:			
Service cost	35,324		35,324
Interest cost	16,992		16,992
Benefit Payment	(16,183)	-0-	(16,183)
Net changes	<u>36,133</u>		<u>36,133</u>
Balances at 6/30/2018	<u>508,600</u>	-0-	<u>508,600</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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	\$508,600	\$508,600	\$481,386

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	\$468,146	\$508,609	\$555,294

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$52,316. At June 30, 2018, 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	\$38,460	—
	<u>\$38,460</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, 2018	\$0
June 30, 2019	\$0
June 30, 2020	\$0
June 30, 2021	\$0
June 30, 2022	\$0

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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

At June 30, 2018, the District reported a payable of \$0 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2018.

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:

Food Service	93,455
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Program needs will be monitored in the future to alleviate expenditure excesses in these funds.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
DEFINED BENEFIT PENSION PLANS
JUNE 30, 2018

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%
TRA							
June 30, 2014	0.1119%	5,156,271		5,156,271	5,107,987	100.9%	81.5%
June 30, 2015	0.1026%	6,346,825		6,346,825	5,238,958	121.1%	76.8%
June 30, 2016	0.9960%	23,756,976	2,384,641	26,141,617	5,182,320	504.4%	44.9%
June 30, 2017	0.9810%	19,582,540	1,893,280	21,475,820	5,281,646	406.6%	51.6%

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, 2018

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%
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%

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, 2018

Total OPEB liability	2018
Service Cost	35,324
Interest Cost	16,992
Benefit Payments	<u>(16,183)</u>
Net change in total OPEB liability	36,133
Total OPEB liability - beginning	<u>472,467</u>
Total OPEB liability - ending (a)	<u><u>508,600</u></u>
Plan fiduciary net position (b)	<u><u>-0-</u></u>
District's Net OPEB liability - ending (a) - (b)	<u><u>508,600</u></u>
Plan fiduciary net position as a percentage of Total OPEB liability	7.92%
Covered-employee payroll	6,421,365
District's Net OPEB liability as a percentage of covered-employee payroll	7.92%

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.

REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
JUNE 30, 2018

	2018
Actuarially determined contribution	53,216
Contributions in relation to the actuarially determined contribution	53,216
Contribution deficiency (excess)	
Covered-employee payroll	6,421,365
Contributions as a percentage of covered-employee payroll	0.83%

Notes to Schedule

Valuation Date: Actuarially determined contribution rates are calculated as of June 30, two year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age, level percentage of pay
Actuarial Assets	None
Amortization of Deferred Resources	Average of expected remaining service on a closed basis for differences between expected and actual experience and assumption changes.
Discount Rate	3.40%
20-Year Municipal Bond Yield	3.40%
Inflation Rate	2.50%
Salary Increases	3.00%
Healthcare cost trend rates	6.50 in 2017 grading to 5.0% over 6 years
Mortality	RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale

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, 2018

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Cash	3,994,447	4,950,777
Investments	1,517,118	900,117
Current Property Taxes Receivable	630,491	747,503
Delinquent Property Taxes Receivable	49,420	12,404
Accounts Receivable	22,539	28,634
Due from Other Funds		21,800
Due From Department of Education	1,170,785	1,112,221
Due From Federal Government Through the Department of Education	223,254	243,579
Due From Other Governmental Units	30,906	50,748
Prepaid Expenses	57,280	46,293
Total Assets	<u>7,696,240</u>	<u>8,114,076</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Salaries Payable	603,837	572,378
Accounts Payable	221,249	110,639
Due to Other Governmental Units	44,286	37,871
Accrued Payroll Liabilities	474,530	567,243
Total Liabilities	<u>1,343,902</u>	<u>1,288,131</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue-Delinquent Taxes	49,420	12,404
Property Taxes Levied for Subsequent Years	1,299,131	1,479,688
Total Deferred Inflows of Resources	<u>1,348,551</u>	<u>1,492,092</u>
<u>Fund Balances</u>		
Fund Balance-Nonspendable	57,280	46,293
Fund Balance-Restricted	973,298	939,527
Fund Balance-Committed	142,686	226,251
Fund Balance-Assigned	13,597	8,630
Fund Balance-Unassigned	3,816,926	4,113,152
Total Fund Balances	<u>5,003,787</u>	<u>5,333,853</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>7,696,240</u>	<u>8,114,076</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Year Ended June 30</u>			
	<u>2018</u>		<u>2017</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	
<u>Revenues</u>				
<u>Local Property Tax Levy</u>				
County Apportionment	30,000	29,303	(697)	25,324
Local Tax Levy	1,537,794	1,505,851	(31,943)	1,307,548
Miscellaneous Tax Revenue	12,000	15,206	3,206	12,188
Total Local Property Tax Levy	<u>1,579,794</u>	<u>1,550,360</u>	<u>(29,434)</u>	<u>1,345,060</u>
<u>Other Local and County Revenues</u>				
Admissions	73,100	71,587	(1,513)	86,477
Fees	45,500	49,101	3,601	49,226
Gifts and Bequests	33,468	32,693	(775)	10,178
Interest Income	22,400	24,489	2,089	24,576
Medical Assistance Revenue	70,000	50,208	(19,792)	72,534
Other Miscellaneous Income	169,800	161,576	(8,224)	166,292
Rent of Facilities	16,500	14,913	(1,587)	16,551
Tuition from Other Minnesota School Districts				12,383
Total Other Local and County Revenues	<u>430,768</u>	<u>404,567</u>	<u>(26,201)</u>	<u>438,217</u>
<u>Revenue From State Sources</u>				
Disparity	11,000	14,953	3,953	13,834
Education Homestead Credit	8,500	18,024	9,524	17,541
Endowment Fund Apportionment	31,446	43,954	12,508	40,526
General Education Aid	9,555,102	9,789,801	234,699	9,501,298
Other State Aids	108,402	63,616	(44,786)	50,421
Special Education	1,420,000	1,275,006	(144,994)	1,445,181
Total Revenue From State Sources	<u>11,134,450</u>	<u>11,205,354</u>	<u>70,904</u>	<u>11,068,801</u>
<u>Revenue From Federal Sources</u>				
Title Programs	277,000	289,580	12,580	294,232
Federal Aid Programs	123,600	118,436	(5,164)	195,948
Total Revenue From Federal Sources	<u>400,600</u>	<u>408,016</u>	<u>7,416</u>	<u>490,180</u>
<u>Sales and Other Conversion of Assets</u>				
Insurance Recovery		3,457	3,457	1,077
Sales of Material	700	6,054	5,354	1,073
Total Sales and Other				
Conversion of Assets	700	9,511	8,811	2,150
Total Revenues	<u>13,546,312</u>	<u>13,577,808</u>	<u>31,496</u>	<u>13,344,408</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Year Ended June 30			
	2018		2017	
<u>Expenditures</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
<u>District and School Administration</u>				
<u>Administration</u>				
Dues and Membership	12,323	12,902	579	12,876
Equipment	1,000	5,485	4,485	6,009
Fixed Charges and Employee Benefits	195,531	210,693	15,162	191,510
Instructional Supplies		1,935	1,935	
Other	1,223		(1,223)	29,729
Professional Services	69,400	75,176	5,776	45,064
Repairs and Maintenance		150	150	
Salaries	541,702	568,299	26,597	561,737
Supplies	49,906	27,798	(22,108)	21,356
Travel and Transportation		4,443	4,443	9,765
Utilities	1,000	1,000		985
Total Administration	<u>872,085</u>	<u>907,881</u>	<u>35,796</u>	<u>879,031</u>
<u>District Support Services</u>				
Dues and Membership	220	220		110
Equipment		10,318	10,318	4,695
Fixed Charges and Employee Benefits	65,613	54,770	(10,843)	51,327
Other	6,398	2,178	(4,220)	3,953
Professional Services	49,484	34,044	(15,440)	49,974
Rentals and Leases	77,612	76,693	(919)	76,242
Repairs and Maintenance		235	235	
Salaries	154,414	150,855	(3,559)	152,656
Supplies	3,500	3,152	(348)	5,847
Total District Support Services	<u>357,241</u>	<u>332,465</u>	<u>(24,776)</u>	<u>344,804</u>
<u>Regular Instruction</u>				
<u>District Wide</u>				
Dues and Memberships		245	245	245
Equipment		2,000	2,000	400
Fixed Charges and Employee Benefits	64,494	57,638	(6,856)	56,957
Instructional Supplies	4,500	5,746	1,246	2,497
Other	4,485	49	(4,436)	4,224
Professional Services	6,540	8,385	1,845	54,518
Repair and Maintenance	1,022	1,586	564	1,400
Salaries	393,280	404,343	11,063	327,699
Supplies	7,446	3,634	(3,812)	8,890
Travel and Transportation	3,345	4,362	1,017	2,123
Total District Wide	<u>485,112</u>	<u>487,988</u>	<u>2,876</u>	<u>458,953</u>
<u>Elementary School</u>				
Dues and Membership		639	639	564
Equipment	935	935		2,940
Fixed Charges and Employee Benefits	346,332	388,547	42,215	366,332
Instructional Supplies	172,128	157,727	(14,401)	74,446
Other				392
Professional Services	5,675	5,235	(440)	4,677
Salaries	1,559,535	1,698,483	138,948	1,606,778
Supplies	7,179	9,454	2,275	5,410
Travel and Transportation	5,100	6,505	1,405	5,171
Total Elementary School	<u>2,096,884</u>	<u>2,267,525</u>	<u>170,641</u>	<u>2,066,710</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Year Ended June 30</u>			
	<u>2018</u>			<u>2017</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
<u>Expenditures - continued</u>				
<u>Regular Instruction - continued</u>				
<u>Middle School</u>				
Equipment				38,896
Fixed Charges and Employee Benefits	224,631	243,892	19,261	232,223
Instructional Supplies	70,026	71,527	1,501	30,126
Professional Services	2,000		(2,000)	1,660
Salaries	977,039	1,026,192	49,153	1,004,491
Supplies	4,434	4,548	114	1,101
Travel and Transportation	9,850	10,816	966	10,611
Total Middle School	<u>1,287,980</u>	<u>1,356,975</u>	<u>68,995</u>	<u>1,319,108</u>
<u>Secondary School</u>				
Dues and Memberships	2,320	2,290	(30)	497
Equipment	176,186	172,971	(3,215)	24,378
Fixed Charges and Employee Benefits	269,501	242,226	(27,275)	270,508
Instructional Supplies	71,013	64,578	(6,435)	146,789
Professional Services	58,650	40,403	(18,247)	52,375
Reimbursements to Other Agencies/Districts	118,000	112,473	(5,527)	100,306
Reimbursements to Other MN Districts	250	247	(3)	1,554
Rentals and Leases	1,382	1,355	(27)	1,355
Repair and Maintenance	12,377	7,266	(5,111)	17,270
Salaries	1,320,861	1,209,025	(111,836)	1,226,395
Supplies	47,320	60,553	13,233	42,524
Travel and Transportation	140,350	135,081	(5,269)	129,068
Total Secondary School	<u>2,218,210</u>	<u>2,048,468</u>	<u>(169,742)</u>	<u>2,013,019</u>
Total Regular Instruction	<u>6,088,186</u>	<u>6,160,956</u>	<u>72,770</u>	<u>5,857,790</u>
<u>Vocational Instruction</u>				
Equipment		4,623	4,623	17,928
Fixed Charges and Employee Benefits	38,981	45,185	6,204	37,398
Instructional Supplies	18,050	32,691	14,641	14,957
Rentals and Leases	8,400	8,400		8,400
Salaries	170,418	212,217	41,799	166,382
Supplies	4,511	2,544	(1,967)	325
Travel and Transportation	15,050	13,888	(1,162)	12,477
Total Vocational Instruction	<u>255,410</u>	<u>319,548</u>	<u>64,138</u>	<u>257,867</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Year Ended June 30			
	2018		Variance with Final Budget	2017
	Budget	Actual		Actual
<u>Expenditures - continued</u>				
<u>Exceptional Instruction</u>				
Equipment	5,698	3,223	(2,475)	6,030
Fixed Charges and Employee Benefits	246,887	208,104	(38,783)	224,429
Instructional Supplies	12,811	11,253	(1,558)	8,987
Other		241	241	832
Professional Services	445,103	329,132	(115,971)	391,886
Reimbursements to Other Agencies/Districts	360,705	482,149	121,444	416,118
Reimbursements to Other MN Districts	38,500	30,981	(7,519)	9,659
Rentals and Leases	14,000		(14,000)	
Salaries	1,162,056	1,046,922	(115,134)	1,062,692
Supplies	4,036	4,615	579	1,430
Travel and Transportation	79,962	88,677	8,715	132,991
Total Exceptional Instruction	2,369,758	2,205,297	(164,461)	2,255,054
<u>Instructional Support Services</u>				
Dues	2,550	2,750	200	
Equipment	119,971	136,948	16,977	48,073
Fixed Charges and Employee Benefits	72,272	73,835	1,563	48,798
Instructional Supplies	45,897	43,936	(1,961)	22,187
Professional Services	112,024	100,296	(11,728)	103,757
Repair and Maintenance	1,800	4,980	3,180	4,043
Salaries	223,249	234,417	11,168	248,149
Supplies	56,530	48,077	(8,453)	65,972
Travel and Transportation	68,328	46,670	(21,658)	48,619
Utilities	1,020	500	(520)	
Total Instructional Support	703,641	692,409	(11,232)	589,598
<u>Pupil Support Services</u>				
Fixed Charges and Employee Benefits	69,653	55,979	(13,674)	49,171
Instructional Supplies		36	36	1,032
Professional Services	45,408	43,828	(1,580)	32,751
Reimbursements to Other MN Districts				38,105
Rentals and Leases	150	105	(45)	450
Repair and Maintenance	500	199	(301)	551
Salaries	248,771	217,085	(31,686)	198,376
Supplies	13,249	10,745	(2,504)	9,161
Travel and Transportation	1,282,347	1,292,035	9,688	1,114,091
Total Pupil Support Services	1,660,078	1,620,012	(40,066)	1,443,688

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Year Ended June 30			
	2018			2017
	Budget	Actual	Variance with Final Budget	Actual
<u>Expenditures - continued</u>				
<u>Site, Building and Equipment</u>				
Building Improvements	234,235	252,236	18,001	115,913
Dues and Memberships	3,750	2,841	(909)	487
Equipment	124,486	119,082	(5,404)	27,096
Fixed Charges and Employee Benefits	198,516	165,997	(32,519)	160,855
Fuel	82,600	81,937	(663)	70,673
Lease Interest	13,203	13,203		
Professional Services	18,640	26,308	7,668	24,088
Repair and Maintenance	156,250	158,158	1,908	231,229
Salaries	327,695	329,018	1,323	326,349
Site and Ground Acquisition	32,358	31,148	(1,210)	
Supplies	83,622	78,752	(4,870)	76,397
Travel and Transportation		1,033	1,033	894
Utilities	335,617	325,148	(10,469)	317,055
Total Site, Building and Equipment	<u>1,610,972</u>	<u>1,584,861</u>	<u>(26,111)</u>	<u>1,351,036</u>
<u>Fixed Cost Programs</u>				
Property Insurance	84,500	84,445	(55)	81,956
Total Fixed Cost Programs	<u>84,500</u>	<u>84,445</u>	<u>(55)</u>	<u>81,956</u>
Total Expenditures	<u>14,001,871</u>	<u>13,907,874</u>	<u>(93,997)</u>	<u>13,060,824</u>
Excess Revenues (Expenditures)	<u>(455,559)</u>	<u>(330,066)</u>	<u>125,493</u>	283,584
Fund Balance-July 1		<u>5,333,853</u>		<u>5,050,269</u>
Fund Balance-June 30		<u>5,003,787</u>		<u>5,333,853</u>

ALL SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

<u>Assets</u>	<u>Food Service</u>	<u>Community Service</u>	Total (Memo Only)	
			<u>2018</u>	<u>2017</u>
Cash and Investments	307,665	220,599	528,264	457,357
Current Property Taxes Receivable		58,371	58,371	54,855
Delinquent Property Taxes Receivable		682	682	447
Accounts Receivable	34,967	574	35,541	8,539
Due from Department of Education		5,982	5,982	5,903
Due from Federal Government Through the Department of Education	12,495		12,495	24,929
Due from other Governmental Units		54,978	54,978	456
Inventory				50,041
Total Assets	355,127	341,186	696,313	602,527
 <u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
<u>Liabilities</u>				
Due to Other Governmental Units				304
Salaries Payable		10,165	10,165	10,537
Accounts Payable	89,677	26,402	116,079	54,304
Unearned Revenue	11,586		11,586	15,886
Total Liabilities	101,263	36,567	137,830	81,031
 <u>Deferred Inflows of Resources</u>				
Unavailable Revenue-Delinquent Taxes		682	682	447
Property Taxes Levied for Subsequent Years Expenditures		125,309	125,309	114,281
Total Deferred Inflows of Resources	-0-	125,991	125,991	114,728
 <u>Fund Balances</u>				
Fund Balance-Nonspendable				50,041
Fund Balance-Restricted	253,864	178,628	432,492	356,727
Total Fund Balances	253,864	178,628	432,492	406,768
Total Liabilities, Deferred Inflows of Resources and Fund Balances	355,127	341,186	696,313	602,527

SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018

<u>Revenues</u>	<u>Food Service</u>	<u>Community Service</u>	Total (Memo Only)	
			<u>2018</u>	<u>2017</u>
Local Property Tax Levy		123,557	123,557	110,935
Other Local and County Revenues	8,658	282,870	291,528	251,216
Revenue from State Sources	62,855	62,446	125,301	122,215
Revenue from Federal Sources	496,810		496,810	527,744
Other	389,708	2,622	392,330	358,234
Total Revenues	<u>958,031</u>	<u>471,495</u>	<u>1,429,526</u>	<u>1,370,344</u>
<u>Expenditures</u>				
Community Education and Services		476,651	476,651	340,841
Pupil Support Services	927,151		927,151	838,880
Total Expenditures	<u>927,151</u>	<u>476,651</u>	<u>1,403,802</u>	<u>1,179,721</u>
Excess Revenues (Expenditures)	30,880	(5,156)	25,724	190,623
Fund Balance-July 1	<u>222,984</u>	<u>183,784</u>	<u>406,768</u>	<u>216,145</u>
Fund Balance-June 30	<u><u>253,864</u></u>	<u><u>178,628</u></u>	<u><u>432,492</u></u>	<u><u>406,768</u></u>

FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Year Ended June 30</u>			
	<u>2018</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>Other Local and County Revenues</u>				
Interest Income	937	8,658	7,721	1,853
Miscellaneous	400		(400)	451
Total Other Local and County Revenues	<u>1,337</u>	<u>8,658</u>	<u>7,321</u>	<u>2,304</u>
<u>Revenue From State Sources</u>				
Breakfast Reimbursement	30,000	32,254	2,254	29,570
Lunch Reimbursement	32,800	29,958	(2,842)	32,209
Summer Food Service Program	1,300	643	(657)	819
Total Revenue From State Sources	<u>64,100</u>	<u>62,855</u>	<u>(1,245)</u>	<u>62,598</u>
<u>Revenue From Federal Sources</u>				
Breakfast Reimbursement	127,000	131,894	4,894	124,918
Commodities	56,000	52,531	(3,469)	79,844
Lunch Reimbursement	287,500	276,858	(10,642)	288,156
Special Milk Program	40	150	110	55
Summer Food Service Program	28,000	35,377	7,377	34,771
Total Revenue From Federal Sources	<u>498,540</u>	<u>496,810</u>	<u>(1,730)</u>	<u>527,744</u>
<u>Sales and Other Conversion of Assets</u>				
Lunch and Breakfast Sales	351,500	389,708	38,208	355,663
Total Revenues	<u>915,477</u>	<u>958,031</u>	<u>42,554</u>	<u>948,309</u>
<u>Expenditures</u>				
<u>Pupil Support Services</u>				
Commodities	56,000	52,531	(3,469)	79,844
Equipment	7,530	36,418	28,888	4,677
Fixed Charges and Employee Benefits	3,000	1,362	(1,638)	4,283
Food	33,050	11,113	(21,937)	22,120
Milk		774	774	42,053
Professional Services	701,876	806,587	104,711	631,879
Repairs and Maintenance		4,506	4,506	1,038
Salaries				13,168
Supplies	31,250	12,700	(18,550)	39,700
Travel and Transportation	990	1,160	170	118
Total Expenditures	<u>833,696</u>	<u>927,151</u>	<u>93,455</u>	<u>838,880</u>
Excess Revenues (Expenditures)	<u>81,781</u>	<u>30,880</u>	<u>(50,901)</u>	<u>109,429</u>
Fund Balance-July 1		222,984		113,555
Fund Balance-June 30		<u>253,864</u>		<u>222,984</u>

COMMUNITY SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Year Ended June 30</u>			
	<u>2018</u>	<u>2017</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	108,780	123,557	14,777	110,935
Total Local Property Tax Levy	108,780	123,557	14,777	110,935
<u>Other Local and County Revenues</u>				
Fees	34,750	61,762	27,012	69,690
Gifts and Bequests		12,981	12,981	1,550
Interest Income	1,250	4,649	3,399	1,619
Other Miscellaneous Income	120,925	132,418	11,493	118,178
Tuition from Patrons	111,005	71,060	(39,945)	57,875
Total Other Local and County Revenues	267,930	282,870	14,940	248,912
<u>Revenue From State Sources</u>				
Disparity	3,000	2,757	(243)	2,914
Market Value Credits	2,500	3,323	823	3,695
Other State Aids	55,159	56,366	1,207	53,008
Total Revenue From State Sources	60,659	62,446	1,787	59,617
<u>Sales and Other Conversion of Assets</u>				
Sales of Materials	2,000	2,622	622	2,571
Total Sales and Other Conversion of Assets	2,000	2,622	622	2,571
Total Revenues	439,369	471,495	32,126	422,035
<u>Expenditures</u>				
<u>Community Education and Services</u>				
Dues and Memberships	650	528	(122)	706
Equipment	1,000	1,310	310	1,681
Fixed Charges	54,381	67,243	12,862	42,400
Instructional Supplies	50,524	43,795	(6,729)	32,651
Other Non-Education Agencies	17,000	29,318	12,318	17,000
Professional Services	4,930	4,641	(289)	6,242
Rentals and Leases	11,725	15,625	3,900	883
Repair and Maintenance	2,250	1,381	(869)	1,146
Salaries	267,961	301,397	33,436	220,833
Supplies	12,566	9,831	(2,735)	15,110
Travel and Transportation	1,450	1,582	132	2,189
Total Expenditures	424,437	476,651	52,214	340,841
Excess Revenues (Expenditures)	14,932	(5,156)	(20,088)	81,194
Fund Balance-July 1		183,784		102,590
Fund Balance-June 30		178,628		183,784

CAPITAL PROJECTS FUND
BALANCE SHEET
JUNE 30, 2018

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Prepaid Expenses		28,385
Total Assets	-0-	28,385
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable		6,585
Due to Other Funds		21,800
Total Liabilities	-0-	28,385
<u>Fund Balances</u>		
Fund Balance-Nonspendable		28,385
Fund Balance-Unassigned		(28,385)
Total Fund Balances	-0-	-0-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	-0-	28,385

DEBT SERVICE FUND
BALANCE SHEET
JUNE 30, 2018

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Cash	687,193	1,003,418
Investments	187,250	118,422
Current Property Taxes Receivable	973,170	726,431
Delinquent Property Taxes Receivable	1,229	5,346
Due from Department of Education	8,045	8,491
Total Assets	<u>1,856,887</u>	<u>1,862,108</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue-Delinquent Taxes	1,229	5,346
Property Taxes Levied for Subsequent Years	1,532,127	1,513,396
Total Liabilities	<u>1,533,356</u>	<u>1,518,742</u>
<u>Fund Balances</u>		
Fund Balance-Restricted	323,531	343,366
Total Fund Balances	<u>323,531</u>	<u>343,366</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>1,856,887</u>	<u>1,862,108</u>

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Year Ended June 30</u>			
	<u>2018</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	1,488,295	1,432,559	(55,736)	1,424,607
Total Local Property Tax Levy	1,488,295	1,432,559	(55,736)	1,424,607
<u>Other Local and County Revenues</u>				
Interest Income	6,874	6,315	(559)	4,273
Total Other Local and County Revenues	6,874	6,315	(559)	4,273
<u>Revenue From State Sources</u>				
Disparity Reduction	39,000	36,479	(2,521)	37,441
Market Value Credits	30,000	43,970	13,970	47,472
Total Revenue From State Sources	69,000	80,449	11,449	84,913
Total Revenue	1,564,169	1,519,323	(44,846)	1,513,793
<u>Expenditures</u>				
<u>Fiscal and Other Fixed Cost Programs</u>				
Interest and Fiscal Charges	59,158	59,158		73,757
Principal	1,480,000	1,480,000		1,460,000
Total Expenditures	1,539,158	1,539,158	-0-	1,533,757
Excess Revenues (Expenditures)	25,011	(19,835)	(44,846)	(19,964)
Fund Balance-July 1		343,366		363,330
Fund Balance-June 30		323,531		343,366

UNIFORM FINANCIAL ACCOUNTING & REPORTING STANDARDS
COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2018

	Audit	UFARS	Audit - UFARS
<u>01 GENERAL FUND</u>			
Total Revenues	13,577,808	13,577,808	0
Total Expenditures	<u>13,907,874</u>	<u>13,907,874</u>	<u>0</u>
Nonspendable:			
460 Non Spendable Fund Balance	57,280	57,280	0
Restricted/Reserve:			
403 Staff Development	245,976	245,976	0
406 Health & Safety	40,436	40,436	0
428 Learning & Development	66,468	66,468	0
438 Gifted & Talented	177,620	177,620	0
441 Basic Skills Programs	278,293	278,293	0
449 Safe Schools Levy	59,321	59,321	0
459 Basic Skills Ext Time	13,118	13,118	0
467 Long Term Facility Maintenance	84,751	84,751	0
Restricted:			
464 Restricted Fund Balance	7,315	7,315	0
Committed:			
418 Committed for Separation	142,686	142,686	0
Assigned:			
462 Assigned Fund Balance	13,597	13,597	0
Unassigned:			
422 Unassigned Fund Balance	3,816,926	3,816,926	0
<u>02 FOOD SERVICE</u>			
Total Revenues	958,031	958,031	0
Total Expenditures	<u>927,151</u>	<u>927,151</u>	<u>0</u>
Nonspendable:			
460 Non Spendable Fund Balance			0
Restricted:			
464 Restricted Fund Balance	253,864	253,864	0
<u>04 COMMUNITY SERVICE</u>			
Total Revenues	471,495	471,495	0
Total Expenditures	<u>476,651</u>	<u>476,651</u>	<u>0</u>
Restricted/Reserve:			
431 Community Education	132,419	132,419	0
432 Early Childhood and Family Education	47,816	47,816	0
444 Learning Readiness	(29,285)	(29,285)	0
Restricted:			
464 Restricted Fund Balance	27,678	27,678	0
<u>06 BUILDING CONSTRUCTION</u>			
Total Revenues			0
Total Expenditures	<u>790,000</u>	<u>790,000</u>	<u>0</u>
Nonspendable:			
460 Non Spenable Fund Balance			0
Unassigned:			
463 Unassigned			0
<u>07 DEBT SERVICE</u>			
Total Revenues	1,519,323	1,519,323	0
Total Expenditures	<u>1,539,158</u>	<u>1,539,158</u>	<u>0</u>
Restricted:			
464 Restricted Fund Balance	323,531	323,531	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, 2018, 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 24, 2018.

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, 2007-001 and 2010-001 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 24, 2018

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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, 2018. 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, 2018.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and recommendations as items 2000-003 and 2010-002 to be material weaknesses.

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 24, 2018

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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, 2018.

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.

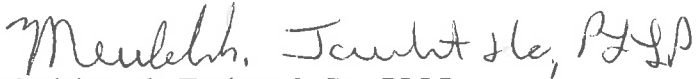
Because these financial statements are prepared on the basis of cash receipts and disbursements, revenue is recorded when received rather than when earned and expenses are recognized when paid rather than when the obligations are incurred. Accordingly, the accompanying financial statements are not intended 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, 2018, 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 24, 2018 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 24, 2018

STUDENT ACTIVITIES FUND
STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Organization</u>	<u>07-01-17</u>			<u>06-30-18</u>
	<u>Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u>
Baseball Club	1,844.98	4,209.70	2,422.30	3,632.38
Boys Basketball	376.20			376.20
Boys Tennis	156.55		30.00	126.55
Cheerleaders	9.78	4,927.65	4,302.41	635.02
Class of 2020		619.86		619.86
Class of 2019		6,186.48	2,155.89	4,030.59
Class of 2018	310.79	1,738.48	2,049.27	-
Class of 2017	3,794.98		3,794.98	-
Class of 2016	611.56		611.56	-
Class Emergency Fund	1,384.65			1,384.65
Cross Country	2,067.33		866.78	1,200.55
FFA	5,095.81	43,603.65	45,526.22	3,173.24
Football Club	2,144.46	2,041.44	2,328.82	1,857.08
French Club	2,928.07	2,099.98	1,172.65	3,855.40
Girls Basketball	1,237.20	743.55	1,268.79	711.96
Girls Tennis	1,550.46	1,442.78	201.88	2,791.36
Golf Club	1,076.46	803.66	700.02	1,180.10
Gymnastics	2,172.49	728.63	1,008.00	1,893.12
High School Student Council	703.32	1,392.06	809.42	1,285.96
Homecoming		963.00	405.97	557.03
Journalism	6,591.99	4,075.00	8,495.25	2,171.74
Middle School Student Council	2,296.74	286.00	539.17	2,043.57
National Honor Society	1,483.08	1,084.03	477.02	2,090.09
One Act Play	64.94			64.94
Peer Helpers	1,860.96			1,860.96
Prom	619.45	12,661.33	9,106.71	4,174.07
Robotics	450.15	5,510.00		5,960.15
School Store/Concessions	11,272.35	29,071.29	30,513.86	9,829.78
Softball	744.54	525.00		1,269.54
Spanish Club	2,234.64	5,248.83	3,345.76	4,137.71
Speech	4,499.76	618.34	516.92	4,601.18
STARS	1,423.19		135.36	1,287.83
Swing Choir	6,741.60	16,357.04	14,554.10	8,544.54
Track Fund	65.44		65.44	-
Volleyball	4,274.53	11,196.99	11,645.61	3,825.91
Wrestling Club	441.16	799.70	37.00	1,203.86
Total	<u>72,529.61</u>	<u>158,934.47</u>	<u>149,087.16</u>	<u>82,376.92</u>

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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, 2018, and have issued our report thereon dated October 24, 2018.

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 24, 2018

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<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	131,894 *	None
National School Lunch Program	10.555	329,389 * #	None
Special Milk Program For Children	10.556	150 *	None
Summer Food Service Program for Children	10.559	35,377 *	None
		<u>496,810</u>	
U.S. Department of Education/			
Passed Through Southwest/West Central Educational Coop			
Special Education-Grants to States (IDEA, Part B)	84.027	118,436	None
Passed Through Minnesota Department of Children, Families and Learning			
Improving Teacher Quality State Grants (Title II, Part A)	84.367	47,158	None
Title I Grants to Local Educational Agencies	84.010	230,421	None
Title III, Part A, English Language Acquisition, Language Enhancement and Academic Achievement	84.365A	12,001	None
Total		<u><u>904,826</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 \$52,531 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, 2018

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, 2007-001 and 2010-001 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 and 2010-002 are material weaknesses.
- 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
Special Milk Program For Children	10.556
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, 2018

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, 2018

II. Financial Statement Audit—Internal Controls – continued

Previously Reported Items Not Resolved:

2010-001 Audit Adjustments

Criteria: Internal control should include staff computation of receivables and payables for year end.

Condition: Due to unfamiliarity with property tax accounting, district personnel were unable to compute property tax receivable and revenue at year end.

Cause: This condition is not uncommon in a smaller district where staff has many duties.

Effect: Without the computation of receivables and payables at year end, financial statements could be misstated.

Recommendation: We recommend that district personnel obtain the necessary training to be able to prepare the computation of year end receivables and payables.

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.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2018

III. Major Federal Award Programs—Internal Controls Over Compliance - continued

2010-002 Audit Adjustments

Criteria: Internal control should include staff computation of receivables and payables for year end.

Condition: Due to unfamiliarity with property tax accounting, district personnel were unable to compute property tax receivable and revenue at year end.

Cause: This condition is not uncommon in a smaller district where staff has many duties.

Effect: Without the computation of receivables and payables at year end, financial statements could be misstated.

Recommendation: We recommend that district personnel obtain the necessary training to be able to prepare the computation of year end receivables and payables.

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.

2010-002 Name and Contact Person Responsible For Corrective Action

Jacque Kennedy, Business Manager

Corrective Action Plan (CAP)

District personnel will obtain the necessary training to be able to prepare the computation of year end receivables and payables.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2018

IV. Corrective Action Plan - continued

Planned completion date for CAP:

N/A – requires ongoing monitoring

Plan to monitor completion of CAP:

The Business Manager and Board Members will monitor their procedures to ensure accuracy.