

INDEPENDENT AUDITOR'S REPORT
INDEPENDENT SCHOOL DISTRICT NO. 403
IVANHOE, MINNESOTA 56142
FOR THE YEAR ENDING JUNE 30, 2018

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

CONTENTS OF REPORT

	<u>PAGE</u>
BOARD OF EDUCATION AND ADMINISTRATIVE PERSONNEL	1
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	3 - 5
MANAGEMENT'S DISCUSSION AND ANALYSIS	6 - 12
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A Statement of Net Position	13
EXHIBIT B Statement of Activities	14
EXHIBIT C Governmental Funds Balance Sheet	15
EXHIBIT D Reconciliation of Governmental Fund Balances to Net Position of Governmental Activities	16
EXHIBIT E Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	17
EXHIBIT F Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
EXHIBIT G Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	19
EXHIBIT H Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Food Service Fund	20
EXHIBIT I Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Community Service Fund	21

CONTENTS OF REPORT

-Continued-

EXHIBIT J	Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund	22
EXHIBIT K	Statement of Fiduciary Assets – Expendable Trust Fund	23
EXHIBIT L	Statement of Changes in Fiduciary Net Assets – Expendable Trust Fund	24
NOTES TO THE FINANCIAL STATEMENTS		25 – 54
Required Supplementary Information		
Schedule 1	Schedules of Proportionate Share of the Net Pension Liability and Employer Contributions	55
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES:		
Schedule 2	General Fund Balance Sheet	56
Schedule 3	General Fund Statement of Revenues, Expenditures and Changes in Fund Balance	57 – 60
Schedule 4	All Special Revenue Funds Combining Balance Sheet	61
Schedule 5	Special Revenue Funds Combining Statement of Revenues, Expenditures and Changes in Fund Balance	62
Schedule 6	Food Service Fund Statement of Revenues, Expenditures and Changes in Fund Balance	63
Schedule 7	Community Service Fund Statement of Revenues, Expenditures and Changes in Fund Balance	64
Schedule 8	Debt Service Fund Statement of Revenues, Expenditures and Changes in Fund Balance	65

Independent School District No. 403
Ivanhoe, Minnesota

CONTENTS OF REPORT
-Continued-

OTHER SCHEDULES

Schedule 9	Uniform Financial Accounting and Reporting Standards Compliance Table	66
------------	--	----

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	67 – 69
---	---------

INDEPENDENT AUDITOR’S REPORT ON THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY FUND	71 - 72
---	---------

Schedule 10	Student Activity Fund Statement of Receipts and Disbursements	73
-------------	--	----

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS APPLICABLE TO THE STUDENT ACTIVITY ACCOUNT	75
---	----

Schedule 11	Schedule of Findings and Recommendations	76 – 77
-------------	--	---------

Independent School District No. 403
Ivanhoe, Minnesota

BOARD OF EDUCATION AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2018

BOARD OF EDUCATION

Matt Landrus	Chairperson
Becky Paluch	Vice-Chairperson
Lindsay Gratz	Treasurer
Stacy Kiley	Clerk
Adam Gillund	Director
Marty Rost	Director

ADMINISTRATIVE PERSONNEL

Dan Deitte	Superintendent
Courtney Frie	Principal
SW/WC Service Cooperative	Business Manager
Nancy Blanchette	Administrative Assistant

THIS
PAGE
LEFT
BLANK
INTENTIONALLY

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

Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
Daryl J. Kanthak, CPA
Blake R. Klinsing, CPA
Amy L. Mollberg, CPA

WITH THE FIRM

David L. Meulebroeck, CPA

INDEPENDENT AUDITOR'S REPORT

To The Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, 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. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financials statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The prior year partial comparative information has been derived from the District's financial statements for the year ended June 30, 2017, and in our report dated September 18, 2017, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota as of June 30, 2018, and the respective changes in financial position, and the respective budgetary comparison for General Fund and Major Special Revenue Funds (Food Service Fund and Community Service Fund) and Debt Service Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Partial Comparative Information

We have previously audited the district's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 18, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 –12 and the Schedules of Proportionate Share of the Net Pension Liability and Employer Contributions on page 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 403's basic financial statements. The combining and individual fund financial statements and schedules as listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 September 18, 2018, on our consideration of the Independent School District No. 403'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. 403's internal control over financial reporting and compliance.



Meulebroeck, Taubert Co., PLLP

Certified Public Accountants

Pipestone, Minnesota

September 18, 2018

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

This section of the Independent School District No. 403's annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the other components of the District's annual financial report.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 --*Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2018) and the prior year (2017) is required to be presented in MD&A.

Financial Highlights

Key financial highlights for the 2017-2018 fiscal year include the following:

- Net position decreased by \$1,179,776, or 68.52% over June 30, 2017 due primarily to the GASB 68 adjustment for PERA and TRA pension.
- Total governmental revenues increased by \$125,715 or 4.76% in comparison to fiscal year 2017, while expenditures increased by \$7,360,133 or 354.12% in comparison to fiscal year 2017. Expenditures increase primarily due to the payment of \$7,780,000 in bond principal on callable bonds refinanced in 2016.
- Fund Balance decreased by \$7,487,800 over June 30, 2017 due primarily to the payoff of the bonds refunded in 2016 as described above.

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.

District-Wide Statements

The District-wide statements (statement of net assets 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 assets 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 District-wide statements report the District's net position and how they have 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 are 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.

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 District-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 District's fiduciary activity, a scholarship fund, is reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Position. We exclude this activity from the district-wide financial statements because the District cannot use these assets to finance operations.

Financial Analysis of the District As A Whole/Financial Analysis of the District's Funds (District-Wide Statements)

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. 403, liabilities exceeded assets by \$3,747,387 at the close of the most recent fiscal year. This was a decrease of \$1,179,776 or 45.95% from the previous year total of \$2,567,613.

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

Table 1 Statement of Net Position As of June 30, 2018		
<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current and other assets	2,042,796	9,821,721
Capital assets, net of depreciation	<u>6,556,142</u>	<u>7,081,572</u>
Total Assets	8,598,938	16,903,293
<u>Deferred Outflows of Resources</u>		
Related to Pensions	<u>75,534</u>	<u>1,366,541</u>
Total Assets and Deferred Outflows of Resources	<u>8,674,472</u>	<u>18,269,834</u>
<u>Liabilities</u>		
Current and other liabilities	953,019	8,466,456
Long-term liabilities	<u>9,905,121</u>	<u>11,164,385</u>
Total Liabilities	10,858,140	19,610,841
<u>Deferred Inflows of Resources</u>		
Property Taxes Levied for Subsequent Year	1,054,434	1,089,115
Related to Pensions	<u>509,719</u>	<u>137,491</u>
Total Deferred Inflows of Resources	1,563,719	1,226,606
<u>Net Position</u>		
Invested in capital assets, net of related debt	(1,088,858)	(254,150)
Restricted	372,673	628,052
Unrestricted	<u>(3,031,204)</u>	<u>(2,941,515)</u>
Net Position	<u>(3,747,389)</u>	<u>(2,567,613)</u>
Total Liabilities and Net Position	<u>8,674,472</u>	<u>18,269,834</u>

Independent School District No. 403
Ivanhoe, Minnesota

The District's financial position is the product of numerous factors. Therefore, it is important to view the net position balance 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 assets of the District.

Table 2
Change in Net Position
For the year ended June 30, 2018

	<u>2018</u>	<u>2017</u>
<u>Revenues</u>		
Program Revenues		
Charges for Services	57,041	53,404
Operating Grants and Contributions	173,893	150,152
General Revenues		
Property Taxes	1,095,263	1,094,610
Unrestricted Federal and State Aid	1,276,395	1,224,804
Other	<u>158,066</u>	<u>149,626</u>
Total revenues	2,760,658	2,672,596
<u>Expenses</u>		
District and School Administration	31,573	31,506
District Support Services	80,599	89,121
Regular Instruction	2,021,498	1,071,573
Exceptional Instruction	143,854	196,036
Instructional Support Services	50,622	41,136
Pupil Support Services	167,059	175,208
Site, Buildings, and Equipment	701,164	703,808
Fiscal and Other Fixed Cost Programs	23,961	25,938
Food Service	71,062	70,082
Community Service	125,765	99,287
Interest and Fiscal Charges on		
Long-term Liabilities	<u>523,275</u>	<u>483,043</u>
Total expenses	<u>3,940,432</u>	<u>2,986,738</u>
<u>Change in Net Position</u>	(1,179,774)	(314,142)
Beginning net position,	<u>(2,567,613)</u>	<u>(2,253,471)</u>
Ending net position	<u>(3,747,387)</u>	<u>(2,567,613)</u>

The district's total revenue consisted of program revenues of \$230,934, property taxes of \$1,095,263, federal and state aid not restricted to specific purposes of \$1,276,395, and other revenues of \$158,066.

The cost of all governmental activities this year was \$3,940,895.

- The users of the district programs paid for \$57,041 or 1.45% of the total costs.
- Operating grants and contributions consisting of federal and state aids restricted for specific purposes and donations totaled \$173,893 or 4.41% of total costs.
- The state government subsidized certain programs with aid not restricted for specific purposes. This totaled \$1,095,263 or 27.79% of total costs.

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

Figure A - Sources of Revenues for Fiscal Year 2018

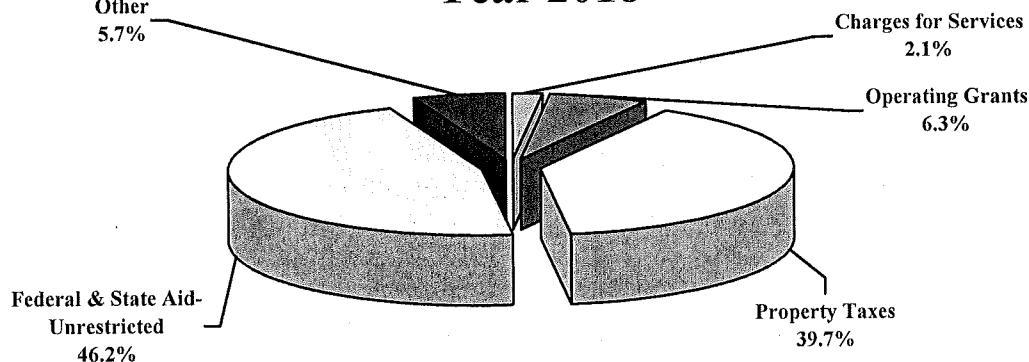
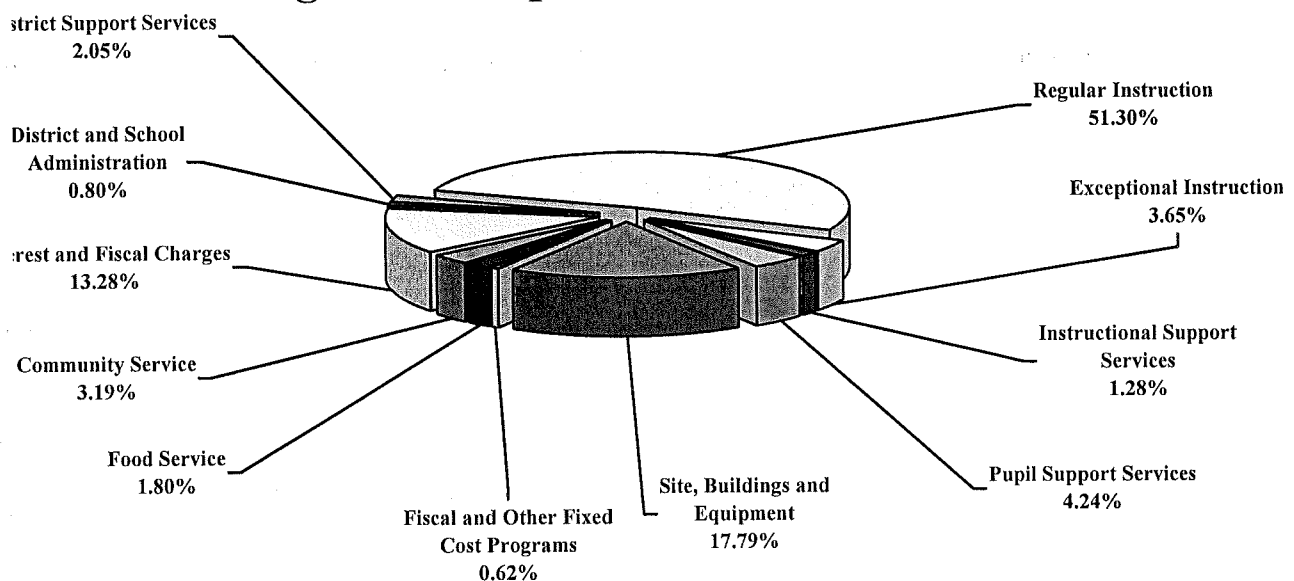


Figure B - Expenses for Fiscal Year 2018



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

Fund Balance

The financial performance of the district as a whole is reflected in its governmental funds as well. As the district completed the year, the governmental funds reported a combined fund balance of \$559,012 which is a decrease of \$7,487,800 over the prior year fund balance of \$8,046,812. The General Fund had an increase of \$163,736. The Food Service Fund had no change in fund balance. The Community Service Fund a decrease of \$18,190. The Debt Service Fund had a decrease of \$7,633,346. The Debt Service decrease is a result of paying \$7,780,000 of principal held in escrow for refunding bonds that were refinanced in 2016 and paid out in 2018.

Revenues and Expenditures/Expenses

Revenues of the district's governmental funds totaled \$2,768,386 while total expenditures were \$10,256,465. 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	1,720,781	1,553,663	(3,382)	163,736
Food Service Fund	67,401	71,062	3,661	-0-
Community Service Fund	110,275	128,465		(18,190)
Debt Service Fund	<u>869,929</u>	<u>8,503,275</u>	<u> </u>	<u>(7,633,346)</u>
Total	<u>2,768,386</u>	<u>10,256,465</u>	<u>279</u>	<u>(7,487,800)</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. During fiscal year 2018, the District did not revise the budget.

- Actual general fund revenues were over budget by \$22,388 primarily due to differences in state aids.
- Actual general fund expenditures under budget by \$40,039 primarily due to under budgeting expenditures for salaries, benefits.

Independent School District No. 403
Ivanhoe, Minnesota

Capital Assets

During fiscal year 2018, the capital asset additions included computer software and a children's market loft.

Table 3 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal year ending June 30, 2018.

Table 3
Capital Assets

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
Land	9,694	9,694	
Land Improvements	10,089,080	10,089,080	
Buildings and Improvements	1,044,999	1,044,999	
Equipment	279,196	300,451	21,255
Less: Accumulated Depreciation	<u>(4,866,827)</u>	<u>(4,362,652)</u>	<u>(504,175)</u>
Total	<u>6,556,142</u>	<u>7,081,572</u>	<u>(482,920)</u>
Depreciation Expense	<u>527,594</u>	<u>529,391</u>	<u>(1,797)</u>

Long-Term Liabilities

In fiscal year 2018 the District had General Obligation Judgment Bonds of 2014 with an outstanding balance of \$1,025,000 and General Obligation Refunding School Building Bonds of 2016 with an outstanding balance of \$7,645,000. Pension benefits payable decreased by \$524,264. More detailed information about the district's long-term liabilities is presented in Note 8.

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 that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

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. 403 at 421 N. Rebecca St., Ivanhoe, Minnesota 56136.

STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
<u>Current Assets</u>		
Cash and Investments	1,355,473	9,180,774
Receivables:		
Property Taxes	562,950	476,462
Governmental Units	112,345	151,059
Other	9,832	4,406
Inventory	2,196	2,620
Prepaid Items		6,400
Capital Assets:		
Non-Depreciable	9,694	9,694
Depreciable - net of accumulated depreciation	6,546,448	7,071,878
Total Assets	<u>8,598,938</u>	<u>16,903,293</u>
 <u>Deferred Outflows of Resources</u>		
Related to Pensions	75,534	1,366,541
Total Assets and Deferred Outflows of Resources	<u><u>8,674,472</u></u>	<u><u>18,269,834</u></u>
 <u>Liabilities</u>		
Accounts Payable	15,902	11,785
Salaries Payable	49,606	60,101
Due to Other Governmental Units	22,800	4,893
Payroll Deductions	26,996	31,766
Short Term Indebtedness	302,715	557,911
Long-term Liabilities:		
Portion Due Within One Year	535,000	7,780,000
Portion Due in More Than One Year	8,135,000	8,870,000
Pension Benefit Payable	1,770,121	2,294,385
Total Liabilities	<u>10,858,140</u>	<u>19,610,841</u>
 <u>Deferred Inflows of Resources</u>		
Property Taxes Levied for Subsequent Year	1,054,434	1,089,115
Related to Pensions	509,285	137,491
Total Deferred Inflows of Resources	<u>1,563,719</u>	<u>1,226,606</u>
 <u>Net Position</u>		
Invested in Capital Assets, Net of Related Debt	(1,088,858)	(254,150)
Restricted for:		
General Fund State Mandated Purposes	31,844	10,069
Food Service	7,656	3,996
Community Service	108,006	126,196
Debt Service	225,167	487,791
Unrestricted	(3,031,202)	(2,941,515)
Total Net Position	<u>(3,747,387)</u>	<u>(2,567,613)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>8,674,472</u></u>	<u><u>18,269,834</u></u>

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Government Activities	
					2018	2017
Governmental Activities						
District and School Administration	31,573				(31,573)	(31,506)
District Support Services	80,599				(80,599)	(89,121)
Regular Instruction	2,021,498		76,178		(1,945,320)	(1,000,033)
Exceptional Instruction	143,854		47,525		(96,329)	(160,982)
Instructional Support Services	50,622				(50,622)	(41,136)
Pupil Support Services	167,059				(167,059)	(175,208)
Site, Buildings and Equipment	701,164				(701,164)	(703,808)
Fiscal and Other Fixed Cost Programs	23,961				(23,961)	(25,938)
Food Service	71,062	30,979	36,422		(3,661)	(3,996)
Community Service	125,765	26,062	13,768		(85,935)	(68,411)
Interest and Fiscal Charges on						
Long-term Liabilities	523,275				(523,275)	(483,043)
Total	<u>3,940,432</u>	<u>57,041</u>	<u>173,893</u>	<u>-0-</u>	<u>(3,709,498)</u>	<u>(2,783,182)</u>
<u>General Revenues</u>						
Property Taxes Levied for:						
General Purposes					293,791	273,653
Community Service					31,433	24,339
Debt Service					770,039	796,618
Federal and State Aid Not Restricted to Specific Purposes					1,276,395	1,224,804
Earnings on Investments					75,384	46,073
Miscellaneous					82,682	103,553
Total General Revenues					<u>2,529,724</u>	<u>2,469,040</u>
Change in Net Position					<u>(1,179,774)</u>	<u>(314,142)</u>
Net Position - Beginning					<u>(2,567,613)</u>	<u>(2,253,471)</u>
Net Position - Ending					<u>(3,747,387)</u>	<u>(2,567,613)</u>

See accompanying notes to the financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2018

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Debt Service	2018	2017
Assets						
Cash and Investments	685,662	2,384	128,617	538,810	1,355,473	9,180,774
Current Property Taxes Receivable	97,741		9,790	448,088	555,619	461,124
Delinquent Property Taxes Receivable	5,427		416	1,488	7,331	15,338
Accounts Receivable	293		9,539		9,832	4,406
Due From Department of Education	107,818		1,374	3,153	112,345	151,059
Inventory		2,196			2,196	2,620
Prepaid Items						6,400
Total Assets	896,941	4,580	149,736	991,539	2,042,796	9,821,721

Liabilities, Deferred Inflows of Resources and Fund Balances

Liabilities

Accounts Payable	14,138		1,764		15,902	11,785
Interest Payable	4,751				4,751	8,756
Salaries Payable	30,358	4,580	14,668		49,606	60,101
Short Term Indebtedness	297,964				297,964	549,155
Due to Other Governmental Units	68				68	1,183
Due to Other Minnesota School Districts	22,732				22,732	3,710
Payroll Deductions	26,996				26,996	31,766
Total Liabilities	397,007	4,580	16,432		418,019	666,456

Deferred Inflows of Resources

Unearned Revenue-Delinquent Taxes	9,427		416	1,488	11,331	19,338
Property Taxes Levied for Subsequent Years	264,668		24,882	764,884	1,054,434	1,089,115
Total Deferred Inflows of Resources	274,095	-0-	25,298	766,372	1,065,765	1,108,453

Fund Balance

Fund Balance-Nonspendable		2,196			2,196	2,620
Fund Balance-Restricted	31,844	7,656	108,006	225,167	372,673	7,998,774
Fund Balance-Unassigned	193,995	(9,852)			184,143	45,418
Total Fund Balance	225,839	-0-	108,006	225,167	559,012	8,046,812
Total Liabilities, Deferred Inflows of Resources and Fund Balances	896,941	4,580	149,736	991,539	2,042,796	9,821,721

See accompanying notes to the financial statements.

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

	<u>2018</u>		<u>2017</u>
Total Governmental Fund Balances	559,012		8,046,812
Amounts reported in Governmental Activities in The Statement of Net Assets 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	11,422,969		11,444,224
Less: Accumulated Depreciation	<u>(4,866,827)</u>	6,556,142	<u>(4,362,652)</u> 7,081,572
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 deferred revenue.		11,331	19,338
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	75,534		1,366,541
Deferred Inflows of Resources related to Pensions	<u>(509,285)</u>	(433,751)	<u>(137,491)</u> 1,229,050
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:			
Bonds Payable	(8,670,000)		(16,650,000)
Pension Benefits Payable	<u>(1,770,121)</u>	<u>(10,440,121)</u>	<u>(2,294,385)</u> (18,944,385)
Net Position of Governmental Activities		<u>(3,747,387)</u>	<u>(2,567,613)</u>

See accompanying notes to the financial statements.

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

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Debt Service	2018	2017
<u>Revenues</u>						
Local Property Tax Levies	301,798		31,433	770,039	1,103,270	1,087,902
Other Local and County Revenues	49,799		65,074	68,365	183,238	143,039
Revenue from State Sources	1,328,783	5,019	13,768	31,525	1,379,095	1,291,907
Revenue from Federal Sources	39,790	31,403			71,193	83,049
Other	611	30,979			31,590	36,774
Total Revenues	1,720,781	67,401	110,275	869,929	2,768,386	2,642,671
<u>Expenditures</u>						
District and School Administration	31,573				31,573	31,506
District Support Services	80,599				80,599	89,121
Regular Instruction	858,016				858,016	863,158
Exceptional Instruction	143,854				143,854	196,036
Community Education and Services			128,465		128,465	99,287
Instructional Support Services	50,622				50,622	41,136
Pupil Support Services	167,059	71,062			238,121	238,742
Site, Buildings and Equipment	197,979				197,979	188,365
Fiscal and Other Fixed Cost Programs	23,961			8,503,275	8,527,236	1,148,981
Total Expenditures	1,553,663	71,062	128,465	8,503,275	10,256,465	2,896,332
Excess Revenues (Expenditures)						
Before Other Financing Sources (Uses)	167,118	(3,661)	(18,190)	(7,633,346)	(7,488,079)	(253,661)
<u>Other Financing Sources (Uses)</u>						
Permenant Transfer	(3,661)	3,661				
Sale of Equipment	279				279	23,217
Total Other Financing Sources (Uses)	(3,382)	3,661		-0-	279	23,217
Net Change in Fund Balance	163,736	-0-	(18,190)	(7,633,346)	(7,487,800)	(230,444)
Fund Balance-Beginning	62,103	-0-	126,196	7,858,513	8,046,812	8,277,256
Fund Balance-Ending	225,839	-0-	108,006	225,167	559,012	8,046,812

See accompanying notes to the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
Net Change in Governmental Fund Balances	(7,487,800)	(230,444)

Amounts reported for the governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, however, in the statement of activities, assets with an initial, individual cost of more than \$2,000.00 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	5,510		15,423	
Disposal of Assets	(3,346)		(10,882)	
Depreciation Expense	<u>(527,594)</u>	(525,430)	<u>(529,395)</u>	(524,854)

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:

Bond Payments	7,980,000		640,000	
Severance	<u></u>	7,980,000	<u></u>	640,000

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for current period's expenditures, are therefore deferred in the funds.

(8,007)	6,708
---------	-------

In the statement of activities, severance and retirement 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).

(1,662,801)	1,308,572
-------------	-----------

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	524,264	(1,514,124)
----------------------------	---------	-------------

Change in Net Position of Governmental Activities	<u>(1,179,774)</u>	<u>(314,142)</u>
---	--------------------	------------------

See accompanying notes to the financial statements.

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

	Budgeted Amounts		Actual	Better/(Worse)
	Original	Final	Amounts	Than Final
				Budget
<u>Revenues</u>				
Local Property Tax Levies	299,654	299,654	301,798	2,144
Other Local and County Revenues	35,662	35,662	49,799	14,137
Revenue from State Sources	1,323,121	1,323,121	1,328,783	5,662
Revenue from Federal Sources	39,256	39,256	39,790	534
Other	700	700	611	(89)
Total Revenues	1,698,393	1,698,393	1,720,781	22,388
<u>Expenditures</u>				
District and School Administration	31,989	31,989	31,573	(416)
District Support Services	83,184	83,184	80,599	(2,585)
Regular Instruction	859,967	859,967	858,016	(1,951)
Exceptional Instruction	133,996	133,996	143,854	9,858
Instructional Support Services	39,068	39,068	50,622	11,554
Pupil Support Services	202,974	202,974	167,059	(35,915)
Site, Building and Equipment	216,524	216,524	197,979	(18,545)
Fiscal and Other Fixed Cost Programs	26,000	26,000	23,961	(2,039)
Total Expenditures	1,593,702	1,593,702	1,553,663	(40,039)
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	104,691	104,691	167,118	62,427
<u>Other Financing Sources (Uses)</u>				
Permenant Transfer			(3,661)	(3,661)
Sale of Equipment	1,500	1,500	279	(1,221)
Total Other Financing Sources (Uses)	1,500	1,500	(3,382)	(4,882)
Net Change in Fund Balance	106,191	106,191	163,736	57,545
Fund Balance-Beginning			62,103	
Fund Balance-Ending			225,839	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

MAJOR FOOD SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Better/(Worse)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<u>Revenues</u>				
Revenue from State Sources	4,500	4,500	5,019	519
Revenue from Federal Sources	26,300	26,300	31,403	5,103
Other	32,500	32,500	30,979	(1,521)
Total Revenues	63,300	63,300	67,401	4,101
<u>Expenditures</u>				
Pupil Support Services	68,558	68,558	71,062	(2,504)
Total Expenditures	68,558	68,558	71,062	(2,504)
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	(5,258)	(5,258)	(3,661)	1,597
<u>Other Financing Sources (Uses)</u>				
Permanent Transfer			3,661	3,661
Total Other Financing Sources (Uses)	-0-	-0-	3,661	3,661
Net Change in Fund Balance	<u>(5,258)</u>	<u>(5,258)</u>	-0-	<u>5,258</u>
Fund Balance-Beginning			-0-	
Fund Balance-Ending			<u>-0-</u>	

See accompanying notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Better/(Worse)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<u>Revenues</u>				
Local Property Tax Levies	31,211	31,211	31,433	222
Other Local and County Revenues	55,190	55,190	65,074	9,884
Revenue from State Sources	13,737	13,737	13,768	31
Total Revenues	100,138	100,138	110,275	10,137
<u>Expenditures</u>				
Community Education and Services	127,616	127,616	128,465	(849)
Total Expenditures	127,616	127,616	128,465	(849)
Net Change in Fund Balance	(27,478)	(27,478)	(18,190)	9,288
Fund Balance-Beginning			126,196	
Fund Balance-Ending			108,006	

See accompanying notes to the financial statements.

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

	Budgeted Amounts		Actual	Better/(Worse)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Than Final</u>
				<u>Budget</u>
<u>Revenues</u>				
Local Property Tax Levies	808,608	808,608	770,039	(38,569)
Other Local and County Revenues	32,251	32,251	68,365	36,114
Revenue from State Sources	31,525	31,525	31,525	
Total Revenues	<u>872,384</u>	<u>872,384</u>	<u>869,929</u>	<u>(2,455)</u>
<u>Expenditures</u>				
Fiscal and Other Fixed Cost Programs	934,702	934,702	8,503,275	(7,568,573)
Total Expenditures	<u>934,702</u>	<u>934,702</u>	<u>8,503,275</u>	<u>(7,568,573)</u>
Net Change in Fund Balance	<u>(62,318)</u>	<u>(62,318)</u>	<u>(7,633,346)</u>	<u>(7,571,028)</u>
Fund Balance-Beginning			<u>7,858,513</u>	
Fund Balance-Ending			<u>225,167</u>	

See accompanying notes to the financial statements.

STATEMENT OF FIDUCIARY ASSETS
EXPENDABLE TRUST FUND
JUNE 30, 2018

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Cash and Investments	<u>3,938</u>	<u>4,095</u>
Total Assets	<u><u>3,938</u></u>	<u><u>4,095</u></u>
 <u>Net Position</u>		
Reserved for Scholarships	<u>3,938</u>	<u>4,095</u>
Total Net Position	<u><u>3,938</u></u>	<u><u>4,095</u></u>

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>	<u>2017</u>
<u>Additions</u>		
Interest Income	43	14
Total Additions	43	14
 <u>Deductions</u>		
Scholarships	200	
Change in Net Position	(157)	14
 Net Position - Beginning of Year	4,095	4,081
Net Position - End of Year	<u>3,938</u>	<u>4,095</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of Independent School District No. 403 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 403, Ivanhoe, was formed and operates pursuant to applicable Minnesota laws and statutes. The Ivanhoe District operates under an elected six member Board of Education form of government. The Board has control over all activities related to the public school education in the Ivanhoe 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 Statement Presentation

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 are 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 purpose for which both restricted and unrestricted net assets are 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 inter fund activity has been removed from the District-wide financial statements.

Separate fund financial statements are provided for governmental and fiduciary 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 generally 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, 2018

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.

Fiduciary funds are accounted for on a flow economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the period for which they are incurred and become measurable.

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:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 Summary of Significant Accounting Policies - continued

D. Basis of Accounting and Measurement Focus - continued

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.

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.

Fiduciary Funds

Agency Fund

The Agency Fund is used to account for the assets belonging to student organizations. 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 school personnel and approved by the school board. Encumbrances are not considered in the budget process nor in the regular district accounting.

Once a budget is approved, it can be amended by school personnel 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 Summary of Significant Accounting Policies - continued

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 Summary of Significant Accounting Policies - continued

K. Property Tax Recognition - continued

Current taxes receivable includes the amount of Homestead Market Value Credit Aid and Disparity Reduction Aid to be received after July 1, 2018, and will be recognized as revenue during the fiscal year ending June 30, 2019. The delinquent taxes receivable are reserved as 100% uncollectible except for the amount received during the first sixty days of the subsequent fiscal year.

L. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$2,000 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.

M. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs, if material, are also reported as deferred charges and amortized over the term of the related debt.

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 Summary of Significant Accounting Policies - continued

N. Deferred Outflows/Inflows of Resources

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

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.

O. Fund Equity

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

Non-Spendable Fund Balance

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

Restricted Fund Balance

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

Committed Fund Balance

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

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 Summary of Significant Accounting Policies - continued

O. Fund Equity- continued

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.

P. Net Position

Net position represents the difference between assets and liabilities in the District-wide and Fiduciary Fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the District-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Q. Pensions

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 Summary of Significant Accounting Policies - continued

R. Certain Comparative Data and Reclassifications

Certain comparative total data for the prior year have been presented in the District-wide and fund financial statements in order to provide an understanding of the changes in the financial position and operations. Such comparative total data does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

S. Estimates

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

T. Subsequent Events

Subsequent events have been evaluated through September 18, 2018, which is the date the financial statements were available to be issued.

Note 2 Deposits 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, 2018, none of the District's bank balance of \$433,697 was exposed to custodial credit risk.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 2 Cash and Investments - continued

B. Investments - continued

	<u>Credit Risk</u>	<u>Concentration</u>	<u>Interest</u>	
	<u>Credit</u>	<u>Risk</u>	<u>Rate Risk</u>	<u>Carrying</u>
	<u>Rating</u>	<u>Over 5%</u>	<u>Maturity</u>	<u>Value</u>
	<u>Agency</u>	<u>of Portfolio</u>	<u>Date</u>	
Investment Pools:				
Minnesota School District Liquid Asset Fund Plus				
Liquid Class	AAAm	20%	N/A	148,815
MAX Class	AAAm	80%	N/A	777,179
Total Investments				925,994
Nonnegotiable				
Certificates of				
Deposit				3,175
Cash on Hand				1,950
Deposits				428,292
Total Cash and Investments				<u>1,359,411</u>

Cash and investments are included on the basic financial statements as follows:

Cash and temporary investments – statement of net position	1,355,473
Cash and temporary investments – statement of fiduciary net position	3,938
	<u>1,359,411</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>General Fund</u>	<u>2018</u>	<u>2017</u>
General Education Aid	98,893	126,606
Other State Credits	3,350	3,662
Special Education	<u>5,575</u>	<u>16,100</u>
Total General Fund	107,818	146,368

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 3 Due From Department of Education - continued

Special Revenue Funds

Community Service Fund

Early Childhood and Family Education	89	88
Other State Credits	<u>1,285</u>	<u>1,230</u>
Total Special Revenue Funds	1,374	1,318

Debt Service Fund

Other State Credits	<u>3,153</u>	<u>3,373</u>
Total All Funds	<u>112,345</u>	<u>151,059</u>

Note 4 Capital Assets

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

	<u>Balance</u> <u>07/01/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>06/30/18</u>
Capital assets not depreciated				
Land	9,694			9,694
Capital assets depreciated				
Land Improvements	10,089,080			10,089,080
Buildings	1,044,999			1,044,999
Equipment	300,451	5,510	(26,765)	279,196
Total capital assets depreciated	11,434,530	5,510	(26,765)	11,413,275
Less accumulated depreciation for				
Land Improvements	(3,278,953)	(504,454)		(3,783,407)
Buildings	(884,837)	(8,101)		(892,938)
Equipment	(198,862)	(15,039)	23,419	(190,482)
Total Accumulated Depreciation	<u>(4,362,652)</u>	<u>(527,594)</u>	<u>23,419</u>	<u>(4,866,827)</u>
Total capital assets depreciated – net	7,071,878	(522,084)	(3,346)	6,546,448
Net Capital Assets	<u>7,081,572</u>	<u>(522,084)</u>	<u>(3,346)</u>	<u>6,556,142</u>

Depreciation expense of \$527,594 for the year ended June 30, 2018 was charged to the following governmental functions:

Regular Instruction	2,704
Sites, Buildings, and Equipment	<u>524,890</u>
Total	<u>527,594</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 5 Due To Other Minnesota School Districts

The amounts due to other Minnesota School Districts are as follows:

	<u>June 30</u>	
<u>General Fund</u>	<u>2018</u>	<u>2017</u>
Independent School District No. 414		
SW/WC Service Coop – Reimbursements	<u>22,732</u>	<u>3,710</u>
Total General Fund	<u>22,732</u>	<u>3,710</u>
Total All Funds	<u>22,732</u>	<u>3,710</u>

Note 6 Due to Other Governmental Units

Amounts due to Other Governmental Units are as follows:

	<u>June 30</u>	
<u>General Fund</u>	<u>2018</u>	<u>2017</u>
Minnesota Department of Revenue		
Sales Tax	<u>68</u>	<u>1,183</u>
Total General Fund	<u>68</u>	<u>1,183</u>

Note 7 Certificates of Indebtedness

The Certificates of Indebtedness are as follows:

	<u>June 30,</u>			<u>June 30,</u>
	<u>2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>2018</u>
Minnesota Tax and Aid Anticipation Certificates of Indebtedness, Series 2017A Maturity September 14, 2018, Interest rate 2%	-0-	297,964	-0-	297,964
Minnesota Tax and Aid Anticipation Certificates of Indebtedness, Series 2016A Maturity September 15, 2017, Interest rate 2%	<u>549,155</u>	<u>-0-</u>	<u>549,155</u>	<u>-0-</u>
Total	<u>549,155</u>	<u>297,964</u>	<u>549,155</u>	<u>297,964</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 8 Long-Term Liabilities

A. Bonds Payable

Bonds payable at June 30, 2018 are comprised of the following items:

	<u>Balance</u> <u>June 30, 2018</u>
General Obligation Judgment Bonds, Series 2014, Due in annual installments of \$115,000 to \$160,000 through February 1, 2025, Interest at 2.00% to 3.45%	1,025,000
General Obligation School Building Refunding Bonds Series 2016A, due in annual installments of \$210,000 to \$580,000 through February 1, 2034, Interest at 2.00% to 3.00%.	<u>7,645,000</u>
Total Bonds Payable	<u>8,670,000</u>

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

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	535,000	199,878	734,878
2020	550,000	188,975	738,975
2021	560,000	177,345	737,345
2022	570,000	165,165	735,165
2023	590,000	152,388	742,388
2024-2028	2,650,000	566,193	3,216,193
2029-2033	2,635,000	296,718	2,931,718
2034-2038	<u>580,000</u>	<u>17,400</u>	<u>597,400</u>
Total	<u>8,670,000</u>	<u>1,764,062</u>	<u>10,434,062</u>

B. Changes in Long-Term Liabilities

The following is a schedule of the changes in Long-Term Liabilities:

	<u>Balance</u> <u>7/1/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/18</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	16,650,000		7,980,000	8,670,000	535,000
Pension Benefits	<u>2,294,385</u>	<u>-0-</u>	<u>524,264</u>	<u>1,770,121</u>	
Total	<u>18,088,291</u>	<u>-0-</u>	<u>8,504,264</u>	<u>10,440,121</u>	<u>535,000</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 9 Fund Balances

Non-Spendable Fund Balance

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

Special Revenue Funds

Food Service

Inventory	2,196
Total Special Revenue Funds	<u>2,196</u>

Restricted Fund Balance

The District has various restricted fund balances that are based on state requirements to track certain program funding, to provide funding for long-term debt requirements, or for other requirements. The District has the following restricted fund balances as of June 30, 2018:

General Fund

Deferred Maintenance	14,832
Staff Development	1
Operating Capital	15,623
Gifted & Talented	2,063
Health & Safety	(1,546)
Basic Skills	34
Safe Schools	837
Total General Fund	<u>31,844</u>

Special Revenue Funds

Food Service

Restricted	7,656
Total Food Service	<u>7,656</u>

Community Services

Community Education	52,524
Early Childhood and Family Education	18,968
School Readiness	33,364
Restricted	3,150
Total Community Services	<u>108,006</u>
Total Special Revenue Funds	<u>115,662</u>

Debt Service

Restricted	225,167
Total Debt Service Fund	<u>225,167</u>
Total All Funds	<u>372,673</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 9 Fund Balances – continued

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.

The District has no committed fund balances as of June 30, 2018.

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 district finance director and superintendent. Assigned amounts or changes to assigned amounts are presented to the school board for review.

The District has no assigned fund balances as of June 30, 2018.

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

General Fund

General Fund	193,995
--------------	---------

Special Revenue Fund

Food Service	(9,852)
Total All Funds	<u>184,143</u>

Stabilization Amounts

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

The District has no stabilization amounts as of June 30, 2018.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 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.

1. 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 Retirement Fund (GERF). GERF members belong to either the Coordinated Plan. Coordinated Plan members are covered by Social Security.

2. Benefits Provided

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

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

The benefit provisions stated in the following 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.

GERF Benefits

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 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.

1. GERF Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2018; the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2018, were \$12,096. The District's contributions were equal to the required contributions for each year as set by state statute.

B. 4. Pension Costs

At June 30, 2018, the District reported a liability of \$153,214 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$6,285. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion share was 0.0024 percent, which is a decrease in proportion share of .0003 percent as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$6,285 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$55 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA)-continued

5. Pension Costs - continued

At June 30, 2018, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual economic experience	\$5,049	\$11,350
Changes in actuarial assumptions	\$28,617	\$15,360
Difference between projected and actual investment earnings		\$4,420
Changes in proportion		\$34,159
Contributions paid to PERA subsequent to the measurement date	\$12,096	
Total	\$45,762	\$65,290

\$12,096 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2019	(\$18,628)
2020	\$1,619
2021	(\$8,112)
2022	(\$6,504)
2023	\$0

6. 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%

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

7. Pension Costs -continued

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

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

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	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, 2018

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) – continued

8. Discount Rate

9. The discount rate used to measure the total pension liability in 2017 was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

10. 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%	237,647
Current Discount Rate	7.50%	153,214
1% Higher	8.50%	84,091

11. Pension Plan Fiduciary Net Position

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

B. Teachers Retirement Association

1. Plan Description

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 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.

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

With these provisions:

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

2. Benefits Provided - continued

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Tier II: 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.

3. Contribution Rate

Per Minnesota Statute, Chapter 354 sets the contribution rates for employers and employees. Contribution rates can only be modified by the state legislature. Rates for each fiscal year ended June 30, 2016, June 30, 2017, and June 30, 2018 were:

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

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

3. Contribution Rate - continued

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$367,791
 Add employer contributions not related to future contribution efforts	 810
 Deduct TRA's contributions not included in allocations	 <u>(456)</u>
Total employer contributions	\$368,145
 Total non-employer contributions	 <u>35,588</u>
 Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	 <u>\$403,733</u>

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

4. Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

5. Actuarial Assumptions – continued

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation Date	July 1, 2017
Experience Study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	5.12%, from the Single Equivalent Interest Rate calculation
Price Inflation	2.50%
Wage growth rate	2.85% for 10 years and 3.25%, thereafter
Projected Salary Increase	2.85 to 8.85% for 10 years and 3.25-9.25% thereafter
Cost of living adjustment	2.0%
Mortality Assumptions	
Pre-Retirement	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-Retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-Disability	RP-2014 disabled retiree mortality table, without adjustment.

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

5. Actuarial Assumptions – continued

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

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

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The “Difference between expected and actual experience” 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.

Changes in actuarial assumptions since the 2016 valuation:

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.%, but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

6. Discount Rate

The discount rate used to measure the total pension liability was 5.12 percent. This is an increase from the discount rate at the prior measurement date of 4.66 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50 percent) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01 percent).

7. Net Pension Liability

On June 30, 2018, the District reported a liability of \$1,616,907 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.0081% at the end of the measurement period and 0.0087% 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	\$1,616,907
State's proportionate share of the net pension Liability associated with the District	\$156,600

For the year ended June 30, 2018, the District recognized pension expense of \$18,381. It also recognized \$3,003 as an increase to pension expense for the support provided by direct aid.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

7. Net Pension Liability – continued

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience		\$11,311
Net difference between projected and actual earnings on plan inv.		\$86,919
Change in assumptions		\$266,503
Changes in proportion		\$119,262
Contributions paid to TRA subsequent to measurement date	\$29,772	
Total	\$29,772	\$443,995

\$29,772 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in the pension expense as follows:

2018	\$93,145
2019	\$93,145
2020	\$93,145
2021	\$93,145
2022	\$71,415

8. Pension Liability Sensitivity

The following presents the net pension liability of TRA calculated using the discount rate of 5.12 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.12 percent) or one percentage point higher (6.12 percent) than the current rate

District's proportionate share of NPL		
1 percent decrease (4.12%)	Current (5.12%)	1 percent increase (6.12%)
\$2,134,006	\$1,616,907	\$1,180,930

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

8. Pension Liability Sensitivity- continued

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.

9. 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 may be accessed at the TRA Web site www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St Paul MN 55103-4000
(651) 296-2409
(800) 657-3669

Note 11 Vacation and Sick Leave

Full-time year around employees receive vacation based on their years of service. In the event of termination an employee who has completed at least six months of service is reimbursed for any unused accumulated vacation. Maximum vacation accrual is 30 days at the end of any fiscal year. Vacation pay is charged to operations when taken by the employees of the district.

Full-time year round employees accrue 14 sick days per year and school year employees accrue 11 sick days per year. All employees may accumulate up to 8 times their respective yearly allowance. Sick days do not vest under the District's policy, and accordingly, employees can be paid sick leave only for qualifying absences. Since the employee's accumulating rights to receive compensation for future absences are contingent upon the absences being caused by qualifying events and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Full-time and school year employees are granted personal days which are subject to approval by the superintendent and charged to sick leave. Teachers earn 2 personal days per year and are allowed to accrue up to 5 days. Any contingent liability for unused personal days is not recognized in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 12 **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.

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

Note 13 **Subsequent Events**

Subsequent events have been evaluated through September 18, 2018, which is the date the financial statements were available to be issued.

Note 14 **Transfers**

The following is a schedule of the transfers for the year ended June 30, 2018:

	<u>Transfer In</u>	<u>Transfer Out</u>
General		3,661
Food Service	3,661	

The transfer was made to zero out the Food Service Fund loss of \$3,661 for the year ended June 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND EMPLOYER CONTRIBUTIONS
JUNE 30, 2018

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)	State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable) (a)	Total (a) + (b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll [(a+b)/c]	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>Pensions</u>							
PERA							
June 30, 2014	0.0036%	169,110			199,151	84.9%	78.7%
June 30, 2015	0.0030%	155,476			184,654	84.2%	78.2%
June 30, 2016	0.0027%	155,476			170,094	91.4%	68.9%
June 30, 2017	0.0024%	219,227	1,912	221,139	153,480	144.1%	75.9%
TRA							
June 30, 2014	0.0165%	760,308			753,049	101.0%	81.5%
June 30, 2015	0.0101%	624,785			502,632	124.3%	81.5%
June 30, 2016	0.0087%	2,075,158			452,027	459.1%	44.9%
June 30, 2017	0.0081%	1,616,907	156,600	1,773,507	435,076	407.6%	51.57%

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	13,584	13,584	-0-	199,151	6.8%
2015	12,828	13,023	(195)	184,654	7.1%
2016	12,397	12,524	(127)	170,094	7.4%
2017	11,511	11,868	(357)	153,480	7.7%
TRA					
2014	52,713	52,713	-0-	753,049	7.0%
2015	38,499	35,514	2,985	502,632	7.1%
2016	33,902	33,902	-0-	452,027	7.5%
2017	32,631	32,631	-0-	435,076	7.5%

See Note 10, 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, 2018

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Cash and Investments	685,662	764,912
Current Property Taxes Receivable	97,741	108,523
Delinquent Property Taxes Receivable	5,427	6,411
Accounts Receivable	293	2,750
Due From Department of Education	107,818	146,368
Total Assets	<u>896,941</u>	<u>1,028,964</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Salaries Payable	30,358	44,076
Accounts Payable	14,138	10,440
Short Term Indebtedness	297,964	549,155
Interest Payable	4,751	8,756
Due to Other Governmental Units	68	1,183
Due to Other Minnesota School Districts	22,732	3,710
Payroll Deductions	26,996	31,766
Total Liabilities	<u>397,007</u>	<u>649,086</u>
<u>Deferred Inflows of Resources</u>		
Unearned Revenue-Delinquent Taxes	9,427	10,411
Property Taxes Levied for Subsequent Years	264,668	307,364
Total Deferred Inflows of Resources	<u>274,095</u>	<u>317,775</u>
<u>Fund Equity</u>		
Fund Balance-Restricted	31,844	10,069
Fund Balance-Unassigned	193,995	52,034
Total Fund Equity	<u>225,839</u>	<u>62,103</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>896,941</u>	<u>1,028,964</u>

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

	Year Ended June 30			
	2018		Over/(Under)	2017
	Budget	Actual		Actual
Revenues				
<u>Local Property Tax Levy</u>				
Local Tax Levy	299,654	301,798	2,144	266,945
	299,654	301,798	2,144	266,945
 <u>Other Local and County Revenues</u>				
County Apportionment	5,925	12,366	6,441	10,636
Gifts	7,338	13,707	6,369	18,064
Interest Income	8,000	5,707	(2,293)	5,760
Rent of Facilities	2,476	2,476		2,476
Other Revenues	11,923	15,543	3,620	10,575
Total Other Local and County Revenues	35,662	49,799	14,137	47,511
 <u>Revenue From State Sources</u>				
Disparity Reduction Aid	593	593		934
Endowment Fund Apportionment	5,316	5,387	71	4,334
General Education Aid	1,267,593	1,267,391	(202)	1,184,797
Market Value Credit	2,880	2,880		5,252
Other State Aids	7,190	7,190		7,703
Special Education	39,549	45,342	5,793	37,517
Total Revenue From State Sources	1,323,121	1,328,783	5,662	1,240,537
 <u>Revenue From Federal Sources</u>				
Federal Aid Programs	39,256	39,790	534	57,131
 <u>Sales and Other Conversion of Assets</u>				
Sale of Materials	700	611	(89)	1,085
Total Sales and Other Conversion of Assets	700	611	(89)	1,085
Total Revenues	1,698,393	1,720,781	22,388	1,613,209

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

	Year Ended June 30			
	2018		2017	
			Over/(Under)	
<u>Expenditures</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>District and School Administration</u>				
Dues and Memberships	4,000	3,882	(118)	3,981
Fixed Charges and Employee Benefits	3,409	3,400	(9)	3,275
Professional Services	2,050	1,294	(756)	2,036
Salaries	22,530	22,997	467	22,214
Total District and School Administration	31,989	31,573	(416)	31,506
 <u>District Support</u>				
Dues and Memberships	150	150		
Equipment Leased	840	840		840
Principal	3,200	3,199	(1)	4,490
Fixed Charges and Employee Benefits	4,899	5,032	133	5,828
Professional Services	39,338	39,325	(13)	40,593
Salaries	32,201	29,571	(2,630)	35,742
Other	90		(90)	173
Supplies	2,300	2,316	16	1,296
Travel and Transportation	166	166		159
Total District Support Services	83,184	80,599	(2,585)	89,121
 <u>Regular Instruction</u>				
<u>Elementary School</u>				
Equipment	7,325	6,557	(768)	554
Fixed Charges and Employee Benefits	61,972	64,347	2,375	62,910
Professional Services	2,500	1,136	(1,364)	2,209
Rent	8,800	7,725	(1,075)	8,810
Repairs and Maintenance	625	151	(474)	200
Salaries	340,060	338,796	(1,264)	375,229
Supplies	19,043	15,239	(3,804)	13,060
Travel and Transportation	4,192	10,492	6,300	19,538
Tuition to Other Minnesota School Districts	27,900	29,236	1,336	
Total Elementary	472,417	473,679	1,262	482,510

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

	Year Ended June 30		Over/(Under)	
	2018			2017
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Expenditures - continued</u>				
<u>Regular Instruction - continued</u>				
<u>Secondary School</u>				
Instructional Supplies	2,900	2,672	(228)	3,561
Travel and Transportation	900	200	(700)	939
Tuition to Other Minnesota School Districts	383,750	381,465	(2,285)	376,148
Total Secondary	<u>387,550</u>	<u>384,337</u>	<u>(3,213)</u>	<u>380,648</u>
Total Regular Instruction	859,967	858,016	(1,951)	863,158
<u>Exceptional Instruction</u>				
Fixed Charges and Employee Benefits	9,822	10,917	1,095	23,027
Instructional Supplies	1,044	939	(105)	951
Professional Services	25	262	237	413
Salaries	66,345	72,891	6,546	92,076
Travel and Transportation	1,900	1,938	38	4,360
Tuition to Other Minnesota School Districts	54,860	56,907	2,047	75,209
Total Exceptional Instruction	<u>133,996</u>	<u>143,854</u>	<u>9,858</u>	<u>196,036</u>
<u>Instructional Support Services</u>				
Fixed Charges and Employee Benefits	2,638	3,278	640	2,339
Instructional Supplies	200	84	(116)	32
Dues	1,470	1,793	323	827
Professional Services	11,000	20,821	9,821	17,320
Salaries	18,565	21,512	2,947	15,539
Supplies	695	844	149	375
Travel and Transportation	4,500	2,290	(2,210)	4,704
Total Instructional Support	<u>39,068</u>	<u>50,622</u>	<u>11,554</u>	<u>41,136</u>

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

	Year Ended June 30			
	2018		2017	
			Over/(Under)	
<u>Expenditures - continued</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Pupil Support</u>				
Fixed Charges and Employee Benefits	2,285	15,666	13,381	12,139
Fuel	12,320	15,760	3,440	15,028
Professional Services	3,300	2,597	(703)	3,234
Pupil Transportation	172,629	140,486	(32,143)	145,606
Salaries	8,576	7,631	(945)	8,365
Supplies	200	75	(125)	1,171
Repairs and Maintenance				42
Transportation Chargebacks	(45,000)	(61,372)	(16,372)	(49,679)
Travel and Transportation	48,664	46,216	(2,448)	32,754
Total Pupil Support	202,974	167,059	(35,915)	168,660
<u>Site, Building and Equipment</u>				
Equipment	13,523	8,077	(5,446)	17,345
Fixed Charges and Employee Benefits	1,886	1,836	(50)	2,226
Fuel	2,700	1,862	(838)	2,024
Other	55	55		55
Professional Services	52,116	40,299	(11,817)	28,041
Repair and Maintenance Service	19,850	8,614	(11,236)	8,907
Salaries	15,812	17,637	1,825	19,462
Supplies	19,032	15,972	(3,060)	12,172
Utilities	91,550	103,627	12,077	98,133
Total Site, Building and Equipment	216,524	197,979	(18,545)	188,365
<u>Fixed Cost Programs</u>				
Interest	7,000	6,180	(820)	7,031
Property Insurance	19,000	17,781	(1,219)	18,907
Total Fixed Cost Programs	26,000	23,961	(2,039)	25,938
Total Expenditures	1,593,702	1,553,663	(40,039)	1,603,920
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	104,691	167,118	62,427	9,289
<u>Other Financing Sources (Uses)</u>				
Permanent Transfer		(3,661)	(3,661)	(3,996)
Sale of Equipment	1,500	279	(1,221)	23,217
Total Other Financing Sources (Uses)	1,500	(3,382)	(4,882)	19,221
Excess Revenues (Expenditures) After				
Other Financing Sources (Uses)	106,191	163,736	57,545	28,510
Fund Balance-July 1		62,103		33,593
Fund Balance-June 30		225,839		62,103

ALL SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	Food	Community	Total	
	<u>Service</u>	<u>Service</u>	(Memo Only)	
<u>Assets</u>			<u>2018</u>	<u>2017</u>
Cash and Investments	2,384	128,617	131,001	152,030
Current Property Taxes Receivable		9,790	9,790	11,536
Delinquent Property Taxes Receivable		416	416	632
Accounts Receivable		9,539	9,539	1,656
Due from Department of Education		1,374	1,374	1,318
Inventory	2,196		2,196	2,620
Total Assets	<u>4,580</u>	<u>149,736</u>	<u>154,316</u>	<u>169,792</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
<u>Liabilities</u>				
Accounts Payable		1,764	1,764	1,345
Salaries Payable	4,580	14,668	19,248	16,025
Total Liabilities	4,580	16,432	21,012	17,370
<u>Deferred Inflows of Resources</u>				
Unearned Revenue - Delinquent Taxes		416	416	632
Property Taxes Levied for Subsequent Years		24,882	24,882	25,594
Total Deferred Inflows of Resources	-0-	25,298	25,298	26,226
<u>Fund Equity</u>				
Fund Balance-Restricted	7,656	108,006	115,662	130,192
Fund Balance-Nonspendable	2,196		2,196	2,620
Fund Balance-Unassigned	(9,852)		(9,852)	(6,616)
Total Fund Equity	-0-	108,006	108,006	126,196
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>4,580</u>	<u>149,736</u>	<u>154,316</u>	<u>169,792</u>

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

	Food	Community	Total	
	Service	Service	(Memo Only)	
<u>Revenues</u>			<u>2018</u>	<u>2017</u>
Local Property Tax Levy		31,433	31,433	24,339
Other Local and County Revenues		65,074	65,074	55,404
Revenue from State Sources	5,019		5,019	4,479
Revenue from Federal Sources	31,403	13,768	45,171	39,079
Other	30,979		30,979	35,689
Total Revenues	<u>67,401</u>	<u>110,275</u>	<u>177,676</u>	<u>158,990</u>
<u>Expenditures</u>				
Community Education and Services		128,465	128,465	99,287
Pupil Support Services	71,062		71,062	70,082
Total Expenditures	<u>71,062</u>	<u>128,465</u>	<u>199,527</u>	<u>169,369</u>
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	(3,661)	(18,190)	(21,851)	(10,379)
<u>Other Financing Sources</u>				
Permanent Transfer	3,661			3,996
Excess Revenues (Expenditures) After				
Other Financing Sources (Uses)	<u>-0-</u>	<u>(18,190)</u>	<u>(21,851)</u>	<u>(6,383)</u>
Excess Revenues (Expenditures)	-0-	(18,190)	(18,190)	(6,383)
Fund Balance-July 1	<u>-0-</u>	<u>126,196</u>	<u>126,196</u>	<u>132,579</u>
Fund Balance-June 30	<u><u>-0-</u></u>	<u><u>108,006</u></u>	<u><u>108,006</u></u>	<u><u>126,196</u></u>

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

	Year Ended June 30			2017
	2018		Over/(Under)	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Revenue From State Sources</u>				
Lunch Reimbursement	2,000	2,932	932	2,026
Other State Aid	2,500	2,087	(413)	2,453
Total Revenue from State Sources	4,500	5,019	519	4,479
<u>Revenue From Federal Sources</u>				
Breakfast Reimbursement	5,500	6,362	862	5,436
Commodities	4,800	2,951	(1,849)	4,708
Lunch Reimbursement	16,000	22,090	6,090	15,774
Total Revenue From Federal Sources	26,300	31,403	5,103	25,918
<u>Sales and Other Conversion of Assets</u>				
Sale of Lunches	32,500	30,979	(1,521)	35,689
Total Revenues	63,300	67,401	4,101	66,086
<u>Expenditures</u>				
<u>Pupil Support Services</u>				
Commodities	6,000	2,939	3,061	4,708
Fixed Charges and Employee Benefits	3,212	3,926	(714)	3,921
Food	25,650	24,094	1,556	22,224
Milk	7,500	9,746	(2,246)	7,808
Other	700	665	35	573
Repairs and Maintenance	1,250	378	872	1,685
Salaries	23,046	28,148	(5,102)	28,212
Supplies	1,200	1,166	34	951
Total Expenditures	68,558	71,062	(2,504)	70,082
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	(5,258)	(3,661)	1,597	(3,996)
<u>Other Financing Sources</u>				
Permanent Transfer		3,661	3,661	3,996
Excess Revenues (Expenditures) After				
Other Financing Sources (Uses)	(5,258)	-0-	5,258	-0-
Fund Balance-July 1		-0-		-0-
Fund Balance-June 30		-0-		-0-

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

	Year Ended June 30			2017
	2018		Over/(Under)	
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Revenues</u>				
<u>Local Property Tax Levy</u>				
Local Tax Levy	29,911	30,134	223	23,818
Misc. Local Taxes	1,300	1,299	(1)	521
Total Local Property Tax Levies	31,211	31,433	222	24,339
 <u>Other Local and County Revenues</u>				
Fees from Patrons	17,300	26,062	8,762	17,715
Grant	37,700	37,700		37,500
Interest Income	190	1,312	1,122	189
Total Other Local and County Revenues	55,190	65,074	9,884	55,404
 <u>Revenue From State Sources</u>				
Disparity Aid	182	182		156
Homestead/Agriculture Credit	885	885		875
Other State Aids	12,670	12,701	31	12,130
Total Revenue From State Sources	13,737	13,768	31	13,161
Total Revenues	100,138	110,275	10,137	92,904
 <u>Expenditures</u>				
<u>Community Education and Services</u>				
Equipment	1,449	1,449		
Fixed Charges and Employee Benefits	12,589	13,572	(983)	8,822
Instructional Supplies	3,600	1,960	1,640	3,123
Other	2,317	1,143	1,174	3,346
Rent	7,928	10,343	(2,415)	8,704
Salaries	79,876	82,656	(2,780)	60,790
Supplies	9,912	11,063	(1,151)	4,614
Travel	9,945	6,279	3,666	9,888
Total Expenditures	127,616	128,465	(849)	99,287
Excess Revenues (Expenditures)	(27,478)	(18,190)	9,288	(6,383)
Fund Balance-July 1		126,196		132,579
Fund Balance-June 30		108,006		126,196

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

	Year Ended June 30			2017
	2018			
	<u>Budget</u>	<u>Actual</u>	<u>Better/(Worse) Than Budget</u>	<u>Actual</u>
<u>Revenues</u>				
<u>Local Property Tax Levy</u>				
Local Tax Levy	770,257	731,688	(38,569)	779,576
Misc. Local Taxes	38,351	38,351		17,042
Total Local Property Tax Levy	808,608	770,039	(38,569)	796,618
 <u>Other Local and County Revenues</u>				
Interest Income	32,251	68,365	36,114	40,124
Total Other Local and County Revenues	32,251	68,365	36,114	40,124
 <u>Revenue From State Sources</u>				
Disparity Aid	5,381	5,381		5,092
Market Value Credit	26,144	26,144		28,638
Total Revenue From State Sources	31,525	31,525		33,730
Total Revenues	872,384	869,929	(2,455)	870,472
 <u>Expenditures</u>				
Bond Interest	414,252	519,675	(105,423)	467,968
Bond Principal	520,000	7,980,000	(7,460,000)	640,000
Other Bond Expenses	450	3,600	(3,150)	15,075
Total Expenditures	934,702	8,503,275	(7,568,573)	1,123,043
Excess Revenues (Expenditures)	(62,318)	(7,633,346)	(7,571,028)	(252,571)
Fund Balance-July 1		7,858,513		8,111,084
Fund Balance-June 30		225,167		7,858,513

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

	Audit	UFARS	Audit - UFARS
<u>01 GENERAL FUND</u>			
Total Revenues	1,720,781	1,720,781	-0-
Total Expenditures	1,553,663	1,553,664	(1)
Non Spendable:			
4.60 Non Spendable	-0-	-0-	-0-
Restricted:			
4.03 Staff Development	1	1	-0-
4.67 Deferred Maintenance	14,832	14,832	-0-
4.06 Health and Safety	(1,546)	(1,546)	-0-
4.24 Operating Capital	15,623	15,623	-0-
4.38 Gifted & Talented	2,063	2,063	-0-
4.59 Basic Skills Extended Time	34	34	-0-
4.49 Safe Schools	837	837	-0-
Committed:			
4.18 Designated - Severance	0	0	-0-
Unassigned:			
4.22 Unassigned	193,995	193,995	-0-
<u>02 FOOD SERVICE</u>			
Total Revenues	67,401	67,400	1
Total Expenditures	71,062	71,061	1
Non Spendable:			
4.60 Non Spendable	2,196	2,196	-0-
Restricted:			
4.64 Restricted Fund Balance	7,656	7,656	-0-
Unreserved:			
4.63 Unassigned	(9,852)	(9,852)	-0-
<u>04 COMMUNITY SERVICE</u>			
Total Revenues	110,275	110,275	-0-
Total Expenditures	128,465	128,465	-0-
Restricted:			
4.31 Community Education	52,524	52,524	-0-
4.32 Early Child & Family Education	18,968	18,968	-0-
4.44 School Readiness	33,364	33,364	-0-
4.64 Restricted Fund Balance	3,150	3,150	-0-
Unassigned:			
4.63 Unassigned	-0-	-0-	-0-
<u>07 DEBT SERVICE</u>			
Total Revenues	869,929	869,929	-0-
Total Expenditures	8,503,275	8,503,275	-0-
Restricted:			
4.64 Restricted	225,167	225,171	(4)
<u>07 TRUST</u>			
Total Revenues	43	43	-0-
Total Expenditures	200	200	-0-
Unassigned:			
4.22 Unassigned	3,938	3,938	-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
contactp@mtcocpa.com

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

PARTNERS

Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
Daryl J. Kanthak, CPA
Blake R. Klinsing, CPA
Amy L. Mollberg, CPA

WITH THE FIRM

David L. Meulebroeck, CPA

INDEPENDENT AUDITOR'S REPORT 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. 403
Ivanhoe Public Schools
Ivanhoe, 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. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Independent School District No. 403's basic financial statements and have issued our report thereon dated September 18, 2018.

Internal Control Financial Reporting

In planning and performing our audit, we considered the Independent School District No. 403'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. 403's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Independent School District No. 403's internal control over financial reporting.

Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, 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 may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Independent School District No. 403's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations that we consider to be material weaknesses (2018-I and 2018-II).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Independent School District No. 403's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for School Districts*, 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. 403 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Independent School District No. 403's noncompliance with the above referenced provisions.

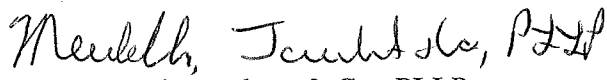
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

Independent School District No. 403's Response to Findings

The Independent School District No. 403's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The Independent School District No. 403'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

September 18, 2018

THIS
PAGE
LEFT
BLANK
INTENTIONALLY

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

Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
Daryl J. Kanthak, CPA
Blake R. Klinsing, CPA
Amy L. Mollberg, CPA

WITH THE FIRM

David L. Meulebroeck, CPA

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

To the Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, 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. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota for the year ended June 30, 2018.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements, that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

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

Basis for Qualified Opinion

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

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

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the cash transactions of the district's student activity account for the year ended June 30, 2018, and the cash balance at that date.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated September 18, 2018, on our consideration of the District's compliance with the provisions of the *Manual for Activity Fund Accounting* issued by the Minnesota Department of Education, pursuant to Minnesota Statutes §123B.49. The purpose of that report is to determine if the district has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.



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

September 18, 2018

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

<u>Organization</u>	<u>07-01-17</u> <u>Balance</u>	<u>2017-18</u> <u>Receipts</u>	<u>2017-18</u> <u>Disbursements</u>	<u>06-30-18</u> <u>Balance</u>
General	906	1,587	1,421	1,072
Music	6,906	7,907	7,417	7,396
Student Council	615		44	571
Student Enrichment	5,156	10,070	9,939	5,287
Yearbook	2,175	423	454	2,144
Youth BB	182			182
United Way	70	58	12	116
Total	<u>16,010</u>	<u>20,045</u>	<u>19,287</u>	<u>16,768</u>

THIS
PAGE
LEFT
BLANK
INTENTIONALLY

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

Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
Daryl J. Kanthak, CPA
Blake R. Klinsing, CPA
Amy L. Mollberg, CPA

WITH THE FIRM

David L. Meulebroeck, CPA

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

To the Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, 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. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota for the year ended June 30, 2018, and have issued our report thereon dated September 18, 2018.

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

In connection with our audit, nothing came to our attention that caused us to believe that the district failed to comply with the provisions of the *Manual for Student Activity Accounting*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the district's noncompliance with the above referenced provisions.

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



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

September 18, 2018

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

I. Financial Statement Audit-Internal Controls

Previously Reported Items Not Resolved

2018-I Lack of Segregation of Duties

Due to the limited number of office personnel within the accounting department, proper segregation of the accounting functions necessary to ensure adequate internal accounting control in the areas of bank reconciliation, receipts, disbursements, payroll, journal entries and budgets are not possible. Although this is not unusual in small office situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

The District has implemented internal control procedures which utilize the existing staff to provide for segregation of duties in accounting functions whenever possible.

We recommend that the District's management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Corrective Action Plan (CAP)

Evaluation of disagreement with audit findings:

There is no disagreement with the audit findings.

Actions planned in response to the finding:

Because it is economically infeasible to hire additional staff to adequately provide for the proper segregation of duties, the district implemented internal control procedures that will address the areas of segregation the district is lacking, including bank reconciliation's, receipts, disbursements, payroll, journal entries, and budget. The procedures will utilize staff and board members to the extent possible.

Official responsible for Ensuring CAP:

The District's Superintendent in conjunction with the Board of Education is the official responsible for ensuring corrective action.

Planned completion date for CAP:

December 31, 2018

Plan to monitor completion of CAP:

The Superintendent and Board of Education will monitor the internal control system.

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

I. Financial Statement Audit-Internal Controls-continued
Previously Reported Items Not Resolved-continued
2018-II GAAP Financial Statements

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

Corrective Action Plan (CAP):

Evaluation of disagreement with audit findings:

There is no disagreement with the audit findings.

Actions planned in response to the finding:

The District will continue to have the auditor prepare the financial statements; however, the district has established an internal control policy to document the annual review of the financial statements, disclosures and schedules.

Official Responsible for Ensuring CAP:

The District's Superintendent in conjunction with the Board of Education is the official responsible for ensuring corrective action.

Planned Completion Date for CAP:

December 31, 2018

Plan to Monitor Completion of CAP:

The Superintendent and Board of Education will monitor the internal control system to ensure it is functioning as the internal control policy states.