

FINANCIAL STATEMENTS

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

FOR THE YEAR ENDING JUNE 30, 2017

**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, 2017

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) Clerk (1/1/16 – 12/31/16)	12/31/20
Jeff Baatz	Clerk (1/1/17-present) Vice Chairman (1/1/16 – 12/31/16)	12/31/18
Tami Taubert	Treasurer (1/1/17 – present) Director (1/1/15-12/31/16)	12/31/18
Dennis Tinklenberg	Treasurer (1/1/16-12/31/16)	12/31/16
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
Kris Ploeger	Director (1/1/15 – 12/31/16)	12/31/16

ADMINISTRATIVE PERSONNEL

Kevin Enerson	Superintendent
Jacque Kennedy	Business Manager

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MEULEBROECK, TAUBERT & CO., PLLP
CERTIFIED PUBLIC ACCOUNTANTS

PO Box 685
109 S Freeman Avenue
Luverne, Minnesota 56156
507 283-4055 Fax 507 283-4076
contactl@mtcocpa.com

PO Box 707
216 East Main
Pipestone, Minnesota 56164
507 825-4288 Fax 507 825-4280
contactp@mtcocpa.com

Tyler, Minnesota 56178
507 247-3939
Lake Wilson, Minnesota 56151
507 879-3538
Marshall, Minnesota 56258
507 337-0501

PARTNERS

David L. Meulebroeck, CPA
Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
Daryl J. Kanthak, CPA

WITH THE FIRM

Amy L. Mollberg, CPA
Blake R. Klinsing, CPA
Bryce L. Schelhaas, 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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, 2016, and in our report dated November 8, 2016, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 6 – 13, the Schedule of Funding Progress – Other Postemployment Benefits on page 59 and the Schedules of Proportionate Share of the Net Pension Liability and Employer Contributions on page 60 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.

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

Other Information

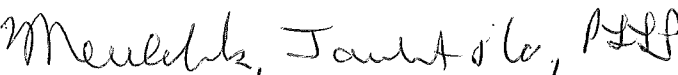
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 2689's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017, 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 11, 2017

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

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, 2017. 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 2016-2017 fiscal year include the following:

- Net position decreased by \$2,901,602, or 34.2% over June 30, 2016 mainly due to an increase in pension liability.
- Fund Balance increased by \$454,243, or 8.1% over June 30, 2016.
- Total governmental revenues increased \$326,274 or 2.1% in comparison to fiscal year 2016, while governmental expenditures increased \$215,368 or 1.4% in comparison to fiscal year 2016.

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 \$5,589,991 at the close of the most recent fiscal year. This was a decrease of \$2,901,602 or 34.2% from the previous year total of \$8,491,593.

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

Table 1		
Statement of Net Position		
As of June 30, 2017		
Assets	<u>2017</u>	<u>2016</u>
Current and other assets	10,683,726	10,067,886
Capital assets, net of depreciation	<u>15,295,316</u>	<u>15,804,163</u>
Total Assets	25,979,042	25,872,049
Deferred Outflows of Resources		
Related to Pensions	<u>15,973,691</u>	<u>1,814,434</u>
Total Assets and Deferred Outflows of Resources	<u>41,952,733</u>	<u>27,686,483</u>
Liabilities		
Current and other liabilities	2,956,898	1,414,280
Long-term liabilities	<u>29,562,785</u>	<u>14,467,401</u>
Total Liabilities	32,519,683	15,881,681
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year	3,107,365	2,901,538
Related to Pensions	<u>735,694</u>	<u>411,671</u>
Total Deferred Inflows of Resources	3,843,059	3,313,209
Net Position		
Net Investment in capital assets	10,810,316	9,859,163
Restricted	1,689,661	1,354,369
Unrestricted	<u>(6,909,986)</u>	<u>(2,721,939)</u>
Net Position	<u>5,589,991</u>	<u>8,491,593</u>
Total Liabilities, Deferred Inflows of Resources & Net Position	<u>41,952,733</u>	<u>27,686,483</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, 2017

Revenues	<u>2017</u>	<u>2016</u>
Program Revenues		
Charges for Services	724,043	689,962
Operating Grants and Contributions	3,842,780	3,667,993
General Revenues		
Property Taxes	2,883,128	2,719,899
Unrestricted Federal and State Aid	8,451,073	8,377,826
Earnings on Investments	32,321	18,504
Other	<u>297,726</u>	<u>426,334</u>
Total revenues	16,231,071	15,900,518
Expenses		
District and School Administration	879,031	933,284
District Support Services	344,804	315,084
Regular Instruction	10,220,223	4,445,692
Vocational Instruction	257,867	252,129
Exceptional Instruction	2,255,054	2,254,823
Instructional Support Services	592,018	482,733
Pupil Support Services	1,451,104	1,493,447
Site, Buildings, and Equipment	1,763,289	1,668,615
Fiscal and Other Fixed Cost Programs	81,956	82,637
Food Service	844,787	794,409
Community Service	340,841	402,006
Interest and Fiscal Charges on Long-term Liabilities	<u>101,699</u>	<u>116,266</u>
Total expenses	<u>19,132,673</u>	<u>13,241,125</u>
Change in net position	(2,901,602)	2,659,393
Beginning net position	<u>8,491,593</u>	<u>5,832,200</u>
Ending net position	<u><u>5,589,991</u></u>	<u><u>8,491,593</u></u>

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

The district's total revenue consisted of program revenues of \$4,566,823, property taxes of \$2,883,128, federal and state aid not restricted to specific purposes of \$8,451,073, unrestricted investment earnings of \$32,321 and other revenues of \$297,726.

The cost of all governmental activities this year was \$19,132,673.

- The users of the district programs paid for \$724,043 or 3.8% of the total costs.
- Operating grants and contributions consisting of federal and state aids restricted for specific purposes and donations totaled \$3,842,780 or 20.1% of total costs.
- The state government subsidized certain programs with aid not restricted for specific purposes. This totaled \$8,451,073 or 44.2% of total costs.

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

Figure A - Sources of Revenue for Fiscal Year 2017

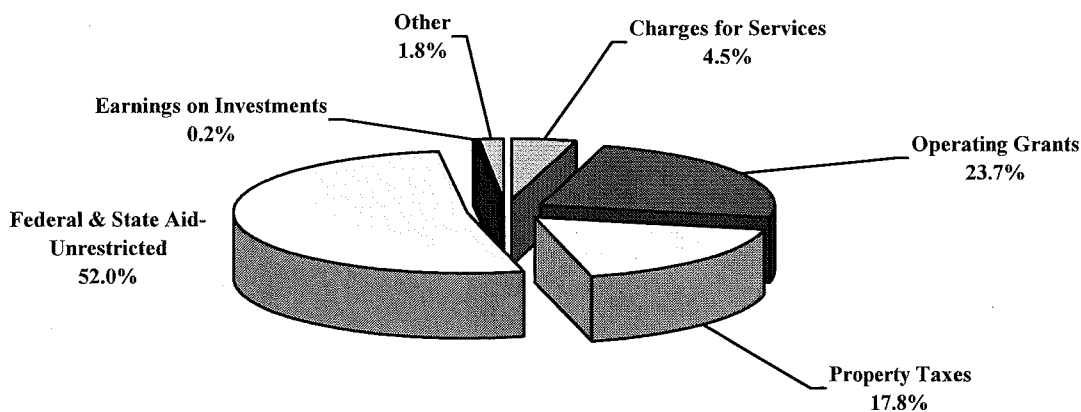
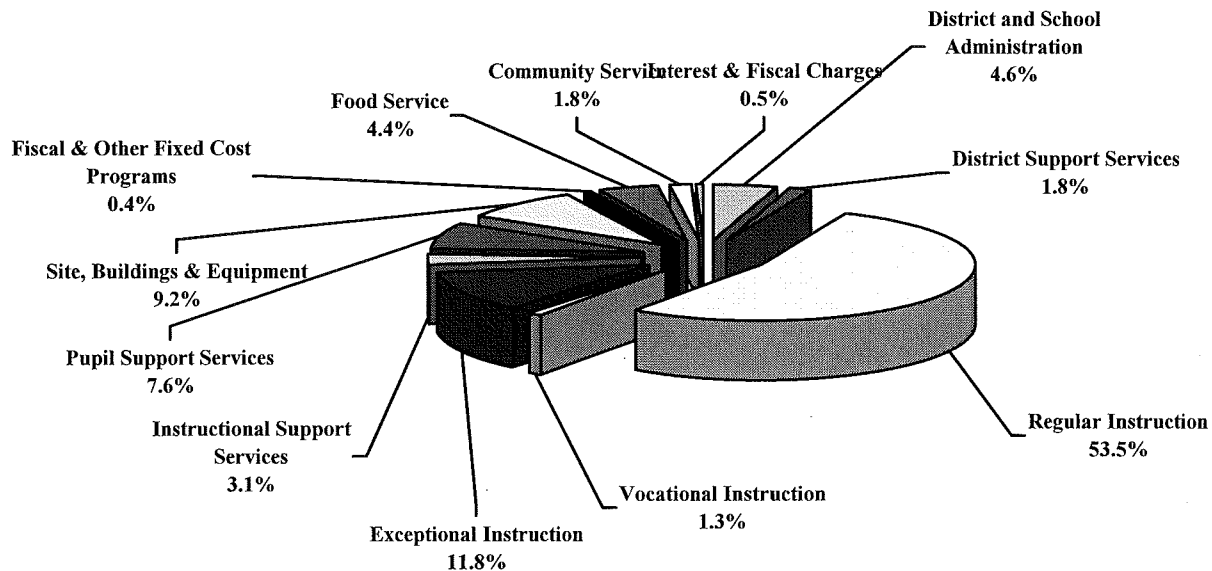


Figure B - Expenses for Fiscal Year 2017



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 \$6,083,987, which is an increase of \$454,243 over the prior year fund balance of \$5,629,744. The General Fund increase of \$283,584 is mainly due to increased revenues. The Food Service Fund had an increase of \$109,429, which was due mainly to increased revenues. The Community Service Fund had an increase of \$81,194, mainly due to a decrease in expenditures. The Debt Service Fund had a decrease of \$19,964.

Revenues and Expenditures

Revenues of the district's governmental funds totaled \$16,228,545 while total expenditures were \$15,774,302. 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	13,344,408	13,060,824	-0-	283,584
Food Service Fund	948,309	838,880	-0-	109,429
Community Service Fund	422,035	340,841	-0-	81,194
Debt Service Fund	<u>1,513,793</u>	<u>1,533,757</u>	-0-	(19,964)
Total	<u>16,228,545</u>	<u>15,774,302</u>	<u>-0-</u>	<u>454,243</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 2017, the District revised the budget. The district's revised budget anticipated that expenditures would exceed revenues and other financing sources (uses) by \$620,254. The actual results for the year showed an increase of \$283,584.

- Actual general fund revenues exceeded the budget by \$167,792 primarily due to differences in state aids and other local and county revenues.
- Actual general fund expenditures were less than budget by \$736,046 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, 2017. More detailed information about the district's capital assets is presented in Note 6.

**Table 3
 Capital Assets**

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Land	272,240	272,240	
Land Improvements	1,866,496	1,758,597	107,899
Buildings and Improvements	19,364,652	19,316,020	48,632
Equipment	4,860,115	4,786,505	73,610
Pupil Transportation Vehicles	199,867	199,867	
Less: Accumulated Depreciation	(11,268,054)	(10,529,066)	(738,988)
Total	<u>15,295,316</u>	<u>15,804,163</u>	<u>(508,847)</u>
Depreciation Expense	<u>741,442</u>	<u>737,168</u>	<u>4,274</u>

Capital asset activity for the current fiscal year includes the purchase of an outdoor school sign, Trane-Brown school upgrades, JD 1570 Mower, athletic track renovation and construction in progress for the new tennis courts.

Long-Term Liabilities

In fiscal year 2017, long-term debt obligations were repaid in the amount of \$1,460,000, the net severance liability decreased by \$94,830, the net OPEB liability increased by \$34,563, and the net pension liability increased by \$18,173,603. The District implemented the Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) during fiscal year 2015. Pension benefits payable total \$26,168,469 at June 30, 2017. More detailed information about the district's long-term liabilities is presented in Note 9.

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

Factors Bearing on the District's Future

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

Contacting the District's Management

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

STATEMENT OF NET POSITION
JUNE 30, 2017

	2017	2016
<u>Assets</u>		
Cash and Investments	7,430,091	6,620,458
Receivables:		
Property Taxes	1,546,986	1,440,304
Governmental Units	1,446,327	1,738,633
Other	37,173	59,240
Prepaid Expenses	173,108	172,267
Inventory	50,041	36,984
Capital Assets:		
Non Depreciable	272,240	272,240
Depreciable - net of accumulated depreciation	15,023,076	15,531,923
Total Assets	25,979,042	25,872,049
 <u>Deferred Outflows of Resources</u>		
Related to Pensions	15,973,691	1,814,434
Total Assets and Deferred Outflows of Resources	41,952,733	27,686,483
 <u>Liabilities</u>		
Salaries Payable	582,915	607,696
Accounts Payable	738,771	726,347
Accrued Interest	19,719	24,586
Due to Other Governmental Units	38,175	34,090
Unearned Revenue	15,886	21,561
Long Term Liabilities:		
Portion Due Within One Year	1,561,432	1,535,727
Portion Due in More Than One Year	3,149,819	4,726,874
Pension Benefit Payable	26,168,469	7,994,866
Net OPEB Liability	244,497	209,934
Total Liabilities	32,519,683	15,881,681
 <u>Deferred Inflows of Resources</u>		
Property Taxes Levied for Subsequent Years	3,107,365	2,901,538
Related to Pensions	735,694	411,671
Total Deferred Inflows of Resources	3,843,059	3,313,209
 <u>Net Position</u>		
Net Investment in Capital Assets	10,810,316	9,859,163
Restricted for:		
General Fund State Mandated Purposes	939,527	774,894
Food Service	222,984	113,555
Community Service	183,784	102,590
Debt Service	343,366	363,330
Unrestricted	(6,909,986)	(2,721,939)
Total Net Position	5,589,991	8,491,593
Total Liabilities, Deferred Inflows of Resources and Net Position	41,952,733	27,686,483

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions	2017				Net (Expense)	2016
	Expenses	Program Revenues			Revenue and	Net (Expense)
		Charges	Operating	Capital	Changes in	Revenue and
		For Services	Grants and	Grants and	Net Position	Changes in
		Contributions	Contributions	Total	Total	
				Governmental	Governmental	
				Activities	Activities	
<u>Governmental Activities</u>						
District and School Administration	879,031			(879,031)	(933,284)	
District Support Services	344,804			(344,804)	(315,084)	
Regular Instruction	10,220,223	152,975	1,586,354	(8,480,894)	(2,831,183)	
Vocational Instruction	257,867			(257,867)	(252,129)	
Exceptional Instruction	2,255,054	84,917	1,640,805	(529,332)	(638,533)	
Instructional Support Services	592,018			(592,018)	(482,733)	
Pupil Support Services	1,451,104	352	(34,338)	(1,485,090)	(1,438,446)	
Site, Buildings and Equipment	1,763,289			(1,763,289)	(1,668,615)	
Fiscal and Other Fixed Cost Programs	81,956			(81,956)	(82,637)	
Food Service	844,787	355,663	590,342	101,218	129,827	
Community Education	340,841	130,136	59,617	(151,088)	(254,087)	
Interest and Fiscal Charges on Long-term Liabilities	101,699			(101,699)	(116,266)	
Total	19,132,673	724,043	3,842,780	-0-	(14,565,850)	(8,883,170)
<u>General Revenues</u>						
Property Taxes Levied for:						
General Purposes				1,347,586	1,168,000	
Community Service				110,935	112,821	
Debt Service				1,424,607	1,439,078	
Federal and State Aid Not Restricted to Specific Purposes				8,451,073	8,377,826	
Earnings on Investments				32,321	18,504	
Miscellaneous				297,726	426,334	
Total General Revenues				11,664,248	11,542,563	
Change in Net Position				(2,901,602)	2,659,393	
Net Position - Beginning				8,491,593	5,832,200	
Net Position - Ending				5,589,991	8,491,593	

See accompanying notes to the financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	2017					2016	
	Major Funds					Total	Total
	General	Food Service	Community Service	Capital Projects	Debt Service	Governmental Funds	Governmental Funds
<u>Assets</u>							
Cash and Investments	5,850,894	188,667	268,690		1,121,840	7,430,091	6,620,458
Current Property Taxes Receivable	747,503		54,855		726,431	1,528,789	1,424,632
Delinquent Property Taxes Receivable	12,404		447		5,346	18,197	15,672
Accounts Receivable	28,634	8,539				37,173	59,240
Due From Other Funds	21,800					21,800	43,478
Due From Department of Education	1,112,221		5,903		8,491	1,126,615	1,333,673
Due From Federal Government Through the Department of Education	243,579	24,929				268,508	301,364
Due From Other Governmental Units	50,748		456			51,204	103,596
Prepaid Expenses	46,293			28,385		74,678	41,028
Inventory		50,041				50,041	36,984
Total Assets	<u>8,114,076</u>	<u>272,176</u>	<u>330,351</u>	<u>28,385</u>	<u>1,862,108</u>	<u>10,607,096</u>	<u>9,980,125</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>							
<u>Liabilities</u>							
Salaries Payable	572,378		10,537			582,915	607,696
Accounts Payable	110,639	33,072	21,232		6,585	171,528	169,265
Due to Other Funds				21,800		21,800	43,478
Due to Other Governmental Units	37,871	304				38,175	34,090
Payroll Deductions	567,243					567,243	557,082
Unearned Revenue		15,816	70			15,886	21,561
Total Liabilities	<u>1,288,131</u>	<u>49,192</u>	<u>31,839</u>	<u>28,385</u>	<u>-0-</u>	<u>1,397,547</u>	<u>1,433,172</u>
<u>Deferred Inflows of Resources</u>							
Unavailable Revenue-Delinquent Taxes	12,404		447		5,346	18,197	15,671
Property Taxes Levied for Subsequent Years	1,479,688		114,281		1,513,396	3,107,365	2,901,538
Total Deferred Inflows of Resources	<u>1,492,092</u>	<u>-0-</u>	<u>114,728</u>	<u>-0-</u>	<u>1,518,742</u>	<u>3,125,562</u>	<u>2,917,209</u>
<u>Fund Balances</u>							
Fund Balance-Nonspendable	46,293	50,041		28,385		124,719	78,012
Fund Balance-Restricted	939,527	172,943	183,784		343,366	1,639,620	1,343,641
Fund Balance-Committed	226,251					226,251	317,601
Fund Balance-Assigned	8,630					8,630	9,771
Fund Balance-Unassigned	4,113,152			(28,385)		4,084,767	3,880,719
Total Fund Balances	<u>5,333,853</u>	<u>222,984</u>	<u>183,784</u>	<u>-0-</u>	<u>343,366</u>	<u>6,083,987</u>	<u>5,629,744</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>8,114,076</u>	<u>272,176</u>	<u>330,351</u>	<u>28,385</u>	<u>1,862,108</u>	<u>10,607,096</u>	<u>9,980,125</u>

See accompanying notes to the financial statements.

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
 NET POSITION OF GOVERNMENTAL ACTIVITIES
 JUNE 30, 2017**

	2017	2016
Total Governmental Fund Balances	6,083,987	5,629,744
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	26,563,370	26,333,229
Less: Accumulated Depreciation	(11,268,054)	(10,529,066)
	15,295,316	15,804,163
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.		
	18,197	15,671
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(19,719)	(24,586)
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	15,973,691	1,814,434
Deferred Inflows of Resources related to Pensions	(735,694)	(411,671)
	15,237,997	1,402,763
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	(226,251)	(317,601)
Bonds Payable	(4,485,000)	(5,945,000)
Less: Deferred Amount on Refunded Debt	98,430	131,239
Pension Benefits Payable	(26,168,469)	(7,994,866)
Net OPEB Liability	(244,497)	(209,934)
	(31,025,787)	(14,336,162)
Net Position of Governmental Activities	5,589,991	8,491,593

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	2017				2016	
	Major Funds			Total	Total	
	General	Food Service	Community Service	Debt Service	Governmental Funds	Governmental Funds
Revenues						
Local Property Tax Levies	1,345,060		110,935	1,424,607	2,880,602	2,721,652
Other Local and County Revenues	438,217	2,304	248,912	4,273	693,706	774,052
Revenue from State Sources	11,068,801	62,598	59,617	84,913	11,275,929	11,092,274
Revenue from Federal Sources	490,180	527,744			1,017,924	953,545
Sales and Other Conversion of Assets	2,150	355,663	2,571		360,384	360,748
Total Revenues	13,344,408	948,309	422,035	1,513,793	16,228,545	15,902,271
Expenditures						
Current:						
District and School Administration	879,031				879,031	933,284
District Support Services	344,804				344,804	315,084
Regular Instruction	5,857,790				5,857,790	5,854,338
Vocational Instruction	257,867				257,867	252,129
Exceptional Instruction	2,255,054				2,255,054	2,254,823
Community Education and Services			340,841		340,841	402,006
Instructional Support Services	589,598				589,598	480,313
Pupil Support Services	1,443,688	838,880			2,282,568	2,268,249
Site, Buildings and Equipment	1,351,036				1,351,036	1,172,764
Fiscal and Other Fixed Cost Programs	81,956				81,956	82,637
Debt Service:						
Principal				1,460,000	1,460,000	1,455,000
Interest and Fiscal Charges				73,757	73,757	88,307
Total Expenditures	13,060,824	838,880	340,841	1,533,757	15,774,302	15,558,934
Excess Revenues (Expenditures)	283,584	109,429	81,194	(19,964)	454,243	343,337
Fund Balance-Beginning	5,050,269	113,555	102,590	363,330	5,629,744	5,286,407
Fund Balance-Ending	5,333,853	222,984	183,784	343,366	6,083,987	5,629,744

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, 2017**

	2017		2016
Net Change in Governmental Fund Balances	454,243		343,337
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	239,341		173,179
Disposals	(6,746)		
Depreciation Expense	(741,442)		(737,168)
	(508,847)		(563,989)
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:			
Repayment of Bond Principal	1,460,000		1,455,000
Interest Expense - General Obligation Bonds	4,867		4,850
Amortization of Deferred Amount on Refunded Debt	(32,809)		(32,809)
Severance Payments	94,830		106,206
	1,526,888		1,533,247
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.		2,526	(1,753)
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	(3,480)		255
Pension Benefits	13,835,234		2,555,580
	13,831,754		2,555,835
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	(18,173,603)		(1,175,680)
Change in Net OPEB liability	(34,563)		(31,604)
	(18,208,166)		(1,207,284)
Change in Net Position of Governmental Activities	(2,901,602)		2,659,393

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, 2017

	<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	1,336,713	1,336,713	1,345,060	8,347
Other Local and County Revenues	341,445	341,445	438,217	96,772
Revenue from State Sources	11,037,758	11,037,758	11,068,801	31,043
Revenue from Federal Sources	459,250	459,250	490,180	30,930
Sales and Other Conversion of Assets	1,450	1,450	2,150	700
Total Revenues	<u>13,176,616</u>	<u>13,176,616</u>	<u>13,344,408</u>	<u>167,792</u>
<u>Expenditures</u>				
District and School Administration	1,058,420	1,076,675	879,031	(197,644)
District Support Services	349,562	373,624	344,804	(28,820)
Regular Instruction	6,070,186	6,089,869	5,857,790	(232,079)
Vocational Instruction	247,779	247,779	257,867	10,088
Exceptional Instruction	2,465,517	2,368,862	2,255,054	(113,808)
Instructional Support Services	556,856	540,856	589,598	48,742
Pupil Support Services	1,529,546	1,556,746	1,443,688	(113,058)
Site, Building and Equipment	1,430,959	1,455,959	1,351,036	(104,923)
Fiscal and Other Fixed Cost Programs	86,500	86,500	81,956	(4,544)
Total Expenditures	<u>13,795,325</u>	<u>13,796,870</u>	<u>13,060,824</u>	<u>(736,046)</u>
Net Change in Fund Balance	<u>(618,709)</u>	<u>(620,254)</u>	283,584	<u>903,838</u>
Fund Balance-Beginning			<u>5,050,269</u>	
Fund Balance-Ending			<u>5,333,853</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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u> Amounts	<u>Variance</u> with <u>Final</u> <u>Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Other Local and County Revenues	737	1,037	2,304	1,267
Revenue from State Sources	64,464	64,629	62,598	(2,031)
Revenue from Federal Sources	468,046	470,246	527,744	57,498
Sales and Other Conversion of Assets	333,000	341,500	355,663	14,163
Total Revenues	<u>866,247</u>	<u>877,412</u>	<u>948,309</u>	<u>70,897</u>
<u>Expenditures</u>				
Pupil Support Services	825,961	820,986	838,880	17,894
Total Expenditures	<u>825,961</u>	<u>820,986</u>	<u>838,880</u>	<u>17,894</u>
Net Change in Fund Balance	<u>40,286</u>	<u>56,426</u>	109,429	<u>53,003</u>
Fund Balance-Beginning			<u>113,555</u>	
Fund Balance-Ending			<u>222,984</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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance</u> <u>with</u> <u>Final</u> <u>Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local Property Tax Levies	113,173	113,173	110,935	(2,238)
Other Local and County Revenues	199,285	205,884	248,912	43,028
Revenue from State Sources	92,036	92,036	59,617	(32,419)
Sales and Other Conversion of Assets	2,000	2,000	2,571	571
Total Revenues	<u>406,494</u>	<u>413,093</u>	<u>422,035</u>	<u>8,942</u>
<u>Expenditures</u>				
Community Education and Services	<u>355,008</u>	<u>354,687</u>	<u>340,841</u>	<u>(13,846)</u>
Total Expenditures	<u>355,008</u>	<u>354,687</u>	<u>340,841</u>	<u>(13,846)</u>
Net Change in Fund Balance	<u>51,486</u>	<u>58,406</u>	81,194	<u>22,788</u>
Fund Balance-Beginning			<u>102,590</u>	
Fund Balance-Ending			<u>183,784</u>	

See accompanying notes to the financial statements.

STATEMENT OF FIDUCIARY ASSETS
AGENCY FUND
JUNE 30, 2017

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Cash and Investments	<u>500</u>	<u>-0-</u>
<u>Liabilities and Net Position</u>		
<u>Liabilities</u>		
Unearned Revenue	500	-0-
<u>Net Position</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities and Net Position	<u>500</u>	<u>-0-</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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. **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.

C. **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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 Summary of Significant Accounting Policies - continued

C. Basic Financial Statement Presentation - continued

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.

D. 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. 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 Summary of Significant Accounting Policies - continued

D. Basis of Accounting and Measurement Focus - continued

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, 2017

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

D. **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.

E. **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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 Summary of Significant Accounting Policies – continued

E. Budgets and Budgetary Accounting - continued

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.

F. 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.

G. 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.

H. 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. Inventory of the Food Service Fund is recorded as expenditure when items are used. United States Department of Agriculture (USDA) commodities received are recorded at cost determined using the USDA standard price list and are included in the Food Service Fund inventory when received. Revenue is recognized and the expenditure is recorded when commodities are used.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 Summary of Significant Accounting Policies - continued

I. 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.

J. 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, 2017, and will be recognized as revenue during the fiscal year ending June 30, 2018. The delinquent taxes receivable are reserved as 100% uncollectible except for the amount received during the first sixty days of the subsequent fiscal year.

K. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 Summary of Significant Accounting Policies - continued

L. 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.

M. Deferred Outflows/Inflows of Resources

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

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

N. 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 Summary of Significant Accounting Policies - continued

N. Fund Equity - continued

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 Summary of Significant Accounting Policies - continued

O. 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.

P. 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.

Q. 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, 2016, from which the summarized information was derived.

R. 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.

S. Subsequent Events

Subsequent events have been evaluated through October 11, 2017, which is the date the financial statements were available to be issued.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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.

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, 2017, none of the District's bank balance of \$5,734,954 (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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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>	2017	2016
Title I	149,847	139,763
Title II	26,004	6,123
Other	<u>67,728</u>	<u>119,728</u>
Total General Fund	243,579	265,614
<u>Special Revenue Funds</u>		
<u>Food Service Fund</u>		
Lunch	7,149	16,127
Breakfast	1,650	6,042
Milk		36
Summer Food Program	<u>16,130</u>	<u>13,545</u>
Total Food Service Fund	<u>24,929</u>	<u>35,750</u>
Total All Funds	<u>268,508</u>	<u>301,364</u>

Note 5 Due From Other Governmental Units

Amounts due from Other Governmental Units are as follows:

	June 30	
<u>General Fund</u>	2017	2016
SW/WC Service Coop	12,383	15,297
SW Health & Human Services	16,000	16,000
City of Pipestone	11,349	11,407
Minnesota West	693	65
Canby Public Schools	702	
Southwest Minnesota State University		390
State of MN	9,089	
MN Office of Mgmt & Budget	<u>532</u>	<u>856</u>
Total General Fund	50,748	44,015
<u>Special Revenue Funds</u>		
<u>Community Service Fund</u>		
Pipestone County Medical Center	456	209
City of Pipestone		44,750
Plum Creek Library		<u>14,622</u>
Total Community Service Fund	<u>456</u>	<u>59,581</u>
Total All Funds	<u>51,204</u>	<u>103,596</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 6 Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Balance</u> <u>7/01/16</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/17</u>
Capital assets not depreciated				
Land	272,240			272,240
Capital assets depreciated				
Land Improvements	1,758,597	107,899		1,866,496
Buildings	19,316,020	48,632		19,364,652
Equipment	4,786,505	82,810	(9,200)	4,860,115
Pupil Transportation Vehicles	<u>199,867</u>			<u>199,867</u>
Total Capital assets depreciated	26,060,989	239,341	(9,200)	26,291,130
Less accumulated depreciation for				
Land Improvements	1,127,500	83,787		1,211,287
Buildings	5,735,101	381,881		6,116,982
Equipment	3,502,458	268,358	(2,454)	3,768,362
Pupil Transportation Vehicles	<u>164,007</u>	<u>7,416</u>		<u>171,423</u>
Total accum depreciation	<u>10,529,066</u>	<u>741,442</u>	<u>(2,454)</u>	<u>11,268,054</u>
Total capital assets depreciated-net	<u>15,531,923</u>	<u>(502,101)</u>	<u>(6,746)</u>	<u>15,023,076</u>
Net Capital Assets	<u>15,804,163</u>	<u>(502,101)</u>	<u>(6,746)</u>	<u>15,295,316</u>

Depreciation expense of \$741,442 for the year ended June 30, 2017 was charged to the following governmental functions:

Regular Instruction	80,851
Instruction Support Services	2,420
Pupil Support Services	7,416
Sites, Buildings, and Equipment	644,848
Food Service	<u>5,907</u>
Total	<u>741,442</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 2 Cash and Investments - continued

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 2 Cash and Investments - continued

B. Investments - continued

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>Carrying Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Over 5% of Portfolio</u>	<u>Maturity Date</u>	
Investment Pools:					
Minnesota School District Liquid Asset Fund Plus					
Liquid Class	AAAm	S & P	2.85%	N/A	53,155
MAX Class	AAAm	S & P	97.15%	N/A	<u>1,811,373</u>
Total Investments					1,864,528
Checking & Money Market Accounts (not including Student Activity and Agency Funds)					5,562,853
Petty Cash					<u>3,210</u>
Total Cash and Investments					<u>7,430,091</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.

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:

	<u>June 30</u>	
	<u>2017</u>	<u>2016</u>
<u>General Fund</u>		
General Education Aid	1,038,247	1,290,336
Other State Aids	14,341	20,556
Special Education	<u>59,633</u>	<u>8,965</u>
Total General Fund	1,112,221	1,319,857
<u>Special Revenue Funds</u>		
<u>Community Service Fund</u>		
Other State Credits	5,903	4,890
<u>Debt Service Fund</u>		
Other State Credits	<u>8,491</u>	<u>8,926</u>
Total All Funds	<u>1,126,615</u>	<u>1,333,673</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 7 Due to Other Governmental Units

Amounts due to Other Governmental Units are as follows:

	June 30	
General Fund	2017	2016
ISD 991 - SW/WC Service Coop	28,494	26,078
ISD 347 - Willmar	49	193
ISD 480 - Onamia		5,905
ISD 508 - St. Peter	905	
ISD 287	672	
ISD 049-5 Sioux Falls	742	
Meeker & Wright Special Ed	15	
New Dominion School	3,909	
MN Employment & Economic Dev	45	
Southwestern Youth Services	<u>3,040</u>	<u>1,914</u>
Total General Fund	<u>37,871</u>	<u>34,090</u>
<u>Special Revenue Funds</u>		
<u>Food Service Fund</u>		
MN Employment & Economic Dev	<u>304</u>	<u>-0-</u>
Total All Funds	<u>38,175</u>	<u>34,090</u>

Note 8 Unearned Revenue

Unearned revenues are as follows:

	June 30	
Special Revenue Funds	2017	2016
<u>Food Service Fund</u>		
Lunch Sales	15,816	12,368
<u>Community Service Fund</u>		
Community Education	70	460
Preschool		1,415
Adult Basic Education		<u>7,318</u>
Total Community Service Fund	<u>70</u>	<u>9,193</u>
Total All Funds	<u>15,886</u>	<u>21,561</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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 \$226,251 and \$317,601 at June 30, 2017 and 2016, 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, 2017:

Bonds Payable at July 1	5,945,000
Net Bonds Issued (Redeemed)	<u>(1,460,000)</u>
Bonds Payable at June 30	<u>4,485,000</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 9 Long-Term Liabilities - continued

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

Bonded debt payable at June 30, 2017 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	<u>\$4,485,000</u>
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The annual requirements to amortize the bonds outstanding as of June 30, 2017, including interest payments, are listed below.

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2018	1,480,000	59,158	1,539,158
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>4,485,000</u>	<u>129,186</u>	<u>4,614,186</u>

C. Changes in Long-Term Liabilities

	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	<u>Due Within</u>
	<u>7/01/16</u>			<u>6/30/17</u>	<u>One Year</u>
GO Refunding Bonds					
Series 2013A	5,945,000		1,460,000	4,485,000	1,480,000
Net OPEB liability	209,934	50,746	16,183	244,497	
Pension Benefits	7,994,866	18,173,603		26,168,469	
Severance	<u>317,601</u>		<u>91,350</u>	<u>226,251</u>	<u>81,432</u>
Total	<u>14,467,401</u>	<u>18,224,349</u>	<u>1,567,533</u>	<u>31,124,217</u>	<u>1,561,432</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 10 Fund Balances

Non-Spendable Fund Balance

The District has the following non-spendable fund balances as of June 30, 2017:

General Fund

Prepaid Items	46,293
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Special Revenue Funds

Food Service Fund

Inventory	50,041
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Capital Projects Fund

Prepaid Items	<u>28,385</u>
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Total All Funds	<u>124,719</u>
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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, 2017:

General Fund

Staff Development	198,309
Health and Safety	32,581
Operating Capital	31,404
Learning and Development	105,789
Gifted and Talented	161,399
Teacher Development and Evaluation	9,208
Basic Skills	215,836
Safe Schools Levy	52,363
Restricted	7,315
Long Term Facility Maintenance	55,321
Medical Assistance	<u>70,002</u>
Total General Fund	939,527

Special Revenue Funds

Food Service Fund

Restricted	172,943
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 10 Fund Balances - continued

Restricted Fund Balance – continued

Community Service Fund

Community Education	95,702
Early Childhood and Family Education	30,265
Learning Readiness	19,740
Restricted	<u>38,077</u>
Total Community Service Fund	<u>183,784</u>
Total Special Revenue funds	356,727

Debt Service Fund

Restricted	<u>343,366</u>
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Total All Funds	<u>1,639,620</u>
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Committed Fund Balance

The District has the following committed fund balances as of June 30, 2017:

General Fund

Severance	<u>226,251</u>
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Assigned Fund Balance

The District has the following assigned fund balances as of June 30, 2017:

General Fund

Health Cost Management	529
Athletic Help Fund	5,866
Help Fund	<u>2,235</u>
Total General Fund	<u>8,630</u>

Unassigned Fund Balance

The District has the following unassigned fund balances as of June 30, 2017:

<u>General Fund</u>	4,113,152
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<u>Capital Projects Fund</u>	<u>(28,385)</u>
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Total All Funds	<u>4,084,767</u>
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Stabilization Amounts

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

The District has no stabilization amounts as of June 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017

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 2017; the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the GEF for the year ended June 30, 2017, were \$116,680. The District's contributions were equal to the required contributions for each year as set by state statute.

4. Pension Costs

At June 30, 2017, the District reported a liability of \$2,411,493 for its proportionate share of the GEF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. 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 \$31,508. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion share was 0.0297 percent, which was a decrease of .0021 percent from its proportion share as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$334,241 for its proportionate share of GEF's pension expense. In addition, the District recognized an additional \$9,395 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At June 30, 2017, the District reported its proportionate share of GEF's deferred outflows of resources and deferred inflows of resources from the following sources:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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	\$7,665	\$199,555
Changes in actuarial assumptions	\$523,466	
Difference between projected and actual investment earnings	\$465,438	\$201,812
Changes in proportion		\$179,015
Contributions paid to PERA subsequent to the measurement date	\$116,682	
Total	\$1,113,251	\$580,382

\$116,682 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
2018	\$89,901
2019	\$30,942
2020	\$208,237
2021	\$87,107
2022	\$0

5. Actuarial Assumptions

The total pension liability in the June 30, 2017, 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, 2017

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

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

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

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	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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 2016 was 7.5 percent, a reduction from the 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

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

Sensitivity of Net Pension Liability at Current Single Discount Rate		
	General Employees Fund	
1% Lower	6.50%	3,425,034
Current Discount Rate	7.50%	2,411,493
1% Higher	8.50%	1,576,610

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, 2017

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, 2017

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, 2017

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, 2015, June 30, 2016, and June 30, 2017 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	
Statement of Changes in Fiduciary Net Position	\$354,961,140
Add employer contributions not related to future contribution efforts	26,356
Deduct TRA’s contributions not included in allocations	<u>(442,978)</u>
Total employer contributions	\$354,544,518
Total non-employer contributions	<u>35,587,410</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u>\$390,131,928</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, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2016
Experience Study	June 5, 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	4.66%, from the Single Equivalent Interest Rate calculation
Price Inflation	2.75%
Wage growth rate	3.5%
Projected Salary Increase	3.5 – 9.5%
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, 2017

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	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Unallocated Cash	<u>2%</u>	0.50%
Total	<u>100%</u>	

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

5. Discount Rate

The discount rate used to measure the total pension liability was 4.66 percent. This is a decrease from the discount rate at the prior measurement date of 8.00 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 2052 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01 percent was applied to periods on and after 2052, resulting in a SEIR of 4.66 percent. Based on Fiduciary Net Position at prior year measurement date, the discount rate of 8.00 percent was used and it was not necessary to calculate the SEIR.

6. Net Pension Liability

On June 30, 2017, the District reported a liability of \$23,756,976 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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

6. Net Pension Liability - continued

0.0996% at the end of the measurement period and 0.1026% 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	\$23,756,976
State's proportionate share of the net pension Liability associated with the District	\$2,384,641

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

For the year ended June 30, 2017, the District recognized pension expense of \$3,489,422. It also recognized \$332,976 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience		\$662
Net difference between projected and actual earnings on plan inv.	\$1,290,981	
Change in assumptions	\$13,173,631	
Changes in proportion		\$154,650
Contributions paid to TRA subsequent to measurement date	\$395,828	
Total	\$14,860,440	\$155,312

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

6. Net Pension Liability - continued

\$395,828 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in the pension expense as follows:

2018	\$2,926,409
2019	\$2,926,409
2020	\$2,926,409
2021	\$2,926,409
2022	\$2,603,664

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 (3.66%)	Current (4.66%)	1 percent increase (5.66%)
\$30,604,924	\$23,756,976	\$18,179,547

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 **Other Postemployment Benefits**

Beginning in fiscal year 2009, the District implemented Governmental Accounting Standards Board (GASB), Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement required the District to calculate and record a net other postemployment benefit obligation (OPEB). The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions.

Plan Description

The District provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The District provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

Funding Policy

The contribution requirements of the plan members and the District are established and may be amended by the Board of Education. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. For fiscal year 2017, there were approximately 178 participants in the plan, including 3 retirees.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan.

Annual Required Contribution	55,115
Interest on net OPEB obligation	8,397
Adjustment to Annual Required Contribution	<u>(12,766)</u>
Annual OPEB cost (expense)	50,746
Contributions made	<u>(16,183)</u>
Increase in net OPEB obligation	34,563
Net OPEB Obligation – Beginning of Year	<u>209,934</u>
Net OPEB Obligation – End of Year	<u><u>244,497</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2015, 2016 and 2017, were as follows:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Other Postemployment Benefits – continued

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Employer</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
June 30, 2015	52,189	21,034	40.3%	178,330
June 30, 2016	51,492	19,888	38.6%	209,934
June 30, 2017	50,746	16,183	31.9%	244,497

Fund Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the plan was 0.0% funded. The actuarial liability for benefits was \$410,826, and the actuarial value of assets was \$0, resulting in an unfunded actuarial liability (UAAL) of \$410,826. The covered payroll (annual payroll of active employees covered by the plan) was \$6,520,228, and the ratio of the UAAL to the covered payroll was 6.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0% investment rate of return (net of investment expenses), which is the District's implicit rate of return on the General Fund. The annual healthcare cost trend is 7.5% initially reduced by decrements to an ultimate rate of 5.0% over ten years. Both rates included a 2.5% inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at June 30, 2017, was 21 years.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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 Due To/From Other Funds

Below is a schedule of interfund receivables and payables at June 30, 2017.

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	21,800	
Capital Projects Fund		21,800

The interfund receivable/payable was created to record the pooled cash that was overdrawn in the capital projects fund.

Note 15 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 16 **Excess Expenditures over Budget Appropriations**

The following governmental funds had excess expenditures over budget appropriations:

Food Service	17,894
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Program needs will be monitored in the future to alleviate expenditure excesses in these funds.

Note 17 **Subsequent Events**

On November 7, 2017, there was a special election to renew the existing operating levy, which is set to expire this year, and to increase the current operating levy by \$250 per student. The existing operating levy provides \$1,198.26 per student (\$1,493,991 per year). The proposed levy would increase to \$1,448.26 per student (\$1,805,691 per year) for the next ten years. The renewal of the existing levy passed but the increase in levy did not pass because a majority vote was not reached.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2008	-0-	521,993	521,993	0.0%	5,785,954	9.0%
July 1, 2011	-0-	417,488	417,488	0.0%	6,051,796	6.9%
July 1, 2014	-0-	410,826	410,826	0.0%	6,520,228	6.3%

See Note 12, Other Postemployment Benefits, for more information

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND EMPLOYER CONTRIBUTIONS
JUNE 30, 2017

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Actuarial Valuation Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Employer's Covered-Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>Pensions</u>					
PERA					
June 30, 2014	0.0354%	1,662,915	1,860,279	89.4%	78.7%
June 30, 2015	0.0318%	1,648,041	1,887,731	87.3%	78.2%
June 30, 2016	0.0297%	2,411,493	1,923,321	125.4%	68.9%
TRA					
June 30, 2014	0.1119%	5,156,271	5,107,987	100.9%	81.5%
June 30, 2015	0.1026%	6,346,825	5,238,958	121.1%	81.5%
June 30, 2016	0.0996%	23,756,976	5,182,320	458.4%	44.9%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	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					
2014	134,731	134,731	-0-	1,860,279	7.2%
2015	138,002	138,094	(92)	1,887,731	7.3%
2016	138,146	138,146	-0-	1,923,321	7.2%
TRA					
2014	357,559	357,559	-0-	5,107,987	7.0%
2015	390,392	389,399	993	5,238,958	7.4%
2016	388,674	388,674	-0-	5,182,320	7.5%

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

The District implemented GASB Statement No. 68 for fiscal year ended June 30, 2015. Information for prior years is not available. Additional years will be reported as they become available.

GENERAL FUND
BALANCE SHEET
JUNE 30, 2017

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Cash	4,950,777	2,264,690
Investments	900,117	2,978,727
Current Property Taxes Receivable	747,503	625,696
Delinquent Property Taxes Receivable	12,404	2,453
Accounts Receivable	28,634	38,807
Due from Other Funds	21,800	43,478
Due From Department of Education	1,112,221	1,319,857
Due From Federal Government Through the Department of Education	243,579	265,614
Due From Other Governmental Units	50,748	44,015
Prepaid Expenses	46,293	41,028
Total Assets	<u>8,114,076</u>	<u>7,624,365</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Salaries Payable	572,378	566,684
Accounts Payable	110,639	145,808
Due to Other Governmental Units	37,871	34,090
Accrued Payroll Liabilities	567,243	557,082
Total Liabilities	<u>1,288,131</u>	<u>1,303,664</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue-Delinquent Taxes	12,404	2,453
Property Taxes Levied for Subsequent Years	1,479,688	1,267,979
Total Deferred Inflows of Resources	<u>1,492,092</u>	<u>1,270,432</u>
<u>Fund Balances</u>		
Fund Balance-Nonspendable	46,293	41,028
Fund Balance-Restricted	939,527	801,150
Fund Balance-Committed	226,251	317,601
Fund Balance-Assigned	8,630	9,771
Fund Balance-Unassigned	4,113,152	3,880,719
Total Fund Balances	<u>5,333,853</u>	<u>5,050,269</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>8,114,076</u>	<u>7,624,365</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Year Ended June 30</u>			<u>2016</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>				
County Apportionment	30,000	25,324	(4,676)	25,350
Local Tax Levy	1,303,713	1,307,548	3,835	1,131,137
Miscellaneous Tax Revenue	3,000	12,188	9,188	13,266
Total Local Property Tax Levy	<u>1,336,713</u>	<u>1,345,060</u>	<u>8,347</u>	<u>1,169,753</u>
<u>Other Local and County Revenues</u>				
Admissions	64,200	86,477	22,277	77,833
Fees	44,300	49,226	4,926	51,005
Gifts and Bequests	13,000	10,178	(2,822)	45,230
Interest Income	5,000	24,576	19,576	13,276
Medical Assistance Revenue	75,000	72,534	(2,466)	78,412
Other Miscellaneous Income	118,575	166,292	47,717	201,597
Rent of Facilities	17,500	16,551	(949)	18,030
Tuition from Other Minnesota School Districts	3,870	12,383	8,513	14,518
Total Other Local and County Revenues	<u>341,445</u>	<u>438,217</u>	<u>96,772</u>	<u>499,901</u>
<u>Revenue From State Sources</u>				
Disparity	11,000	13,834	2,834	12,433
Education Homestead Credit	8,500	17,541	9,041	16,233
Endowment Fund Apportionment	31,616	40,526	8,910	37,029
General Education Aid	9,413,151	9,501,298	88,147	9,341,118
Other State Aids	173,491	50,421	(123,070)	146,173
Special Education	1,400,000	1,445,181	45,181	1,341,925
Total Revenue From State Sources	<u>11,037,758</u>	<u>11,068,801</u>	<u>31,043</u>	<u>10,894,911</u>
<u>Revenue From Federal Sources</u>				
Title Programs	289,550	294,232	4,682	254,652
Federal Aid Programs	169,700	195,948	26,248	181,435
Total Revenue From Federal Sources	<u>459,250</u>	<u>490,180</u>	<u>30,930</u>	<u>436,087</u>
<u>Sales and Other Conversion of Assets</u>				
Insurance Recovery		1,077	1,077	5,892
Sales of Material	1,450	1,073	(377)	3,564
Total Sales and Other				
Conversion of Assets	1,450	2,150	700	9,456
Total Revenues	<u>13,176,616</u>	<u>13,344,408</u>	<u>167,792</u>	<u>13,010,108</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Year Ended June 30</u>				
	<u>2017</u>		<u>Variance with</u>		<u>2016</u>
	<u>Budget</u>	<u>Actual</u>			<u>Final Budget</u>
<u>Expenditures</u>					
<u>District and School Administration</u>					
<u>Administration</u>					
Dues and Membership	19,850	12,876	(6,974)	5,086	
Equipment	51,399	6,009	(45,390)	6,641	
Fixed Charges and Employee Benefits	195,413	191,510	(3,903)	208,612	
Other	100,000	29,729	(70,271)		
Professional Services	72,000	45,064	(26,936)	98,896	
Salaries	605,831	561,737	(44,094)	588,665	
Supplies	32,182	21,356	(10,826)	18,663	
Travel and Transportation		9,765	9,765	6,721	
Utilities		985	985		
Total Administration	1,076,675	879,031	(197,644)	933,284	
<u>District Support Services</u>					
Dues and Membership	5,205	110	(5,095)	22,655	
Equipment		4,695	4,695	3,768	
Fixed Charges and Employee Benefits	56,437	51,327	(5,110)	49,661	
Other	34,762	3,953	(30,809)	1,680	
Professional Services	40,580	49,974	9,394	35,567	
Rentals and Leases	81,900	76,242	(5,658)	57,672	
Salaries	149,740	152,656	2,916	140,463	
Supplies	5,000	5,847	847	3,509	
Travel and Transportation				109	
Total District Support Services	373,624	344,804	(28,820)	315,084	
<u>Regular Instruction</u>					
<u>District Wide</u>					
Dues and Memberships	2,350	245	(2,105)	143	
Equipment		400	400	9,030	
Fixed Charges and Employee Benefits	79,122	56,957	(22,165)	65,557	
Instructional Supplies	1,913	2,497	584	1,272	
Other	4,224	4,224			
Professional Services	60,086	54,518	(5,568)	56,528	
Rentals and Leases				135	
Repair and Maintenance		1,400	1,400	1,400	
Salaries	404,355	327,699	(76,656)	350,532	
Supplies	2,900	8,890	5,990	9,281	
Travel and Transportation	4,435	2,123	(2,312)	4,313	
Total District Wide	559,385	458,953	(100,432)	498,191	
<u>Elementary School</u>					
Dues and Membership	410	564	154	379	
Equipment		2,940	2,940	37,400	
Fixed Charges and Employee Benefits	352,313	366,332	14,019	342,718	
Instructional Supplies	83,565	74,446	(9,119)	71,246	
Other		392	392		
Professional Services	10,500	4,677	(5,823)	8,413	
Salaries	1,546,781	1,606,778	59,997	1,686,195	
Supplies	14,457	5,410	(9,047)	3,960	
Travel and Transportation	7,300	5,171	(2,129)	6,700	
Total Elementary School	2,015,326	2,066,710	51,384	2,157,011	

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Year Ended June 30</u>			
	<u>2017</u>		<u>2016</u>	
<u>Expenditures - continued</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
<u>Regular Instruction - continued</u>				
<u>Middle School</u>				
Equipment	38,696	38,896	200	
Fixed Charges and Employee Benefits	216,519	232,223	15,704	230,732
Instructional Supplies	38,052	30,126	(7,926)	16,924
Professional Services	1,750	1,660	(90)	3,140
Salaries	897,088	1,004,491	107,403	1,007,985
Supplies	581	1,101	520	1,570
Travel and Transportation	5,600	10,611	5,011	7,264
Total Middle School	1,198,286	1,319,108	120,822	1,267,615
<u>Secondary School</u>				
Dues and Memberships	830	497	(333)	397
Equipment	35,654	24,378	(11,276)	32,557
Fixed Charges and Employee Benefits	302,135	270,508	(31,627)	252,609
Instructional Supplies	174,404	146,789	(27,615)	81,691
Professional Services	60,150	52,375	(7,775)	57,107
Reimbursements to Other Agencies/Districts	117,000	100,306	(16,694)	127,548
Reimbursements to Other MN Districts	5,000	1,554	(3,446)	193
Rentals and Leases	1,500	1,355	(145)	1,355
Repair and Maintenance	7,800	17,270	9,470	5,712
Salaries	1,438,988	1,226,395	(212,593)	1,176,341
Supplies	27,301	42,524	15,223	53,711
Travel and Transportation	146,110	129,068	(17,042)	142,300
Total Secondary School	2,316,872	2,013,019	(303,853)	1,931,521
Total Regular Instruction	6,089,869	5,857,790	(232,079)	5,854,338
<u>Vocational Instruction</u>				
Equipment	3,750	17,928	14,178	13,247
Fixed Charges and Employee Benefits	37,711	37,398	(313)	35,768
Instructional Supplies	20,200	14,957	(5,243)	19,751
Rentals and Leases	8,200	8,400	200	8,000
Salaries	166,168	166,382	214	161,219
Supplies	450	325	(125)	1,584
Travel and Transportation	11,300	12,477	1,177	12,560
Total Vocational Instruction	247,779	257,867	10,088	252,129

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017

	Year Ended June 30			
	2017		Variance with	2016
<u>Expenditures - continued</u>	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>	<u>Actual</u>
<u>Exceptional Instruction</u>				
Equipment	6,545	6,030	(515)	9,475
Fixed Charges and Employee Benefits	262,885	224,429	(38,456)	255,933
Instructional Supplies	10,752	8,987	(1,765)	11,704
Other		832	832	
Professional Services	351,335	391,886	40,551	266,893
Reimbursements to Other Agencies/Districts	407,087	416,118	9,031	426,704
Reimbursements to Other MN Districts	9,976	9,659	(317)	18,259
Salaries	1,156,156	1,062,692	(93,464)	1,111,183
Supplies	2,750	1,430	(1,320)	1,623
Travel and Transportation	161,376	132,991	(28,385)	153,049
Total Exceptional Instruction	<u>2,368,862</u>	<u>2,255,054</u>	<u>(113,808)</u>	<u>2,254,823</u>
<u>Instructional Support Services</u>				
Equipment	75,828	48,073	(27,755)	87,606
Fixed Charges and Employee Benefits	30,243	48,798	18,555	31,471
Instructional Supplies	32,500	22,187	(10,313)	22,034
Professional Services	117,500	103,757	(13,743)	93,339
Repair and Maintenance	2,000	4,043	2,043	5,578
Salaries	117,471	248,149	130,678	137,701
Supplies	64,299	65,972	1,673	72,174
Travel and Transportation	101,015	48,619	(52,396)	30,410
Total Instructional Support	<u>540,856</u>	<u>589,598</u>	<u>48,742</u>	<u>480,313</u>
<u>Pupil Support Services</u>				
Fixed Charges and Employee Benefits	61,016	49,171	(11,845)	51,092
Instructional Supplies	4,000	1,032	(2,968)	880
Professional Services	43,500	32,751	(10,749)	1,342
Reimbursements to Other MN Districts	34,700	38,105	3,405	
Rentals and Leases		450	450	
Repair and Maintenance	1,285	551	(734)	490
Salaries	235,773	198,376	(37,397)	222,461
Supplies	5,711	9,161	3,450	8,998
Travel and Transportation	1,170,761	1,114,091	(56,670)	1,194,484
Total Pupil Support Services	<u>1,556,746</u>	<u>1,443,688</u>	<u>(113,058)</u>	<u>1,479,747</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Year Ended June 30</u>			<u>2016</u>
	<u>2017</u>	<u>Variance with</u>		
<u>Expenditures - continued</u>	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>	<u>Actual</u>
<u>Site, Building and Equipment</u>				
Building Improvements	21,950	115,913	93,963	3,904
Dues and Memberships	1,360	487	(873)	738
Equipment		27,096	27,096	84,370
Fixed Charges and Employee Benefits	208,624	160,855	(47,769)	143,838
Fuel	74,750	70,673	(4,077)	63,033
Professional Services	49,820	24,088	(25,732)	13,028
Repair and Maintenance	359,950	231,229	(128,721)	157,973
Salaries	325,659	326,349	690	323,216
Supplies	87,700	76,397	(11,303)	78,126
Travel and Transportation		894	894	1,613
Utilities	326,146	317,055	(9,091)	302,925
Total Site, Building and Equipment	<u>1,455,959</u>	<u>1,351,036</u>	<u>(104,923)</u>	<u>1,172,764</u>
<u>Fixed Cost Programs</u>				
Property Insurance	86,500	81,956	(4,544)	82,637
Total Fixed Cost Programs	<u>86,500</u>	<u>81,956</u>	<u>(4,544)</u>	<u>82,637</u>
Total Expenditures	<u>13,796,870</u>	<u>13,060,824</u>	<u>(736,046)</u>	<u>12,825,119</u>
Excess Revenues (Expenditures)	<u>(620,254)</u>	283,584	<u>903,838</u>	184,989
Fund Balance-July 1		<u>5,050,269</u>		<u>4,865,280</u>
Fund Balance-June 30		<u>5,333,853</u>		<u>5,050,269</u>

ALL SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017

	Food	Community	Total	
<u>Assets</u>	<u>Service</u>	<u>Service</u>	(Memo Only)	
			<u>2017</u>	<u>2016</u>
Cash and Investments	188,667	268,690	457,357	248,231
Current Property Taxes Receivable		54,855	54,855	57,616
Delinquent Property Taxes Receivable		447	447	798
Accounts Receivable	8,539		8,539	20,433
Due from Department of Education		5,903	5,903	4,890
Due from Federal Government Through the Department of Education	24,929		24,929	35,750
Due from other Governmental Units		456	456	59,581
Inventory	50,041		50,041	36,984
Total Assets	272,176	330,351	602,527	464,283
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
<u>Liabilities</u>				
Due to Other Funds				43,478
Due to Other Governmental Units	304		304	
Salaries Payable		10,537	10,537	41,012
Accounts Payable	33,072	21,232	54,304	23,457
Unearned Revenue	15,816	70	15,886	21,561
Total Liabilities	49,192	31,839	81,031	129,508
<u>Deferred Inflows of Resources</u>				
Unavailable Revenue-Delinquent Taxes		447	447	798
Property Taxes Levied for Subsequent Years Expenditures		114,281	114,281	117,832
Total Deferred Inflows of Resources	-0-	114,728	114,728	118,630
<u>Fund Balances</u>				
Fund Balance-Nonspendable	50,041		50,041	36,984
Fund Balance-Restricted	172,943	183,784	356,727	179,161
Total Fund Balances	222,984	183,784	406,768	216,145
Total Liabilities, Deferred Inflows of Resources and Fund Balances	272,176	330,351	602,527	464,283

SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017

<u>Revenues</u>	<u>Food Service</u>	<u>Community Service</u>	Total (Memo Only)	
			<u>2017</u>	<u>2016</u>
Local Property Tax Levy		110,935	110,935	112,821
Other Local and County Revenues	2,304	248,912	251,216	270,087
Revenue from State Sources	62,598	59,617	122,215	108,097
Revenue from Federal Sources	527,744		527,744	517,458
Other	355,663	2,571	358,234	351,292
Total Revenues	<u>948,309</u>	<u>422,035</u>	<u>1,370,344</u>	<u>1,359,755</u>
<u>Expenditures</u>				
Community Education and Services		340,841	340,841	402,006
Pupil Support Services	838,880		838,880	788,502
Total Expenditures	<u>838,880</u>	<u>340,841</u>	<u>1,179,721</u>	<u>1,190,508</u>
Excess Revenues (Expenditures)	109,429	81,194	190,623	169,247
Fund Balance-July 1	<u>113,555</u>	<u>102,590</u>	<u>216,145</u>	<u>46,898</u>
Fund Balance-June 30	<u><u>222,984</u></u>	<u><u>183,784</u></u>	<u><u>406,768</u></u>	<u><u>216,145</u></u>

FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Year Ended June 30</u>			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
<u>Other Local and County Revenues</u>				
Gifts and Bequests				416
Interest Income	737	1,853	1,116	422
Miscellaneous	300	451	151	621
Total Other Local and County Revenues	<u>1,037</u>	<u>2,304</u>	<u>1,267</u>	<u>1,459</u>
<u>Revenue From State Sources</u>				
Breakfast Reimbursement	30,529	29,570	(959)	24,797
Lunch Reimbursement	32,900	32,209	(691)	32,407
Summer Food Service Program	1,200	819	(381)	1,319
Total Revenue From State Sources	<u>64,629</u>	<u>62,598</u>	<u>(2,031)</u>	<u>58,523</u>
<u>Revenue From Federal Sources</u>				
Breakfast Reimbursement	122,000	124,918	2,918	125,801
Commodities	50,025	79,844	29,819	61,156
Lunch Reimbursement	279,501	288,156	8,655	285,321
Special Milk Program	20	55	35	18
Summer Food Service Program	18,700	34,771	16,071	45,162
Total Revenue From Federal Sources	<u>470,246</u>	<u>527,744</u>	<u>57,498</u>	<u>517,458</u>
<u>Sales and Other Conversion of Assets</u>				
Lunch and Breakfast Sales	341,500	355,663	14,163	348,255
Total Revenues	<u>877,412</u>	<u>948,309</u>	<u>70,897</u>	<u>925,695</u>
<u>Expenditures</u>				
<u>Pupil Support Services</u>				
Commodities	50,000	79,844	29,844	61,149
Dues and Memberships				346
Equipment	5,800	4,677	(1,123)	5,059
Fixed Charges and Employee Benefits	5,249	4,283	(966)	43,401
Food	44,520	22,120	(22,400)	341,843
Milk	43,085	42,053	(1,032)	42,840
Professional Services	630,500	631,879	1,379	2,225
Repairs and Maintenance	3,000	1,038	(1,962)	1,182
Salaries	13,168	13,168		250,805
Supplies	25,600	39,700	14,100	38,480
Travel and Transportation	64	118	54	747
Utilities				425
Total Expenditures	<u>820,986</u>	<u>838,880</u>	<u>17,894</u>	<u>788,502</u>
Excess Revenues (Expenditures)	<u>56,426</u>	109,429	<u>53,003</u>	137,193
Fund Balance-July 1		113,555		(23,638)
Fund Balance-June 30		<u>222,984</u>		<u>113,555</u>

COMMUNITY SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Year Ended June 30</u>			<u>2016</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	113,173	110,935	(2,238)	112,821
Total Local Property Tax Levy	113,173	110,935	(2,238)	112,821
<u>Other Local and County Revenues</u>				
Fees	33,700	69,690	35,990	41,496
Gifts and Bequests	2,000	1,550	(450)	54,717
Interest Income	800	1,619	819	742
Other Miscellaneous Income	115,924	118,178	2,254	117,861
Tuition from Patrons	53,460	57,875	4,415	53,812
Total Other Local and County Revenues	205,884	248,912	43,028	268,628
<u>Revenue From State Sources</u>				
Disparity	2,500	2,914	414	3,039
Market Value Credits	2,000	3,695	1,695	3,968
Other State Aids	87,536	53,008	(34,528)	42,567
Total Revenue From State Sources	92,036	59,617	(32,419)	49,574
<u>Sales and Other Conversion of Assets</u>				
Sales of Materials	2,000	2,571	571	3,037
Total Sales and Other Conversion of Assets	2,000	2,571	571	3,037
Total Revenues	413,093	422,035	8,942	434,060
<u>Expenditures</u>				
<u>Community Education and Services</u>				
Dues and Memberships	260	706	446	
Equipment	1,000	1,681	681	5,005
Fixed Charges	38,915	42,400	3,485	40,686
Instructional Supplies	31,565	32,651	1,086	33,683
Other Non-Education Agencies	17,000	17,000		17,000
Professional Services	35,735	6,242	(29,493)	33,827
Rentals and Leases	890	883	(7)	391
Repair and Maintenance	750	1,146	396	48,440
Salaries	217,654	220,833	3,179	214,660
Supplies	9,118	15,110	5,992	6,885
Travel and Transportation	1,800	2,189	389	1,429
Total Expenditures	354,687	340,841	(13,846)	402,006
Excess Revenues (Expenditures)	58,406	81,194	22,788	32,054
Fund Balance-July 1		102,590		70,536
Fund Balance-June 30		183,784		102,590

CAPITAL PROJECTS FUND
BALANCE SHEET
JUNE 30, 2017

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Prepaid Expenses	28,385	
Total Assets	<u>28,385</u>	<u>-0-</u>
<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	<u>28,385</u>	<u>-0-</u>
<u>Fund Balances</u>		
Fund Balance-Nonspendable	28,385	
Fund Balance-Unassigned	(28,385)	
Total Fund Balances	<u>-0-</u>	<u>-0-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>28,385</u>	<u>-0-</u>

DEBT SERVICE FUND
BALANCE SHEET
JUNE 30, 2017

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Cash	1,003,418	1,095,737
Investments	118,422	33,073
Current Property Taxes Receivable	726,431	741,320
Delinquent Property Taxes Receivable	5,346	12,421
Due from Department of Education	8,491	8,926
Total Assets	<u>1,862,108</u>	<u>1,891,477</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue-Delinquent Taxes	5,346	12,420
Property Taxes Levied for Subsequent Years	1,513,396	1,515,727
Total Liabilities	<u>1,518,742</u>	<u>1,528,147</u>
<u>Fund Balances</u>		
Fund Balance-Restricted	343,366	363,330
Total Fund Balances	<u>343,366</u>	<u>363,330</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>1,862,108</u>	<u>1,891,477</u>

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Year Ended June 30</u>			<u>2016</u>
	<u>2017</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	1,515,585	1,424,607	(90,978)	1,439,078
Total Local Property Tax Levy	1,515,585	1,424,607	(90,978)	1,439,078
<u>Other Local and County Revenues</u>				
Interest Income	5,750	4,273	(1,477)	4,064
Total Other Local and County Revenues	5,750	4,273	(1,477)	4,064
<u>Revenue From State Sources</u>				
Disparity Reduction	39,000	37,441	(1,559)	38,717
Market Value Credits	26,000	47,472	21,472	50,549
Total Revenue From State Sources	65,000	84,913	19,913	89,266
Total Revenue	1,586,335	1,513,793	(72,542)	1,532,408
<u>Expenditures</u>				
<u>Fiscal and Other Fixed Cost Programs</u>				
Interest and Fiscal Charges	73,758	73,757	(1)	88,307
Principal	1,460,000	1,460,000		1,455,000
Total Expenditures	1,533,758	1,533,757	(1)	1,543,307
Excess Revenues (Expenditures)	52,577	(19,964)	(72,541)	(10,899)
Fund Balance-July 1		363,330		374,229
Fund Balance-June 30		343,366		363,330

**UNIFORM FINANCIAL ACCOUNTING & REPORTING STANDARDS
 COMPLIANCE TABLE
 FOR THE YEAR ENDED JUNE 30, 2017**

	Audit	UFARS	Audit - UFARS
<u>01 GENERAL FUND</u>			
Total Revenues	<u>13,344,408</u>	<u>13,344,408</u>	<u>0</u>
Total Expenditures	<u>13,060,824</u>	<u>13,060,824</u>	<u>0</u>
Nonspendable:			
460 Non Spendable Fund Balance	46,293	46,293	0
Restricted/Reserve:			
403 Staff Development	198,309	198,309	0
406 Health & Safety	32,581	32,581	0
424 Operating Capital	31,404	31,404	0
428 Learning & Development	105,789	105,789	0
438 Gifted & Talented	161,399	161,399	0
440 Teacher Development & Evaluation	9,208	9,208	0
441 Basic Skills Programs	215,836	215,836	0
449 Safe Schools Levy	52,363	52,362	1
467 Long Term Facility Maintenance	55,321	55,321	0
472 Medical Assistance	70,002	70,002	0
Restricted:			
464 Restricted Fund Balance	7,315	7,315	0
Committed:			
418 Committed for Separation	226,251	226,251	0
Assigned:			
462 Assigned Fund Balance	8,630	8,630	0
Unassigned:			
422 Unassigned Fund Balance	4,113,152	4,113,152	0
<u>02 FOOD SERVICE</u>			
Total Revenues	<u>948,309</u>	<u>948,309</u>	<u>0</u>
Total Expenditures	<u>838,880</u>	<u>838,880</u>	<u>0</u>
Nonspendable:			
460 Non Spendable Fund Balance	50,041	50,041	-1
Restricted:			
464 Restricted Fund Balance	172,943	172,944	-1
<u>04 COMMUNITY SERVICE</u>			
Total Revenues	<u>422,035</u>	<u>422,035</u>	<u>0</u>
Total Expenditures	<u>340,841</u>	<u>340,841</u>	<u>0</u>
Restricted/Reserve:			
431 Community Education	95,702	95,702	0
432 Early Childhood and Family Education	30,265	30,265	0
444 Learning Readiness	19,740	19,740	0
Restricted:			
464 Restricted Fund Balance	38,077	38,077	0
<u>06 BUILDING CONSTRUCTION</u>			
Total Revenues			
Total Expenditures			
Nonspendable:			
460 Non Spenable Fund Balance	28,385	28,385	0
Unassigned:			
463 Unassigned	(28,385)	(28,385)	0
<u>07 DEBT SERVICE</u>			
Total Revenues	<u>1,513,793</u>	<u>1,513,793</u>	<u>0</u>
Total Expenditures	<u>1,533,757</u>	<u>1,533,758</u>	<u>-1</u>
Restricted:			
464 Restricted Fund Balance	343,366	343,366	0

MEULEBROECK, TAUBERT & CO., PLLP
CERTIFIED PUBLIC ACCOUNTANTS

PO Box 685
109 S Freeman Avenue
Luverne, Minnesota 56156
507 283-4055 Fax 507 283-4076
contactl@mtcocpa.com

PO Box 707
216 East Main
Pipestone, Minnesota 56164
507 825-4288 Fax 507 825-4280
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507 247-3939
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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, 2017, 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 11, 2017.

Internal Control 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 Questioned Costs, 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 Political Subdivisions*, 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 Political Subdivisions*. 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 11, 2017

MEULEBROECK, TAUBERT & CO., PLLP
CERTIFIED PUBLIC ACCOUNTANTS

PO Box 685
109 S Freeman Avenue
Luverne, Minnesota 56156
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PO Box 707
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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, 2017. 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 questioned costs.

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, 2017.

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.

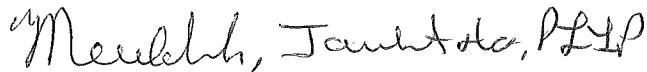
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 11, 2017

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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, 2017.

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, 2017, 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 11, 2017, 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 11, 2017

STUDENT ACTIVITIES FUND
STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

<u>Organization</u>	<u>07-01-16</u> <u>Balance</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>06-30-17</u> <u>Balance</u>
Baseball Club	1,224.69	9,851.51	9,231.22	1,844.98
Boys Basketball	761.84		385.64	376.20
Boys Tennis	216.55		60.00	156.55
Cheerleaders	670.93	6,214.58	6,875.73	9.78
Class of 2018		2,223.36	1,912.57	310.79
Class of 2017		8,378.09	4,583.11	3,794.98
Class of 2016	611.56			611.56
Class Emergency Fund		1,504.00	119.35	1,384.65
Cross Country	3,357.41	20.90	1,310.98	2,067.33
Fall Concessions		8,771.54	7,989.29	782.25
FFA	7,699.56	61,446.63	64,050.38	5,095.81
Football Club	1,422.27	18,063.97	17,341.78	2,144.46
French Club	4,349.21	4,779.40	6,200.54	2,928.07
Girls Basketball	1,268.27	1,368.79	1,399.86	1,237.20
Girls Tennis	1,019.18	862.21	330.93	1,550.46
Golf Club	1,390.83	2,479.92	2,794.29	1,076.46
Gymnastics	1,762.25	684.71	274.47	2,172.49
High School Student Council	839.72		136.40	703.32
History Club	1,207.91		1,207.91	-
Journalism	4,111.99	2,480.00		6,591.99
Middle School Student Council	564.46	2,981.58	1,249.30	2,296.74
National Honor Society	1,269.64	659.76	446.32	1,483.08
One Act Play	64.94			64.94
Peer Helpers	1,901.71	844.19	884.94	1,860.96
Prom		6,775.70	6,156.25	619.45
Robotics	2,401.48	4,432.96	6,384.29	450.15
School Store	7,085.35	14,006.70	11,096.95	9,995.10
Softball	847.89	225.00	328.35	744.54
Spanish Club	6,617.78	5,803.84	10,186.98	2,234.64
Speech	4,704.91		205.15	4,499.76
STARS	1,105.33	354.83	36.97	1,423.19
Swing Choir	6,674.14	17,930.54	17,863.08	6,741.60
Track Fund	65.44			65.44
Volleyball	9,472.37	8,032.19	13,230.03	4,274.53
Winter Concessions	-	14,126.50	13,631.50	495.00
Wrestling Club	1,214.07	801.93	1,574.84	441.16
Total	<u>75,903.68</u>	<u>206,105.33</u>	<u>209,479.40</u>	<u>72,529.61</u>

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

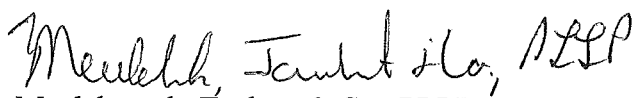
To the Board of Education
Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

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, 2017, and have issued our report thereon dated October 11, 2017.

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 11, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Agriculture/			
Passed Through Minnesota Department of Children Families and Learning/ Child Nutrition Cluster:			
School Breakfast Program	10.553	124,918 *	None
National School Lunch Program	10.555	368,000 * #	None
Special Milk Program For Children	10.556	55 *	None
Summer Food Service Program for Children	10.559	34,771 *	None
		527,744	
 U.S. Department of Education/			
Passed Through Southwest/West Central Educational Coop			
Special Education-Grants to States (IDEA, Part B)	84.027	195,624	None
 Passed Through Minnesota Department of Children, Families and Learning			
Improving Teacher Quality State Grants (Title II, Part A)	84.367	59,713	None
Title I Grants to Local Educational Agencies	84.010	234,519	None
Total		1,545,344	

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 \$79,844 of Federal Food Commodities received
- 5) The 10% de-minimis indirect cost rate was not elected.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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.