This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy these securities nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. This Preliminary Official Statement is in a form deemed final as of its date for purposes of SEC Rule 15c2-12(b) (1), but is subject to revision, amendment and completion in a Final Official Statement.

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 4, 2018

In the opinion of Bond Counsel, under present federal and State of Minnesota laws, regulations and rulings, the interest to be paid on the Bonds of this offering is not includible in gross income of the recipient for United States or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. Interest on the Bonds is includible in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. See "Tax Exemption" herein for a discussion of federal tax legislation.

The District will NOT designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Internal Revenue Code of 1986, as amended, which permits financial institutions to deduct interest expenses allocable to the Bonds to the extent permitted under prior law.

New Issue **Rating Application Made: Moody's Investors Service**

INDEPENDENT SCHOOL DISTRICT NO. 391 (CLEVELAND PUBLIC SCHOOL), MINNESOTA

(Le Sueur and Blue Earth Counties)

(Minnesota School District Credit Enhancement Program)

$19,280,000* GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2018A

PROPOSAL OPENING: October 15, 2018, 11:00 A.M., C.T. **CONSIDERATION**: October 15, 2018, 7:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The $19,280,000* General Obligation School Building Bonds, Series 2018A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475, and a special election held August 14, 2018, by Independent School District No. 391 (Cleveland Public School), Minnesota (the "District") for the purpose of financing the acquisition and betterment of school sites and facilities in the District. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota.

DATE OF BONDS: November 8, 2018

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2020	$385,000	2027	$875,000	2034	$1,150,000
2021	560,000	2028	910,000	2035	1,195,000
2022	580,000	2029	945,000	2036	1,240,000
2023	770,000	2030	980,000	2037	1,290,000
2024	800,000	2031	1,020,000	2038	1,345,000
2025	825,000	2032	1,060,000	2039	1,395,000
2026	850,000	2033	1,105,000		

MATURITY ADJUSTMENTS: * The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

TERM BONDS: See "Term Bond Option" herein.

INTEREST: August 1, 2019 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing February 1, 2028 and thereafter are subject to call for prior redemption on February 1, 2027 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: $19,145,040.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of $385,600 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

BOND COUNSEL: Knutson, Flynn & Deans, P.A.

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

BOOK-ENTRY-ONLY: See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Syndicate Manager or Syndicate Members. Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers & Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the District and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers & Associates, Inc., payable entirely by the District, is contingent upon the sale of the issue.

COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over $1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

Preliminary Official Statement: This Preliminary Official Statement was prepared for the District for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

Review Period: This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers & Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over $1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the Bonds are exempt or required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the District nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the District which indicates that the District does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

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CLEVELAND PUBLIC SCHOOL
SCHOOL BOARD

		Term Expires
Ron McCabe	Chairperson	January 2019
Jeff Robb	Vice Chairperson	January 2019
Jim Rogers	Clerk	January 2021
Chris Baker	Treasurer	January 2021
Patty Sullivan	Member	January 2019
Scott Miller	Member	January 2021

ADMINISTRATION

Brian Phillips, Superintendent

Mary Koppelman, Business Manager

PROFESSIONAL SERVICES

Knutson, Flynn & Deans, P.A., Bond Counsel, Mendota Heights, Minnesota

Ehlers & Associates, Inc., Municipal Advisors, Roseville, Minnesota
(*Other offices located in Waukesha, Wisconsin; Chicago, Illinois; and Denver, Colorado*)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Independent School District No. 391 (Cleveland Public School), Minnesota (the "District") and the issuance of its $19,280,000* General Obligation School Building Bonds, Series 2018A (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the sale of the Bonds ("Award Resolution") to be adopted by the Board of Education on October 15, 2018.

Inquiries may be directed to Ehlers & Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the District's Municipal Advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the link to the Bond Sales and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of $5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of November 8, 2018. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2020 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The District has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 2028 shall be subject to optional redemption prior to maturity on February 1, 2027 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the District. If only part of the Bonds having a common maturity date are called for redemption, then the District or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

AUTHORITY; PURPOSE

The Bonds are being issued by the District pursuant to Minnesota Statutes, Chapter 475, and a special election held August 14, 2018, at which voters approved a building program by a vote of 727 -521. Proceeds of the Bonds will be used to provide funds for the acquisition and betterment of school sites and facilities in the District.

ESTIMATED SOURCES AND USES*

Sources			
	Par Amount of Bonds	$19,280,000	
	Reoffering Premium	355,008	
	Total Sources		**$19,635,008**
Uses			
	Total Underwriter's Discount (0.700%)	$134,960	
	Costs of Issuance	82,350	
	Deposit to Project Construction Fund	19,417,650	
	Rounding Amount	48	
	Total Uses		**$19,635,008**

*Preliminary, subject to change.

SECURITY

The Bonds are general obligations of the District to which its full faith, credit and taxing powers are pledged. In accordance with Minnesota Statutes, the District will levy each year an amount not less than 105% of the debt service requirements on the Bonds, less estimated collections of other revenues pledged for payments on the Bonds. In the event funds on hand for payment of principal and interest are at any time insufficient, the District is required to levy additional taxes upon all taxable properties within its boundaries without limit as to rate or amount to make up any deficiency.

RATING

The District will be participating in the State of Minnesota Credit Enhancement Program ("MNCEP") for this issue and is requesting a rating from Moody's Investors Service ("Moody's"). Moody's has a policy which assigns a minimum rating of "Aa2" to issuers participating in the MNCEP. The "Aa2" rating is based on the State of Minnesota's current "Aa1" rating from Moody's. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS" for further details.

The District does not currently have an underlying rating, however, has requested an underlying rating on this issue from Moody's. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the District nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS

By resolution adopted for this issue on September 17, 2018 (the "Resolution"), the District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55, which provides for payment by the State of Minnesota in the event of a potential default of a school district obligation (herein referred to as the "State Payment Law" or the "Law"). The provisions of the State Payment Law shall be binding on the District as long as any obligations of the issue remain outstanding.

Under the State Payment Law, if the District believes it may be unable to make a principal or interest payment for this issue on the due date, it must notify the Commissioner of Education as soon as possible, but not less than 15 working days prior to the due date (which notice is to specify certain information) that it intends to exercise the provisions of the Law to guarantee payment of the principal and interest when due. The District also covenants in the Resolution to deposit with the Paying Agent for the issue three business days prior to the date on which a payment is due an amount sufficient to make that payment or to notify the Commissioner of Education that it will be unable to make all or a portion of the payment.

The Law also requires the Paying Agent for this issue to notify the Commissioner of Education if it becomes aware of a potential default in the payment of principal and interest on these obligations, or if, on the day two business days prior to the payment date, there are insufficient funds to make the payment or deposit with the Paying Agent.

The Law also requires, after receipt of a notice which requests a payment pursuant to the Law, after consultation with the Paying Agent and District, and after verifying the accuracy of the information provided, the Commissioner of Education shall notify the Commissioner of Management and Budget of the potential default. The State Payment Law provides that "upon receipt of this notice . . . the Commissioner of Management and Budget shall issue a warrant and authorize the Commissioner of Education to pay to the Paying Agent for the debt obligation the specified amount on or before the date due. The amounts needed for purposes of subdivision are annually appropriated to the Department of Education from the state general fu d."

The Law requires that all amounts paid by the State on behalf of any School District are required to be repaid by the District to the State with interest, either via a reduction in State aid payable to the District, or through the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education.

In its Official Statement dated August 7, 2018, for General Obligation State Bonds, Series 2018A, 2018B, and 2018C, the State of Minnesota disclosed the following information about the State Credit Enhancement Program for School Districts.

> "As the date of this Official Statement, the total amount of principal on certificates of indebtedness and capital notes issued for equipment, certificates of participation and bonds, plus the interest on these obligations, through the year 2046, is approximately $13.1 billion. Based upon these currently outstanding balances now enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of the date of this Official Statement is $901.2 million, with the maximum amount of principal and interest payable in any one month being $833.5 million. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.
>
> The State has not had to make any debt service payments on behalf of school districts or intermediate school districts under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the school districts and intermediate school districts."

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (hereinafter the "Rule"), the District shall covenant to take certain actions pursuant to a Resolution adopted by the Board of Education by entering into a Continuing Disclosure Undertaking (the "Disclosure Undertaking") for the benefit of holders, including beneficial holders. The Disclosure Undertaking requires the District to provide electronically or in the manner otherwise prescribed certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule. The details and terms of the Disclosure Undertaking for this issue are set forth in Appendix D to be executed and delivered by the District at the time of delivery of the Bonds. Such Disclosure Undertaking will be in substantially the form attached hereto.

In the previous five years, the District believes it has not failed to comply in all material respects with its prior undertakings under the Rule.

A failure by the District to comply with any Disclosure Undertaking will not constitute an event of default on this issue or any issue outstanding. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The District will file its continuing disclosure information using the Electronic Municipal Market Access ("EMMA") system or any system that may be prescribed in the future. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org. Ehlers is currently engaged as disclosure dissemination agent for the District.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota, Bond Counsel to the District, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the District; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

TAX EXEMPTION AND RELATED CONSIDERATIONS

In the opinion of Knutson, Flynn & Deans, P.A., as Bond Counsel, on the basis of laws in effect on the date of issuance of the Bonds, interest on the Bonds is not includible in gross income for federal income tax purposes or in taxable net income of individuals, estates and trusts for Minnesota income tax purposes. Interest on the Bonds is includible in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. Certain provisions of the Internal Revenue Code of 1986, as amended (the Code), however, impose continuing requirements that must be met after the issuance of the Bonds in order for interest thereon to be and remain not includible in federal gross income and in Minnesota taxable net income. Noncompliance with such requirements by the Issuer may cause the interest on the Bonds to be includible in federal gross income and in Minnesota taxable net income, retroactive to the date of issuance of the Bonds, irrespective in some cases of the date on which such noncompliance occurs or is ascertained. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Bonds becomes includible in federal gross income or Minnesota taxable net income.

Interest on the Bonds is not an item of tax preference includible in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includible in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of the federal alternative minimum tax for tax years beginning prior to January 1, 2018, and the environmental tax imposed by Section 59A of the Code. Interest on the Bonds may be includible in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includible in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to fifteen percent of the interest on the Bonds that is received or accrued during the taxable year. Section 86 of the Code requires recipients of certain Social Security and railroad retirement benefits to take into account interest on the Bonds in determining the taxability of such benefits. Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent of its gross receipts is passive investment income. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the Bonds. Prospective purchasers or Bondholders should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability or the inclusion of Social Security or other retirement payments in taxable income. Except as stated in its opinion, no opinion will be expressed by Bond Counsel regarding other state or federal tax consequences caused by the receipt or accrual of interest on or arising with respect to ownership of the Bonds.

NON-QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will NOT designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Internal Revenue Code of 1986, as amended, which permits financial institutions to deduct interest expenses allocable to the Bonds to the extent permitted under prior law.

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the District in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a Municipal Advisor.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

Bond Trust Services Corporation ("BTSC") and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, Colorado, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the District, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the District under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the District for the fiscal year ended June 30, 2017, have been audited by Abdo Eick & Meyers, LLP, Mankato, Minneosota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

Following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

Taxes: The Bonds are general obligations of the District, the ultimate payment of which rests in the District's ability to levy and collect sufficient taxes to pay debt service should other revenue (state aids) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the District in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the District, the taxable value of property within the District, and the ability of the District to levy and collect property taxes.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the District and to the Bonds. The District can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the District or the taxing authority of the District.

Ratings; Interest Rates: In the future, the District's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

Tax Exemption: If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

Continuing Disclosure: A failure by the District to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

State Economy; State Aids: State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the District to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

Economy: A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the District, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the District may have an adverse effect on the value of the Bonds in the secondary market.

Secondary Market for the Bonds: No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

Bankruptcy: The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

Cybersecurity: The District is dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may have value for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that the District will not experience an information technology breach or attack with financial consequences that could have a material adverse impact.

VALUATIONS

OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

Type of Property	2015/16	2016/17	2017/18
Residential homestead[1]	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%
Agricultural homestead[1]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $2,140,000 - 0.50% [2] Over $2,140,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $2,050,000 - 0.50% [2] Over $2,050,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $1,940,000 - 0.50% [2] Over $1,940,000 - 1.00% [2]
Agricultural non-homestead	Land - 1.00% [2]	Land - 1.00% [2]	Land - 1.00% [2]
Seasonal recreational residential	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]
Residential non-homestead:	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $106,000 - .75% Over $106,000 - .25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $115,000 - .75% Over $115,000 - .25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $121,000 - .75% Over $121,000 - .25%
Industrial/Commercial/Utility[5]	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%

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[1] A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

[2] Applies to land and buildings. Exempt from referendum market value tax.

[3] Exempt from referendum market value tax.

[4] Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

[5] The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

2017/18 Economic Market Value	$610,993,507[1]

2017/18 Assessor's Estimated Market Value

	Le Sueur County	Blue Earth County	Total
Real Estate	$543,013,700	$ 27,900,500	$570,914,200
Personal Property	3,552,100	201,300	3,753,400
Total Valuation	$546,565,800	$ 28,101,800	$574,667,600

2017/18 Net Tax Capacity

	Le Sueur County	Blue Earth County	Total
Real Estate	$ 4,741,463	$ 246,297	$ 4,987,760
Personal Property	71,042	4,026	75,068
Net Tax Capacity	$ 4,812,505	$ 250,323	$ 5,062,828

[1] According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for Independent School District No. 391 (Cleveland Public School) is about 95.30% of the actual selling prices of property most recently sold in the District. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the District of $610,993,507.

2017/18 NET TAX CAPACITY BY CLASSIFICATION

	2017/18 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	$ 1,999,690	39.50%
Agricultural	1,833,966	36.22%
Commercial/industrial	51,738	1.02%
Public utility	11,845	0.23%
Non-homestead residential	194,262	3.84%
Commercial & residential seasonal/rec.	896,259	17.70%
Personal property	75,068	1.48%
Total	$ 5,062,828	100.00%

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity[1]	Taxable Net Tax Capacity[2]	Percent +/- in Estimated Market Value
2013/14	$ 555,580,000	$ 536,836,900	$ 4,910,409	$ 4,910,409	+ 7.96%
2014/15	564,601,300	545,346,300	4,947,040	4,947,040	+ 1.62%
2015/16	564,271,700	545,681,900	4,914,973	4,914,973	- 0.06%
2016/17	566,426,800	547,263,700	4,959,452	4,959,452	- 0.32%
2017/18	574,667,600	555,977,500	5,062,828	5,062,828	+ 1.45%

1 Net Tax Capacity includes tax increment values, if any.

2 Taxable Net Tax Capacity does not include tax increment values, if any.

LARGER TAXPAYERS

Taxpayer	Type of Property	2017/18 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Individual	Agricultural	$ 45,439	0.90%
O'Loughlin Farms Le Sueuer, LLP	Agricultural	42,623	0.84%
Connor Family Properties, LLC	Agricultural	36,563	0.72%
Individual	Agricultural	33,832	0.67%
Individual	Agricultural	30,274	0.60%
Individual	Agricultural	29,583	0.58%
Xcel Energy	Utility	29,484	0.58%
Individual	Agricultural	29,337	0.58%
Individual	Agricultural	26,927	0.53%
Individual	Agricultural	25,062	0.50%
Total		$329,124	6.50%

District's Total 2017/18 Net Tax Capacity $5,062,828

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpayers have been furnished by Le Sueur and Blue Earth Counties.

DEBT

DIRECT DEBT[1]

General Obligation Debt (see schedule following)

Total g.o. debt being paid from taxes and state aids[2] (includes the Bonds)*	$ 19,750,000

*Preliminary, subject to change.

STATE AID FOR DEBT SERVICE

The Minnesota Debt Service Equalization program provides state aid to finance a portion of the principal and interest payments on most school district bonds. Bonds not eligible for the program include all alternative facilities bonds, facilities maintenance bonds, capital facilities bonds and OPEB bonds, as well as building bonds with relatively short maturities.

Under the Debt Service Equalization Formula (the Formula) adopted by the 2001 Minnesota State Legislature, each school district is responsible for the amount of its qualifying annual debt service which is equal to 15.74% of its Adjusted Net Tax Capacity (ANTC). The District does not currently qualify for debt service equalization aid.

In addition to debt service equalization aid, some school districts will qualify for state Long Term Facilities Maintenance Aid to finance a portion of the payments on Alternative Facilities Bonds and Facilities Maintenance Bonds, pursuant to the Long Term Facilities Maintenance Revenue (LTFMR) program approved by the State in 2015. If any aid is received, it is deposited into the District's debt service fund and must be used for payments on the bonds; any payment of state aid into the debt service fund causes a reduction in the tax levy for Alternative Facilities Bonds and Facilities Maintenance Bonds. The amount of aid received in the debt service fund will vary each year, depending on a number of factors. Although the District expects to receive some Long Term Facilities Maintenance Aid in its debt service fund, Ehlers has not attempted to estimate the portion of debt service payments that would be financed by state aid.

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1 Outstanding debt is as of the dated date of the Bonds.

2 Based upon the long term facilities maintenance revenue formula and current statistics, the District anticipates a portion of this debt will be paid by the State of Minnesota.

INDEPENDENT SCHOOL DISTRICT NO. 391 (CLEVELAND PUBLIC SCHOOL), MINNESOTA

Schedule of Bonded Indebtedness
General Obligation Debt Payable From Taxes
(As of 11/8/18)

	Facilities Maintenance Series 2017A		School Building Series 2018A							
Dated Amount	11/8/17 $470,000		11/8/18 $19,280,000*							
Maturity	2/1		2/1							
Fiscal Year Ending	**Principal**	**Interest**	**Principal**	**Estimated Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Fiscal Year Ending**
2019	110,000	4,700	0	0	110,000	4,700	114,700	19,640,000	0.56%	**2019**
2020	115,000	7,200	385,000	890,307	500,000	897,507	1,397,507	19,140,000	3.09%	**2020**
2021	120,000	4,900	560,000	711,950	680,000	716,850	1,396,850	18,460,000	6.53%	**2021**
2022	125,000	2,500	580,000	695,150	705,000	697,650	1,402,650	17,755,000	10.10%	**2022**
2023			770,000	677,750	770,000	677,750	1,447,750	16,985,000	14.00%	**2023**
2024			800,000	654,650	800,000	654,650	1,454,650	16,185,000	18.05%	**2024**
2025			825,000	630,650	825,000	630,650	1,455,650	15,360,000	22.23%	**2025**
2026			850,000	605,900	850,000	605,900	1,455,900	14,510,000	26.53%	**2026**
2027			875,000	580,400	875,000	580,400	1,455,400	13,635,000	30.96%	**2027**
2028			910,000	545,400	910,000	545,400	1,455,400	12,725,000	35.57%	**2028**
2029			945,000	509,000	945,000	509,000	1,454,000	11,780,000	40.35%	**2029**
2030			980,000	471,200	980,000	471,200	1,451,200	10,800,000	45.32%	**2030**
2031			1,020,000	432,000	1,020,000	432,000	1,452,000	9,780,000	50.48%	**2031**
2032			1,060,000	391,200	1,060,000	391,200	1,451,200	8,720,000	55.85%	**2032**
2033			1,105,000	348,800	1,105,000	348,800	1,453,800	7,615,000	61.44%	**2033**
2034			1,150,000	304,600	1,150,000	304,600	1,454,600	6,465,000	67.27%	**2034**
2035			1,195,000	258,600	1,195,000	258,600	1,453,600	5,270,000	73.32%	**2035**
2036			1,240,000	210,800	1,240,000	210,800	1,450,800	4,030,000	79.59%	**2036**
2037			1,290,000	161,200	1,290,000	161,200	1,451,200	2,740,000	86.13%	**2037**
2038			1,345,000	109,600	1,345,000	109,600	1,454,600	1,395,000	92.94%	**2038**
2039			1,395,000	55,800	1,395,000	55,800	1,450,800	0	100.00%	**2039**
	470,000	19,300	19,280,000	9,244,957	19,750,000	9,264,257	29,014,257			

* Preliminary, subject to change.

BONDED DEBT LIMIT

Minnesota Statutes, Section 475.53, subdivision 4, presently limits the "net debt" of a school district to 15% of its actual market value. The actual market value of property within a district, on which its debt limit is based, is (a) the value certified by the county auditors, or (b) this value divided by the ratio certified by the commissioner of revenue, whichever results in a higher value. The current debt limit of the District is computed as follows:

2017/18 Economic Market Value	$ 610,993,507
Multiply by 15%	0.15
Statutory Debt Limit	$ 91,649,026
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	(19,750,000)
Unused Debt Limit*	$ 71,899,026

*Preliminary, subject to change.

OVERLAPPING DEBT[1]

Taxing District	2017/18 Taxable Net Tax Capacity	% In District	Total G.O. Debt[2]	District's Proportionate Share
Le Sueur County	$ 36,389,532	13.2250%	$ 34,750,000	$4,595,688
Blue Earth County	86,900,489	0.2881%	28,612,000	82,431
City of Cleveland	366,544	100.0000%	610,000	610,000
City of Madison Lake	1,176,910	21.2695%	3,005,000	639,148
District's Share of Total Overlapping Debt				$5,927,267

DEBT PAYMENT HISTORY

The District has no record of default in the payment of principal and interest on its debt.

1 Overlapping debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. It does ***not*** include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

2 Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value ($610,993,507)	Debt/ Current Population Estimate (2,478)
Direct G.O. Debt Being Paid From Taxes (includes the Bonds)*	$19,750,000	3.23%	$7,970.14
District's Share of Total Overlapping Debt	$ 5,927,267	0.97%	$2,391.96
Total*	$25,677,267	4.20%	$10,362.09

*Preliminary, subject to change.

FUTURE FINANCING

The District has no current plans for additional financing in the next 12 months.

LEVY LIMITS

Minnesota school district tax levies for most purposes are subject to statutory limitations. No limit, however, is placed on the debt service levy, and districts are required to levy 105% of actual principal and interest requirements to allow for delinquencies.

School districts receive a basic revenue amount per pupil unit from aid and levy proceeds in a variety of categorical state aids. They are also allowed to certify additional levies within limits for certain specified purposes. The State Department of Education and the applicable County Auditors review the levies of each school district to determine compliance with state levy limits.

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy[1]	Total Collected Following Year	Collected to Date[2]	% Collected
2013/14	$ 606,076	$ 597,332	$ 606,072	100.00%
2014/15	786,034	778,476	786,021	100.00%
2015/16	1,017,479	1,006,577	1,016,270	99.88%
2016/17	1,106,257	1,086,463	1,102,101	99.62%
2017/18	1,196,286	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.[3] Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

1 This reflects the Final Levy Certification of the District after all adjustments have been made.

2 Collections are through May 15, 2018 for Le Sueur County and through May 31, 2018 for Blue Earth County.

3 Second half tax payments on agricultural property are due on November 15th of each year.

TAX CAPACITY RATES[1]

	2013/14	2014/15	2015/16	2016/17	2017/18
I.S.D. No. 391 (Cleveland Public School)	4.676%	7.809%	6.986%	6.720%	8.449%
Le Sueur County	45.433%	46.877%	48.952%	50.608%	53.257%
Blue Earth County	38.834%	37.249%	38.148%	39.105%	39.990%
City of Cleveland	71.820%	75.161%	75.983%	78.809%	80.316%
City of Madison Lake	49.641%	52.339%	52.139%	55.017%	53.759%
Town of Cleveland[2]	7.589%	7.603%	7.687%	7.589%	7.360%
Lake Wash San Sewer	2.584%	3.233%	3.456%	5.383%	4.933%
Region 9	0.169%	0.156%	0.162%	0.167%	0.167%
Referendum Market Value Rates:					
I.S.D. No. 391 (Cleveland Public School)	0.15639%	0.16604%	0.27417%	0.31251%	0.30553%

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Le Sueur and Blue Earth Counties.

1 After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

2 Representative town rate

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 79, including 35 non-licensed employees and 44 licensed employees (40 of whom are teachers). The District provides education for 525 students in grades kindergarten through twelve.

PENSIONS; UNIONS

Teachers' Retirement Association (TRA)

All teachers employed by the District are covered by defined benefit pension plans administered by the State of Minnesota Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

Public Employees' Retirement Association (PERA)

All full-time and certain part-time employees of the District (other than those covered by TRA) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

Recognized and Certified Bargaining Units

Bargaining Unit	Expiration Date of Current Contract
Cleveland Education Association	June 30, 2019

POST EMPLOYMENT BENEFITS

The District has obligations for some post-employment benefits for its employees. Accounting for these obligations is dictated by Governmental Accounting Standards Board Statement No. 45 (GASB 45). The District's most recent actuarial study of its OPEB obligations shows a total OPEB liability of $209,491 as of July 1, 2015. The District has been funding these obligations on a pay-as-you-go basis.

STUDENT BODY

The number of students enrolled for the past four years and for the current year have been as follows:

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2014/15	25	212	193	430
2015/16	32	211	215	458
2016/17	29	220	242	491
2017/18	32	218	252	502
2018/19	35	218	272	525

Enrollments for the next three years are projected to be as follows:

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2019/20	35	212	280	527
2020/21	35	217	279	531
2021/22	35	221	282	538

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
Cleveland Schools Building	1914	1949, 1962, 1975, 1990

FUNDS ON HAND (as of June 30, 2017)

Fund	Total Cash and Investments
General	$742,959
Food Service	8,686
Community Service	53,929
Total Funds on Hand	$805,574

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the District or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State’s executive branch.

Currently there is no statutory authority for Minnesota school districts to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code.

Nevertheless, there can be no assurance (a) that State law will not change in the future while the Bonds are outstanding; or (b) even absent such a change in State law, that an executive order or other executive action could not effectively authorize the District to file for relief under Chapter 9; or (c) whether it would still be eligible for voluntary or involuntary relief under Chapters of the Bankruptcy Code other than Chapter 9 or under similar federal or state law or equitable proceeding regarding insolvency or providing for protection from creditors. Such action could impact the rights of holders of the Bonds. Such modifications could be adverse to holders of the Bonds and there could ultimately be no assurance that holders of the Bonds would be paid in full or in part on the Bonds.

SUMMARY GENERAL FUND INFORMATION

Following are summaries of the revenues and expenditures and fund balances for the District's General Fund. These summaries are not purported to be the complete audited financial statements of the District, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the District. Copies of the complete statements are available upon request. Appendix A includes the District's 2017 audited financial statements.

COMBINED STATEMENT	FISCAL YEAR ENDING JUNE 30				
	2015 Audited	**2016 Audited**	**2017 Audited**	**2017-18 Unaudited[1]**	**2018-19 Adopted Budget[2]**
Revenues					
Local property taxes	$ 592,075	$ 744,287	$ 1,004,734	$ 1,071,451	$ 1,079,044
Other local and county revenues	99,042	152,863	120,575	239,791	143,503
Interest earned on investments	1,010	840	1,780	7,447	3,000
Revenues from state sources	3,610,015	3,665,045	4,057,583	4,487,435	4,407,170
Revenues from federal sources	120,660	115,123	112,525	128,805	136,000
Sales and other conversion of assets	1,971	835	14,132	5,950	0
Total Revenues	$ 4,424,773	$ 4,678,993	$ 5,311,329	$ 5,940,879	$ 5,768,717
Expenditures					
Current					
Administration	$ 371,586	$ 374,552	$ 463,066	$ 469,191	$ 499,871
District support services	166,602	269,369	211,094	228,515	262,365
Elementary & secondary regular instruction	2,387,155	2,443,483	2,331,841	2,521,791	2,740,565
Vocational education instruction	15,086	27,058	18,007	66,874	0
Special education instruction	331,746	326,886	364,432	411,384	457,161
Instructional support services	113,136	158,137	166,913	172,854	0
Pupil support services	481,262	413,095	507,597	679,561	188,493
Sites and buildings	466,734	417,415	412,389	830,552	649,214
Fiscal and other fixed cost programs	33,295	34,348	37,587	44,082	695,597
Capital Outlay	257,701	176,004	302,992	0	47,250
Debt Service	238,438	74,584	60,527	0	0
Total Expenditures	$ 4,862,741	$ 4,714,931	$ 4,876,445	$ 5,424,804	$ 5,540,516
Excess of revenues over (under) expenditures	$ (437,968)	$ (35,938)	$ 434,884	$ 516,075	$ 228,201
Other Financing Sources (Uses)					
Sale of capital assets	$ 1,010	$ 0	$ 0	$ 0	
Debt issued	$ 175,000	$ 0	$ 61,350	$ 0	
Total Other Financing Sources (Uses)	$ 176,010	$ 0	$ 61,350	$ 0	
Net Change in Fund Balances	$ (261,958)	$ (35,938)	$ 496,234	$ 516,075	
General Fund Balance July 1	544,591	282,633	246,695	742,929	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance June 30	$ 282,633	$ 246,695	$ 742,929	$ 1,259,004	
DETAILS OF JUNE 30 FUND BALANCE					
Restricted	73,807	94,535	189,056		
Assigned	5,614	4,886	8,598		
Unassigned	203,212	147,274	545,275		
Total	$ 282,633	$ 246,695	$ 742,929		

1 Unaudited data is as of September 24, 2018.

2 The 2018-19 budget was adopted on May 21, 2018.

GENERAL INFORMATION

LOCATION

The District, with a 2010 U.S. Census population of 2,433 and a current population estimate of 2,478, and comprising an area of 65.61 square miles, is located approximately 65 miles southwest of the Minneapolis-St. Paul metropolitan area.

LARGER EMPLOYERS[1]

Larger employers in the District include the following:

Firm	Type of Business/Product	Estimated No. of Employees
I.S.D. No. 391 (Cleveland Public School)	Elementary and secondary education	79
Kokomo's Bar & Char Grill	Full service restaurant	35
Wise-Stop Resort	Campgrounds	15
Cleveland BP	Service station	12
Lakeshores & More Realty	Real Estate	9
Home Town Bank	Banks	6
Community Insurance	Insurance agencies & brokerages	6
Our Saviors Lutheran Church	Churches	5
American Legion	Veteran's & military organization	5
Rohlfing's-Cleveland Country	Fence manufacturers	3
Four Seasons Overhead Door LLC	Doors-garage	3

Source: *ReferenceUSA, written and telephone survey (September 2018), and the Minnesota Department of Employment and Economic Development.*

[1] This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above. Some employers do not respond to inquiries for employment data.

U.S. CENSUS DATA

Population Trend: Independent School District No. 391 (Cleveland Public School), Minnesota

2000 U.S. Census population	2,360
2010 U.S. Census population	2,433
2016 Population Estimate	2,478
Percent of Change 2000 - 2010	+ 3.09%

Income and Age Statistics

	Cleveland Public School District	Le Sueur County	State of Minnesota	United States
2016 per capita income	$36,237	$29,714	$33,225	$29,829
2016 median household income	$70,536	$62,462	$63,217	$55,322
2016 median family income	$82,721	$75,887	$79,595	$67,871
2016 median gross rent	$727	$696	$873	$928
2016 median value owner occupied units	$222,700	$182,000	$191,500	$184,700
2016 median age	44.4 yrs.	41.5 yrs.	37.8 yrs.	37.7 yrs.

	State of Minnesota	United States
District % of 2016 per capita income	109.07%	121.48%
District % of 2016 median family income	103.93%	121.88%

Source: *2000 and 2010 Census of Population and Housing, and 2016 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (www.factfinder2.census.gov).*

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

	Average Employment	Average Unemployment	
Year	Le Sueur County	Le Sueur County	State of Minnesota
2014	14,590	5.4%	4.2%
2015	14,672	4.9%	3.7%
2016	14,803	4.9%	3.8%
2017	15,096	4.8%	3.5%
2018, July	15,645	2.9%	2.7%

Source: *Minnesota Department of Employment and Economic Development.*

APPENDIX A

FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the District's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The District has not requested the Auditor to perform any additional examination, assessments or evaluation with respect to such financial statements since the date thereof, nor has the District requested that the Auditor consent to the use of such financial statements in this Preliminary Official Statement. Although the inclusion of the financial statements in this Official Statement is not intended to demonstrate the fiscal condition of the District since the date of the financial statements, in connection with the issuance of the Bonds, the District represents that there have been no material adverse change in the financial position or results of operations of the District, nor has the District incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

INDEPENDENT SCHOOL DISTRICT NO. 391
CLEVELAND, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2017

ABDO
EICK &
MEYERS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Members of the School Board
Independent School District No. 391
Cleveland, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 391, Cleveland, Minnesota, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprises 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 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 financial statement presentation.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

100 Warren Street, Suite 600
P.O. Box 3166
Mankato, MN 56002-3166
507 625 2727 | Fax 507 388 9139

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17, the Schedules of Employer's Shares of the Net Pension Liability, the Schedules of Employer's Contributions and the Schedule of Funding Progress starting on page 68 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 District's basic financial statements. The introductory section and combining and individual fund financial statements and schedules and table are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules and table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules and table 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 November 8, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 District's internal control over financial reporting and compliance.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
November 8, 2017

People
+ Process.
Going
Beyond the
Numbers

The District-wide financial statements can be found starting on page 28 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact by the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, which is considered to be a major fund. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General fund. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page 32 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of students within the District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are not available to support the District's own programs. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those student activities that the assets belong. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found starting on page 37 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found starting on page 39 of this report.

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's share of net pension liabilities (assets) for defined benefits plans, schedules of contributions, and progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required supplementary information can be found starting on page 68 of this report.

Other information. Combining and individual fund financial statements and schedules and table can be found starting on page 72 of this report.

District-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $927,012 at the close of the most recent fiscal year.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Another portion of the District's net position reflects amounts restricted for food service and educational purposes. These funds are to be used for the District's funded programs and activities.

Independent School District No. 391's Net Position

	Governmental Activities		Increase (Decrease)	
	2017	2016	Amounts	Percent
Current and other assets	$ 2,294,487	$ 1,733,340	$ 561,147	32.4 %
Capital assets (net of depreciation)	2,565,003	2,566,356	(1,353)	(0.1)
Total assets	4,859,490	4,299,696	559,794	13.0
Deferred outflows of resources	6,099,284	561,595	5,537,689	986.1
Long-term liabilities outstanding	10,244,406	3,297,931	6,946,475	210.6
Other liabilities	413,286	493,627	(80,341)	(16.3)
Total liabilities	10,657,692	3,791,558	6,866,134	181.1
Deferred inflows of resources	1,228,094	1,324,397	(96,303)	(7.3)
Net position				
Net investment in capital assets	2,441,828	2,445,057	(3,229)	(0.1)
Restricted	278,975	165,986	112,989	68.1
Unrestricted	(3,647,815)	(2,865,707)	(782,108)	27.3
Total net position	$ (927,012)	$ (254,664)	$ (672,348)	264.0

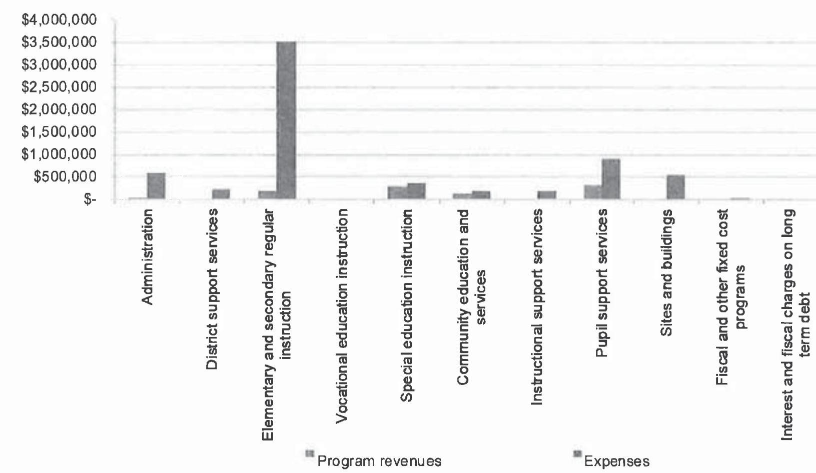
The balance of unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the District is able to report a positive balance of net position in two categories of net position. The negative balance in unrestricted net position is due to the recognition of the pension liability related to GASB Statement No. 68.

Governmental activities. Governmental activities decreased the District's net position by $672,348. Key elements of this decrease are as follows:

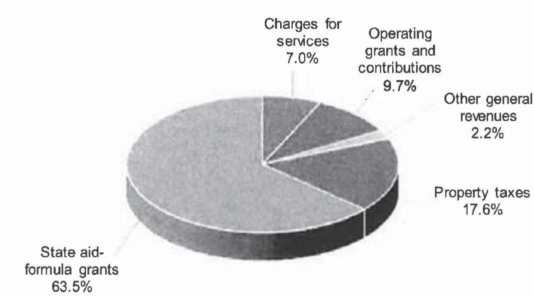
Independent School District No. 391's Changes in Net Position

	Governmental Activities		Increase (Decrease)	
	2017	2016	Amounts	Percent
Revenues				
Program revenues				
Charges for services	$ 412,599	$ 399,248	$ 13,351	3.3 %
Operating grants and contributions	574,356	477,506	96,850	20.3
General revenues				
Property taxes	1,041,488	783,204	258,284	33.0
State aid-formula grants	3,760,564	3,467,879	292,685	8.4
Other general revenues	127,965	-	127,965	0.0
Unrestricted investment earnings	1,928	942	986	104.7
Total revenues	5,918,900	5,128,779	790,121	15.4
Expenses				
Administration	591,201	350,466	240,735	68.7
District support services	222,945	268,810	(45,865)	(17.1)
Elementary and secondary regular instruction	3,503,116	2,521,856	981,260	38.9
Vocational education instruction	27,247	26,348	899	3.4
Special education instruction	377,611	357,559	20,052	5.6
Community education and services	186,287	170,908	15,379	9.0
Instructional support services	184,229	156,351	27,878	17.8
Pupil support services	900,459	768,604	131,855	17.2
Sites and buildings	559,513	530,669	28,844	5.4
Fiscal and other fixed cost programs	37,587	34,348	3,239	9.4
Interest and fiscal charges on long-term debt	1,053	5,244	(4,191)	(79.9)
Total expenses	6,591,248	5,191,163	1,400,085	27.0
Change in net position	(672,348)	(62,384)	(609,964)	977.8
Net position, July 1	(254,664)	(192,280)	(62,384)	32.4
Net position, June 30	$ (927,012)	$ (254,664)	$ (672,348)	264.0

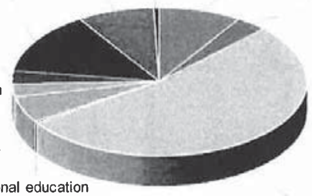
Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Expenditures by Program - Governmental Activities



Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $805,544, an increase of $554,953 in comparison with the prior year. The District's fund balance decreased by less than what was budgeted for the current year. This change is mainly due to a slight increase of expenditures and higher than budgeted property tax revenues. Of the total fund balance, $518,285 constitutes unassigned fund balance that is available for spending at the District's discretion.

The General fund is the chief operating fund of the District. At the end of the current year, unassigned fund balance of the General fund was $545,275, while total fund balance increased $496,234 to $742,929. This decrease is mainly due to less than budgeted funding from State sources. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 11.2 percent of total General fund expenditures, while total fund balance represents 15.2 percent of that same amount.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operation budget three times. Additional spending was approved on October 17, 2016, March 20, 2017 and June 26, 2017.

- We did revise the budget in numerous areas. The preliminary budget was approved on June 23, 2016 before our grant applications are approved and when the student numbers are very soft.

The District budgeted to increase reserves by $262,723. The revenues and other financing sources were over budget by $185,195 and expenditures were under budget by $48,316. In total, fund balance increased $496,234.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2017, amounts to $2,565,003 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and pupil transportation vehicles. The total decrease in the District's investment in capital assets for the current fiscal year was 0.1 percent. Major additions consisted of the leasing of a new bus and completing the restroom project. The total depreciation expense for the year was $225,147. The following is a schedule of capital assets as of June 30, 2017.

Independent School District No. 391's Capital Assets
(net of depreciation)

	Governmental Activities	
	2017	2016
Land	$ 264,843	$ 264,843
Construction in progress	-	46,000
Land improvements	389,232	279,322
Buildings	1,313,126	1,372,200
Equipment	372,597	378,233
Pupil transportation vehicles	225,205	225,758
Total	$ 2,565,003	$ 2,566,356

Additional information on the District's capital assets can be found in Note 3C on page 50 of this report.

Long-term debt. At the end of the current fiscal year, the District had long-term debt outstanding of $123,175.

The capital lease/building improvement loans relate to the leasing of one copier and the purchase of land.

Independent School District No. 391's Outstanding Debt

	Governmental Activities		
	2017	2016	Increase (Decrease)
Capital leases/building improvement loans payable	$ 123,175	$ 121,299	$ 1,876

The District's total debt increased by $1,876 (1.5 percent) during the current fiscal year. This increase is the result of a new capital lease for a passenger bus for $61,350 and payments totaling $58,483.

Additional information on the District's long-term debt can be found in Notes 3D and 3E starting on page 51 of this report.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstance that could significantly affect its financial health in the future.

- Currently, grades K-12 all have between 31 and 49 enrolled. The enrollment continues to increase.
- There was a $119 increase to the State aid per student for the 2016-2017 and a $121 increase for the 2017-2018 school year.
- The District is talking about a growth plan that culminates in a bond issue in November 2018.
- The District issued a General Obligation Bond on November 8, 2017 in the amount of $470,000 for indoor air quality projects.

Requests for Information

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be in written form and addressed to the Superintendent, Independent School District No. 391, 400 6th Street, P.O. Box 310, Cleveland, MN 56017-0310.

Independent School District No. 391
Cleveland, Minnesota
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and temporary investments	$ 1,275,729
Receivables	
Taxes	558,196
Accounts and interest	1,386
Due from other school districts	63,244
Intergovernmental	394,234
Inventories	1,698
Capital assets not being depreciated	264,843
Capital assets being depreciated (net of accumulated depreciation)	2,300,160
Total Assets	4,859,490
Deferred Outflows of Resources	
Deferred pension resources	6,099,284
Liabilities	
Salaries and wages payable	203,347
Accounts and other payables	9,993
Due to other school districts	9,095
Due to other governments	1,257
Accrued expenses	179,973
Unearned revenue	9,621
Noncurrent liabilities	
Due within one year	72,161
Due in more than one year	10,172,245
Total Liabilities	10,657,692
Deferred Inflows of Resources	
Property taxes levied for subsequent year	1,070,306
Deferred pension resources	157,788
Total Deferred Inflows of Resources	1,228,094
Net Position	
Net investment in capital assets	2,441,828
Restricted for	
Educational purposes	270,289
Food service	8,686
Unrestricted	(3,647,815)
Total Net Position	$ (927,012)

The notes to the financial statements are an integral part of this statement.

Independent School District No. 391
Cleveland, Minnesota
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 591,201	$ 49,225	$ -	$ -	$ (541,976)
District support services	222,945	-	-	-	(222,945)
Elementary and secondary regular instruction	3,503,116	74,525	120,148	-	(3,308,443)
Vocational education instruction	27,247	-	-	-	(27,247)
Special education instruction	377,611	-	292,379	-	(85,232)
Community education and services	186,287	117,543	15,795	-	(52,949)
Instructional support services	184,229	-	2,067	-	(182,162)
Pupil support services	900,459	171,306	143,967	-	(585,186)
Sites and buildings	559,513	-	-	-	(559,513)
Fiscal and other fixed cost programs	37,587	-	-	-	(37,587)
Interest and fiscal charges on long term debt	1,053	-	-	-	(1,053)
Total governmental activities	$ 6,591,248	$ 412,599	$ 574,356	$ -	(5,604,293)
General revenues					
Taxes					
Property taxes, levied for general purposes					1,003,728
Property taxes, levied for community service					37,760
State aid-formula grants					3,760,564
Other general revenues					127,965
Unrestricted investment earnings					1,928
Total general revenues					4,931,945
Change in net position					(672,348)
Net position, July 1					(254,664)
Net position, June 30					$ (927,012)

The notes to the financial statements are an integral part of this statement.

Independent School District No. 391
Cleveland, Minnesota
Balance Sheet
Governmental Funds
June 30, 2017

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and temporary investments	$ 1,180,388	$ 95,341	$ 1,275,729
Receivables			
Taxes	538,937	19,259	558,196
Accounts and interest	1,386	-	1,386
Due from other school districts	63,244	-	63,244
Intergovernmental	383,803	10,431	394,234
Inventories	-	1,698	1,698
Total Assets	$ 2,167,758	$ 126,729	$ 2,294,487
Liabilities			
Salaries and wages payable	$ 190,838	$ 12,509	$ 203,347
Accounts and other payables	6,422	3,571	9,993
Due to other school districts	9,095	-	9,095
Due to other governments	1,183	74	1,257
Accrued expenses	179,973	-	179,973
Unearned revenue	-	9,621	9,621
Total Liabilities	387,511	25,775	413,286
Deferred Inflows of Resources			
Property taxes levied for subsequent year	1,032,281	38,025	1,070,306
Unavailable revenue - delinquent property taxes	5,037	314	5,351
Total Deferred Inflows of Resources	1,037,318	38,339	1,075,657
Fund Balances			
Nonspendable	-	1,698	1,698
Restricted	189,056	87,907	276,963
Assigned	8,598	-	8,598
Unassigned	545,275	(26,990)	518,285
Total Fund Balances	742,929	62,615	805,544
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 2,167,758	$ 126,729	$ 2,294,487

The notes to the financial statements are an integral part of this statement.

Independent School District No. 391
Cleveland, Minnesota
Reconciliation of the Balance Sheet
To the Statement of Net Position
Governmental Funds
June 30, 2017

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

Total fund balances - governmental funds	$ 805,544
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	2,565,003
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of	
Other post employment benefits obligation	(50,019)
Capital leases payable	(123,175)
Compensated absences payable	(76,115)
Pension liability	(9,995,097)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	5,351
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	6,099,284
Deferred inflows of pension resources	(157,788)
Total net position - governmental activities	$ (927,012)

The notes to the financial statements are an integral part of this statement.

Independent School District No. 391
Cleveland, Minnesota
Statement of Revenues, Expenditures and Changes In Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	General	Other Governmental Funds	Total
Revenues			
Local property tax levies	$ 1,004,734	$ 37,849	$ 1,042,583
Other local and county revenue	120,575	143,363	263,938
Interest earned on investments	1,780	148	1,928
Revenue from State sources	4,057,583	34,424	4,092,007
Revenue from Federal sources	112,525	121,369	233,894
Sales and other conversion of assets	14,132	157,561	171,693
Total Revenues	5,311,329	494,714	5,806,043
Expenditures			
Current			
Administration	463,066	-	463,066
District support services	211,094	-	211,094
Elementary and secondary regular instruction	2,331,841	-	2,331,841
Vocational education and instruction	18,007	-	18,007
Special education instruction	364,432	-	364,432
Community education and services	-	139,392	139,392
Instructional support services	166,913	-	166,913
Pupil support services	507,597	295,214	802,811
Sites and buildings	412,389	-	412,389
Fiscal and other fixed cost programs	37,587	-	37,587
Capital outlay	302,992	1,389	304,381
Debt service			
Principal	59,474	-	59,474
Interest and other charges	1,053	-	1,053
Total Expenditures	4,876,445	435,995	5,312,440
Excess (Deficiency) of Revenues Over (Under) Expenditures	434,884	58,719	493,603
Other Financing Sources (Uses)			
Debt issued	61,350	-	61,350
Net Change in Fund Balances	496,234	58,719	554,953
Fund Balances, July 1	246,695	3,896	250,591
Fund Balances, June 30	$ 742,929	$ 62,615	$ 805,544

The notes to the financial statements are an integral part of this statement.

Independent School District No. 391
Cleveland, Minnesota
Reconciliation of the Statement Of
Revenues, Expenditures and Changes In Fund Balances
To the Statement of Activities
Governmental Funds
For the Year Ended June 30, 2017

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

Total net change in fund balances - governmental funds	$ 554,953
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	224,810
Depreciation expense	(225,147)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.	
Book value of capital asset disposals	(1,016)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Capital lease issued	(61,350)
Principal repayments	59,474
Long-term pension activity is not reported in governmental funds.	
Pension expense	(1,320,230)
Direct aid contributions	113,952
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	(1,095)
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.	
Compensated absences	2,231
Other post employment benefits	(18,930)
Change in net position - governmental activities	$ (672,348)

The notes to the financial statements are an integral part of this statement.

Independent School District No. 391
Cleveland, Minnesota
General Fund
Statement of Revenues, Expenditures and Changes In Fund Balances -
Budget and Actual
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Local property tax levies	$ 1,014,957	$ 1,004,969	$ 1,004,734	$ (235)
Other local and county revenue	103,420	105,479	120,575	15,096
Interest earned on investments	1,000	2,000	1,780	(220)
Revenue from State sources	3,829,594	3,940,650	4,057,583	116,933
Revenue from Federal sources	102,580	119,791	112,525	(7,266)
Sales and other conversions of assets	14,850	14,595	14,132	(463)
Total Revenues	5,066,401	5,187,484	5,311,329	123,845
Expenditures				
Current				
Administration	459,906	466,816	463,066	3,750
District support services	271,929	242,974	211,094	31,880
Elementary and secondary regular instruction	2,343,168	2,387,894	2,331,841	56,053
Vocational education and instruction	-	-	18,007	(18,007)
Special education instruction	354,370	364,510	364,432	78
Instructional support services	163,845	182,844	166,913	15,931
Pupil support services	405,476	518,072	507,597	10,475
Sites and buildings	552,593	498,246	412,389	85,857
Fiscal and other fixed cost programs	36,000	37,600	37,587	13
Capital outlay				
District support services	-	2,200	2,142	58
Elementary and secondary regular instruction	58,050	115,850	126,726	(10,876)
Special education instruction	3,000	13,000	-	13,000
Instructional support services	500	500	-	500
Pupil support services	-	-	61,350	(61,350)
Sites and buildings	-	30,000	112,774	(82,774)
Debt service				
Principal	60,820	60,820	59,474	1,346
Interest and other charges	3,435	3,435	1,053	2,382
Total Expenditures	4,713,092	4,924,761	4,876,445	48,316
Excess (Deficiency) of Revenues Over (Under) Expenditures	353,309	262,723	434,884	172,161
Other Financing Sources				
Debt issued	-	-	61,350	61,350
Net Change in Fund Balances	353,309	262,723	496,234	233,511
Fund Balances, July 1	246,695	246,695	246,695	-
Fund Balances, June 30	$ 600,004	$ 509,418	$ 742,929	$ 233,511

The notes to the financial statements are an integral part of this statement.

Independent School District No. 391
Cleveland, Minnesota
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Agency
Assets	
Cash and temporary investments	$ 43,222
Liabilities	
Due to student activities	$ 43,222

The notes to the financial statements are an integral part of this statement.

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

Independent School District No. 391, (the District) was incorporated under the laws of the State of Minnesota, (the State). The District operates under a School Board form of government for the purpose of providing educational services to individuals within the area. The District is governed by an elected School Board of six members. The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The District has no component units that meet the GASB criteria.

B. District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Amounts reported as Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) 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.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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. For this purpose, the District considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. State revenue is recognized in the year to which it applies according to Minnesota statutes and accounting principles generally accepted in the United States of America. Minnesota statutes include State aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure was made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

Note 1: Summary of Significant Accounting Policies (Continued)

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as unavailable revenue.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Description of Funds

The various District funds have been established by the State of Minnesota Department of Education. Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

Major governmental funds

The *General fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Non-major governmental funds

The *Food* Service special revenue fund is used to account for food service revenue and expenditures. The major sources of revenues are food service sales and Federal and State grants, which are restricted for this purpose.

The *Community Service special revenue fund* accounts for services provided to residents in the areas of recreation, civic activities, non-public pupils, adult or early childhood programs, or other similar services. The major sources of revenues are recreation fees and special purpose tax levies, which are restricted for these purposes.

Fiduciary funds

The *Agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for various student activities in an agency capacity.

Note 1: Summary Of Significant Accounting Policies (Continued)

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balances

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments or equity investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The District may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers acceptances of Unites States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The Minnesota School District Liquid Asset Fund (MSDLAF) Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The MSDLAF is an external investment pool not registered with the Securities and Exchange Commission (SEC); however, it follows same regulatory rules of the SEC under the SEC. Financial statements of the MSDLAF fund can be obtained by contacting PFM Asset Management, LLC at P.O. Box 11760, Harrisburg, PA 17108-11760.

Note 1: Summary of Significant Accounting Policies (Continued)

Property Taxes

The School Board annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the District. These taxes attach an enforceable lien on taxable property within the District on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the District three or four times throughout the year.

Statutory funding formulas determine the majority of the District revenue in the General and special revenue funds. This revenue is divided between property taxes and State aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as a "tax shift". The remaining portion of taxes collectible in 2017 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

Current property taxes receivable is recorded for taxes levied in 2016 and collectible in 2017. The remaining portion of the current tax levy is reported as a deferred inflow of resources, property taxes levied for subsequent year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

Accounts Receivable

All trade and property tax receivables are shown net of an allowance for uncollectibles. No allowance for uncollectibles have been recorded. The only receivable not expected to be collected within one year are current property taxes receivable.

Inventories

Food Service fund inventories include items purchased by the District and commodities donated by the U.S. Department of Agriculture (USDA). Commodities are valued using a standard price list furnished by the USDA and purchased inventory is valued at the lower of cost or market on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets include property, plant and equipment. Capital assets are defined by the District as assets with an initial, individual cost of more than $1,000 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Note 1: Summary Of Significant Accounting Policies (Continued)

Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	20 - 50
Land improvements	20
Equipment, machinery and vehicles	5 - 20

Deferred Outflows of Resources

In addition to assets, the statement of net 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 so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statement of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Compensated Absences

Vacation Pay - Vacations taken or estimated to be taken within 60 days after year end are expensed and included in salaries payable as of June 30. Since teachers are not eligible for vacation pay and amounts accrued to other employees are insignificant, no long-term portion of vacation liabilities is recorded in the financial statements.

Sick Pay - Substantially all District employees are entitled to sick leave at various rates. Employees are compensated for unused sick leave upon termination of employment if they meet years of service and minimum age requirements.

Severance Pay - The District maintains a severance pay plan for its employees. The plan contains benefit formulas based on years of service and minimum age requirements. If severance benefits are paid within the first 60 days after year end, an accrual is made in the governmental fund incurring the liability. Otherwise, vested severance pay, if any, is recorded in the statement of net position and severance pay expenses are recognized when earned. As of June 30, 2017, the District has a liability of $76,115 for employees meeting age and years of service requirements.

Other Post-Employment Benefits (OPEB) Obligation

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB Statement No. 45, at July 1, 2015.

Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bond issuance costs are reported as an expense in the period incurred.

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

Note 1: Summary of Significant Accounting Policies (Continued)

Pensions

Teachers Retirement Association (TRA)

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 4.

Public Employees Retirement Association (PERA)

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 additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements 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 one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: delinquent property taxes and property taxes levied for subsequent year. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Furthermore, the government has an additional item which qualifies for reporting in this category. The item, pension resources, is reported only in the statement of net position and results from actuarial calculations.

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance

In the fund financial statements, 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 resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the District School Board (the board), which is the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Board itself or by an official to which the governing body delegates the authority. The Board has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the Superintendent and/or Business Manager.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The District considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of fund balance when expenditures are made.

The District has formally adopted a fund balance policy for the General fund. The District's policy is to maintain a minimum unassigned fund balance of 18 percent of budgeted operating expenditures for cash-flow timing needs.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.

b. Restricted net position - Consist of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

Budgets are prepared for District governmental funds on the same basis and using the same accounting practices that are used in accounting and preparing financial statements for the funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the budget is prepared by the Superintendent to be adopted by the School Board.
2. Budgets for the General and special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
3. Budgeted amounts are as originally adopted, or as amended.
4. Budget appropriations lapse at year end.
5. The District does not use encumbrance accounting.
6. The legal level of budgetary control is the department level.

B. Excess of Actual Expenditures Over Appropriations

For the year ended June 30, 2017, expenditures exceeded appropriations in the following funds:

Fund	Budget	Actual	Excess
Food Service	$ 270,402	$ 296,603	$ 26,201
Community Service	138,667	139,392	725

The excess expenditures were funded by **actual** revenues **in excess of budget and available fund balance.**

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the District's deposits and investments may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the School Board, the District maintains deposits at those depository banks which are members of the Federal Reserve System.

Minnesota statutes require that all District deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a 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. The selection should be approved by the government entity.

At year end, the District's carrying amount of deposits was $1,311,567 and the bank balance was **$1,479,897**. Of the bank balance, $295,317 was covered by federal depository insurance. The remaining balance of $1,184,580 was collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Note 3: Detailed Notes on All Funds (Continued)

Investment Policy

The funds of the District shall be deposited or invested in accordance with Minnesota statutes, chapter 118A and any other applicable law or written administrative procedures. The primary criteria for the investment of the funds of the District, in priority order are as follows:

1. *Safety and Security.* Safety of principal is the first priority. The investments of the District shall be undertaken in a manner that seeks to ensure the preservation of the capital in the overall investment portfolio.

2. *Liquidity. The funds shall be invested to assure that funds are available to meet immediate payment requirements, including* payroll, accounts payable and debt service.

3. *Return and Yield.* The investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

The Superintendent of the District is designated as the investment officer of the District and is responsible for investment decisions and activities under direction of the School Board. The investment officer may delegate certain duties to a designee or designees, but shall remain responsible for the operation of the program. The investment officer shall also establish a system of internal controls which shall be documented in writing and shall routinely monitor existing investments and the contents of the District's investment portfolio, the available markets and the relative value of competing investment instruments.

Limitations on instruments, diversification and maturity scheduling shall depend on whether the funds being invested are considered short-term or long-term funds. All funds shall normally be considered short-term except those reserved for building construction projects or specific future projects and any unreserved funds used to provide financial-related managerial flexibility for future fiscal years. The District shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Within these parameters, portfolio maturities shall be staggered to avoid undue concentration of assets and a specific maturity sector. The maturities selected shall provide for stability of income and reasonable liquidity.

All investment securities purchased by the District shall be held in third-party safekeeping by an institution designated as custodial agent. The custodial agent may be any Federal Reserve Bank, any bank authorized under the laws of the United States or any state to exercise corporate trust powers, a primary reporting dealer in United States Government securities to the Federal Reserve Bank of New York, or a securities broker-dealer defined in Minnesota statutes 118A.06. The institution or dealer shall issue a safekeeping receipt to the District listing the specific instrument, the name of the issuer, the name in which the security is held, the rate, the maturity, serial numbers and other distinguishing marks, and other pertinent information.

Deposit-type securities shall be collateralized as required by Minnesota statute 118A.03 for any amount exceeding FDIC, SAIF, BIF, FCUA, or other federal deposit coverage.

Repurchase agreements shall be secured by the physical delivery or transfer against payment of the collateral securities to a third party or custodial agent for safekeeping. The District may accept a safekeeping receipt instead of requiring physical delivery or third-party safekeeping of collateral on overnight repurchase agreements of less than $1,000,000.

Note 3: Detailed Notes on All Funds (Continued)

As of June 30, 2017, the District had the following investments:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount
Pooled investments at amortized costs			
Minnesota School District Liquid			
Asset Fund (MSDLAF)	AAAm	less than 6 months	$ 7,084

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.
(2) Interest rate risk is disclosed using the segmented time distribution method.

The Minnesota School District Liquid Asset Fund (MSDLAF) is a trust organized and existing under the laws of the State of Minnesota and the Minnesota Joint Powers Act, as amended. The trust was established for the purpose of allowing Minnesota school districts to pool their investment funds to obtain a competitive investment yield, while maintaining liquidity and preserving capital. The credit rating for the MSDLAF is AAAm. The weighted average days to maturity are less than six months. The District's investment in the MSDLAF is equal to the value of pool shares.

A reconciliation of cash and temporary investments as shown on the financial statements for the District follows:

Petty cash	$ 300
Deposits	1,311,567
Investments	7,084
Total	1,318,951
Less fiduciary fund cash and temporary investments	(43,222)
Total cash and temporary investments	$ 1,275,729

B. Property Taxes

Current property taxes receivable is recorded for taxes levied in 2016 and payable in 2017. A portion of the current property taxes receivable is recognized as revenue in the fiscal year ended June 30, 2017 in accordance with Minnesota statutes and the remaining balance is recorded as deferred inflows of resources for subsequent years' operations.

Delinquent property taxes receivable represents uncollected taxes from the previous six years' property tax levies.

Taxes receivable by fund type is comprised of the following components:

	General	Nonmajor Governmental	Total
Current taxes	$ 533,900	$ 18,945	$ 552,845
Delinquent taxes	5,037	314	5,351
Total taxes receivable	$ 538,937	$ 19,259	$ 558,196
Property taxes levied for subsequent year	$ 1,032,281	$ 38,025	$ 1,070,306

Note 3: Detailed Notes on All Funds (Continued)

C. Capital Assets

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities				
Capital assets not being depreciated				
Land	$ 264,843	$ -	$ -	$ 264,843
Construction in progress	46,000	-	(46,000)	-
Total capital assets not being depreciated	310,843	-	(46,000)	264,843
Capital assets being depreciated				
Land improvements	389,173	132,686	-	521,859
Building	3,387,526	11,135	-	3,398,661
Equipment	892,872	65,639	(53,468)	905,043
Pupil transportation vehicles	767,238	61,350	-	828,588
Total capital assets being depreciated	5,436,809	270,810	(53,468)	5,654,151
Less accumulated depreciation				
Land improvements	(109,851)	(22,776)	-	(132,627)
Building	(2,015,326)	(70,209)	-	(2,085,535)
Equipment	(514,639)	(70,259)	52,452	(532,446)
Pupil transportation vehicles	(541,480)	(61,903)	-	(603,383)
Total accumulated depreciation	(3,181,296)	(225,147)	52,452	(3,353,991)
Total capital assets being depreciated, net	2,255,513	45,663	(1,016)	2,300,160
Governmental activities capital assets, net	$ 2,566,356	$ 45,663	$ (47,016)	$ 2,565,003

Depreciation expense was charged to governmental activities as follows:

Administration	$ 121
Elementary and secondary regular instruction	22,814
Special education instruction	107
Community education and services	553
Instructional support services	66
Pupil support services	65,583
Sites and buildings	135,903
Total depreciation expense	$ 225,147

Note 3: Detailed Notes On All Funds (Continued)

D. Leases

Capital Leases

The District entered into one lease during the year to purchase a school bus. The District's outstanding capital leases had a total cost of $265,218 (including land of $175,000) and accumulated depreciation of $25,655 as of June 30, 2017. The details on these outstanding capital leases are as follows:

	Original Issue	Interest Rate	Issue Date	Final Maturity	Principal Outstanding Due Within One Year	Principal Outstanding Total
Toshiba copier	$ 28,868	6.99 %	09/01/12	11/01/17	$ 2,252	$ 2,252
Land	175,000	3.00	08/27/14	08/27/19	35,866	76,160
Passenger bus	61,350	2.50	08/15/16	08/15/19	20,365	44,763
Total capital leases					$ 58,483	$ 123,175

The annual requirements to amortize all capital leases at June 30, 2017 are as follows:

Year Ending June 30,	Principal Payments	Interest Payments	Total
2018	$ 58,483	$ 2,797	$ 61,280
2019	57,852	1,175	59,027
2020	6,840	48	6,888
Total	$ 123,175	$ 4,020	$ 127,195

Note 3: Detailed Notes On All Funds (Continued)

E. Long-Term Debt

Long-term liability activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Capital leases payable	$ 121,299	$ 61,350	$ (59,474)	$ 123,175	$ 58,483
Compensated absences payable	78,346	1,900	(4,131)	76,115	13,678
Other post employment benefits	31,089	18,930	-	50,019	-
Pension liability					
TRA	2,295,002	6,650,631	(144,103)	8,801,530	-
PERA	772,195	489,870	(68,498)	1,193,567	-
Governmental activities Total long-term liabilities	$ 3,297,931	$ 7,222,681	$ (276,206)	$ 10,244,406	$ 72,161

F. Components Of Fund Balance

At June 30, 2017, portions of the District's fund balance are not available for appropriation due to not being in spendable form (Nonspendable), legal restrictions (Restricted) and policy and/or intent (Assigned). The UFARS fund balance reporting standards are slightly different than the reporting standards under GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions. The following schedule summarizes the components of fund balances based on GASB 54 and reconciles the balances to UFARS reporting standards:

	General	Nonmajor Governmental	Total	Reconciling Items	UFARS Balance
Nonspendable for					
Inventories	$ -	$ 1,698	$ 1,698	$ -	$ 1,698
Restricted for					
Staff development	$ 13,167	$ -	$ 13,167	$ -	$ 13,167
Health and safety	-	-	-	(110,228)	(110,228)
Learning and development	6,267	-	6,267	-	6,267
Gifted and talented	4,366	-	4,366	-	4,366
Teacher development	4,991	-	4,991	-	4,991
Safe schools - crime	52,628	-	52,628	-	52,628
Long-term facilities maintenance	-	-	-	(73,293)	(73,293)
Medical assistance	107,637	-	107,637	-	107,637
Food service	-	6,988	6,988	-	6,988
Community education	-	57,538	57,538	-	57,538
Early childhood family education	-	23,120	23,120	-	23,120
School readiness	-	(125)	(125)	(22,630)	(22,755)
Community service	-	386	386	-	386
Total restricted fund balance	$ 189,056	$ 87,907	$ 276,963	$ (206,151)	$ 70,812
Assigned for					
Music equipment	$ 755	$ -	$ 755	$ -	$ 755
Box tops/milk money	4,803	-	4,803	-	4,803
Observation deck	3,040	-	3,040	-	3,040
Total assigned fund balance	$ 8,598	$ -	$ 8,598	$ -	$ 8,598
Unassigned	$ 545,275	$ (26,990)	$ 518,285	$ 206,151	$ 724,436

Note 3: Detailed Notes on All Funds (Continued)

Restricted for Staff Development - This amount represents general education aid resources to be expended for staff development programs.

Restricted for Health and Safety - This amount represents available resources dedicated exclusively for capital expenditure health and safety projects. Revenues are derived from tax levies and State aids and expenditures are for necessary corrections for fire safety hazards, life safety hazards, asbestos removal and related repairs and clean-up, removal, disposal and repairs related to storing heating fuel or transportation fuel. Any deficits are eliminated by future tax levies and State aids.

Restricted for Learning and Development - This amount represents available general education revenues for learning and development, which is mainly for reducing the pupil-to-staff ratio.

Restricted for Gifted and Talented - This amount represents resources dedicated to providing challenging educational programs to gifted and talented students.

Restricted for Teacher Development and Evaluation - This amount represents resources restricted for teacher development and evaluation.

Restricted for Safe Schools - Crime - This amount represents resources Restricted for crime prevention and making schools safe for students and staff.

Restricted for Long Term Facility Maintenance - This amount represents available resources for larger maintenance projects. Revenues are derived from State aids and expenditures are for maintenance.

Restricted for Medical Assistance - This amount represents available resources for medical assistance expenditures. Revenues are derived from State aids.

Restricted for Food Service - This amount represents available resources available for food services. Revenues are derived from State, Federal, local and county sources along with sales and other conversion of assets and expenditures are primarily for salaries, benefits, supplies and materials.

Restricted for Community Education - This amount represents available resources for community education classes. Revenues are derived from local tax levies and State aids and expenditures are for salaries, benefits and supplies.

Restricted for Early Childhood Family Education (ECFE) - This amount represents available resources for ECFE classes. Revenues are derived from local tax levies and State aids and expenditures are for salaries, benefits and supplies.

Restricted for School Readiness - This amount represents available resources to provide for services for school readiness programs. Revenues are derived from State aids, fees and grants and expenditures are for salaries, benefits and supplies.

Restricted for Community Service - This amount represents available resources available for community services. Revenues are derived from tax levies State, Federal, local and county sources along with sales and other conversion of assets and expenditures are primarily for salaries, benefits, purchased services supplies and materials.

Unassigned amounts represent resources available to meet current and future years' expenditures.

Note 4: Defined Benefit Pension Plans (Statewide)

Substantially all employees of the District are required by state law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis.

Disclosures relating to these plans follow:

A. Teachers Retirement Association (TRA)

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 member, one retired member and three statutory officials.

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

2. Benefits Provided

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

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

Tier I:	Step Rate Formula	Percentage
Basic	1st ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1st 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 prior 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

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

With these provisions:

1. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

2. Three percent per year early retirement reduction factors for all years under normal retirement age.

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

Or

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. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989 receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death or 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 also 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 statutes, chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

Plan	Employee	Employer
Basic	11.00%	11.50%
Coordinated	7.50%	7.50%

The District's contribution to TRA for the years ending June 30, 2017, 2016 and 2015 were $148,640, $144,103 and $145,599, respectively. The District's contribution was equal to the contractually required contribution as set by Minnesota statute.

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

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 schedule of employer and non-employer pension allocations.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$ 354,961,140
Add employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	(442,978)
Total employer contributions	354,544,518
Total non-employer contributions	35,587,410
Total contributions reported in schedule of employer and non-employer pension allocations	$ 390,131,928

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

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

4. Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial information	
Measurement date	June 30, 2016
Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	4.66%, from the Single Equivalent Interest Rate calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.50 - 9.50%
Cost of living adjustment	2.00%
Mortality assumption	
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.

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic stocks	45.00 %	5.50 %
International stocks	15.00	6.00
Bonds	18.00	1.45
Alternative assets	20.00	6.40
Unallocated cash	2.00	0.50
Total	100.00 %	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6.00 years. The "Difference Between Expected and Actual Experience", "Changes of Assumptions" and "Change in Proportion" use the amortization period of 6.00 years in the schedule presented. The amortization period for "Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of 5 years as required by GASB 68.

5. Discount Rate

The discount rate used to measure the total pension liability was 4.66 percent. This is a decrease from the discount rate at the prior measurement date of 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01 percent was applied to periods on and after 2052, resulting in a SEIR of 4.66 percent. Based on fiduciary net position at the prior year measurement date, the discount rate of 8.00 percent was used and it was not necessary to calculate the SEIR.

6. Net Pension Liability

At June 30, 2017, the District reported a liability of $8,801,530 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District proportionate share was 0.0369 percent at the end of the measurement period and 0.0371 percent 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	$	8,801,530
State's proportionate share of net pension liability associated with the District		883,361

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

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

For the year ended June 30, 2017, the District recognized pension expense of $1,128,396. It also recognized $123,347 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 90,984	$ 245
Changes in actuarial assumptions	5,014,192	-
Net difference between projected and actual earnings on plan investments	380,939	-
Changes in proportion	-	52,281
Contributions to TRA subsequent to the measurement date	148,640	-
Total	$ 5,634,755	$ 52,526

Deferred outflows of resources totaling $148,640 related to pensions resulting from the District's contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

2018	$ 1,068,305
2019	1,068,302
2020	1,200,368
2021	1,120,543
2022	976,071

7. **Pension Liability Sensitivity**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.66 percent as well as the liability measured using one percent lower and one percent higher.

District proportionate share of NPL		
1 Percent Decrease (3.66%)	Current (4.66%)	1 Percent Increase (5.66%)
$ 11,338,571	$ 8,801,530	$ 6,735,194

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

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

8. **Pension Plan Fiduciary Net Position**

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

B. Public Employees Retirement Association (PERA)

1. **Plan Description**

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

General Employees Retirement Plan (GERF)

All full-time and certain part-time employees of the District, other than teachers, are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. **Benefits Provided**

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent 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 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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.

Note 4: Defined Benefit Pension Plans - Statewide (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.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in fiscal year 2017. In fiscal year 2017, the District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.50 percent of Coordinated Plan members. The District's contributions to the GERF for June 30, 2017, 2016 and 2015 were $70,286, $68,199 and $64,382, respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

4. Pension Costs

At June 30, 2017, the District reported a liability of $1,193,567 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 $6 million to the fund in 2016. 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 $15,492. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.0147 percent which was a decrease of .0002 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $154,611 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional $4,619 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the GERF.

At June 30, 2017, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,516	$ 96,960
Changes in actuarial assumptions	257,315	-
Net difference between projected and actual earnings on plan investments	133,412	-
Changes in proportion	-	8,302
Contributions to GERF subsequent to the measurement date.	70,286	-
Total	$ 464,529	$ 105,262

Note 4: Defined Benefit Pension Plans Statewide (Continued)

Deferred outflows of resources totaling $70,286 related to pensions resulting from the District's 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2018	$ 80,261
2019	52,637
2020	112,970
2021	43,113

***5.* Actuarial Assumptions**

The total pension liability in the June 30, 2016 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 GERF for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1 percent per year for all future years for the GERF.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

GERF

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

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic stocks	45.00 %	5.50 %
International stocks	15.00	6.00
Bonds	18.00	1.45
Alternative assets	20.00	6.40
Cash	2.00	0.50
Total	100.00 %	

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent, a reduction from the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

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

	District Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
GERF	$ 1,695,219	$ 1,193,567	$ 780,342

8. Pension Plan Fiduciary Net Position

Detailed information about each defined benefit 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.

Note 5: Property Tax Levy Referendum

In November 2011 the voters approved the renewal of existing levy referendum for ten years and added an additional amount of $200 per pupil unit to a total of $902.

Note 6: Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The District's management is not aware of any incurred but not reported claims.

The South Central Service Cooperative Health Insurance Pool was formed under a joint powers agreement. The pool is not intended to function as an insurance company for the participating groups. Rather, it is a cooperative program whose purpose is rate stabilization through reduced carrier retention charges, negotiating other cost items with the carrier and softening of larger needed rate increases. Although premiums billed to participating groups are determined on an actuarial basis and on each group's claims experience, the liability for claims is limited to the amount of premiums paid. The pool is protected by an aggregate stop loss.

B. Jointly Covered Organization

The Minnesota Valley Education District was established for the primary objective of providing specialized services for special education students as defined by state law, and to provide other programs and services as approved by the Joint Powers Governing Board. The education district was established by seven separate member districts, of which the District is a member. Each member district shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements and other charges for services. The education district is able to recover the cost of its program through the previously mentioned revenue sources. The joint venture's financial statements are audited and available for inspection.

Note 7: Postemployment Benefits Other Than Pensions

A. Plan Description

The District administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides healthcare insurance for eligible retirees and their spouses through the District's group health insurance plan until Medicare age, which covers both active and retired members. There are 47 active participants and 1 retired participant. Benefit provisions are established through negotiations between the District and the unions representing District employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

B. Funding Policy

The District has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are negotiated between the District and union representatives on a per contract basis. At the present time, no retiree benefits are provided except the allowance to continue health insurance that is mandated by Minnesota Law. The District does not contribute any of the cost of current-year premiums for eligible retired plan members or their spouses. For fiscal year 2017, the District contributed $13,040 to the plan. Plan members receiving benefits contribute 100 percent of their premium costs.

C. Annual Other Post-Employment Benefit Cost

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

Annual required contribution	$ 32,544
Interest on net OPEB obligation	1,088
Adjustment to annual required contribution	(1,662)
Annual OPEB cost (expense)	31,970
Contributions made	(13,040)
Decrease in net OPEB obligation (asset)	18,930
Net OPEB obligation (asset) - beginning of year	31,089
NET OPEB obligation (asset) - end of year	$ 50,019

Note 7: Postemployment Benefits Other Than Pensions (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation (asset) for fiscal years 2017, 2016 and 2015 follows:

	Three Year Trend Information		
Year Ending	Annual OPEB Cost	Percentage Annual OPEB Contributed	Net OPEB Obligation (Asset)
06/30/17	$ 31,970	40.8 %	$ 50,019
06/30/16	32,387	30.3	31,089
06/30/15	32,937	63.8	8,508

D. Funded Status And Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $209,491, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $2,233,747, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 9.4 percent.

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

E. Actuarial Methods And Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

In the July 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments and a 2.5 percent rate of inflation. The initial healthcare trend rate was 7.3 percent, reduced by decrements to an ultimate rate of 5 percent after nine years. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on a closed group basis. The remaining amortization period at June 30, 2017 was 30 years.

Note 8: Subsequent Events

On November 8, 2017, the District issued a $470,000 general obligation bond. The bond will be funding the indoor air quality project. This will be a four year term bond **at 1.4229 percent** that is non-callable.

Independent School District No. 391
Cleveland, Minnesota
Required Supplementary Information
For the Year Ended June 30, 2017

Schedule of Employer's Share of TRA Net Pension Liability

	Required Supplementary Information						
Fiscal Year Ending	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	Total (a+b)	District's Covered-Employee Payroll (c)	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/16	0.0369 %	$ 8,801,530	$ 883,361	$ 9,684,891	$ 1,921,373	458.1 %	44.9 %
06/30/15	0.0371	2,295,002	281,837	2,576,839	1,880,867	122.0	76.8
06/30/14	0.0392	1,806,308	127,200	1,933,508	1,789,663	100.9	81.1

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

Schedule of Employer's TRA Contributions

	Required Supplementary Information				
Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
06/30/17	$ 148,640	$ 148,640	$ -	$ 1,981,873	7.5 %
06/30/16	144,103	144,103	-	1,921,373	7.5
06/30/15	145,599	145,599	-	1,941,320	7.5

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

Notes to the Required Supplementary Information - TRA

There are no factors that offend trends in the amounts reported, such as change of benefit terms or assumptions. Details, if necessary, can be obtained from the TRA CAFR.

Independent School District No. 391
Cleveland, Minnesota
Required Supplementary Information (Continued)
For the Year Ended June 30, 2017

Schedule of Employer's Share of PERA Net Pension Liability

	Required Supplementary Information						
Fiscal Year Ending	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	Total (a+b)	District's Covered-Employee Payroll (c)	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/16	0.0147 %	$ 1,193,567	$ 15,492	$ 1,209,059	$ 909,320	131.3 %	68.9 %
06/30/15	0.0149	772,195	-	772,195	1,880,867	41.1	78.2
06/30/14	0.0149	699,927	-	699,927	1,789,663	39.1	78.7

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

Schedule of Employer's PERA Contributions

	Required Supplementary Information				
Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
06/30/17	$ 70,286	$ 70,286	$ -	$ 937,153	7.5 %
06/30/16	68,199	68,199	-	909,320	7.5
06/30/15	64,382	64,382	-	888,028	7.3

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

Notes to the Required Supplementary Information - PERA

Changes in Actuarial Assumptions

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Independent School District No. 391
Cleveland, Minnesota
Required Supplementary Information (Continued)
For the Year Ended June 30, 2017

Notes to the Required Supplementary Information - PERA (Continued)

Changes in Plan Provisions

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised.

Schedule of Funding Progress for Other Post-Employment Benefit Plan

	Required Supplementary Information					
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - Simplified Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/15	$ -	$ 209,491	$ 209,491	- %	$ 2,233,747	9.4 %
07/01/12	-	301,865	301,865	-	2,236,605	13.5
07/01/09	-	400,897	400,897	-	2,092,514	19.2

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES AND TABLE

INDEPENDENT SCHOOL DISTRICT NO. 391
CLEVELAND, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2017

Independent School District No. 391
Cleveland, Minnesota
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2017
With Comparative Totals for June 30, 2016

	Special Revenue		Totals	
	Food Service	Community Service	2017	2016
Assets				
Cash and temporary investments	$ 13,178	$ 82,163	$ 95,341	$ 47,980
Receivables				
Taxes	-	19,259	19,259	19,963
Accounts	-	-	-	104
Intergovernmental	8,853	1,578	10,431	7,922
Inventories	1,698	-	1,698	1,746
Total Assets	$ 23,729	$ 103,000	$ 126,729	$ 77,715
Liabilities				
Salaries and wages payable	$ 6,873	$ 5,636	$ 12,509	$ 24,972
Accounts payable	3,279	292	3,571	4,258
Due to other governments	-	74	74	-
Unearned revenue	4,891	4,730	9,621	4,984
Total Liabilities	15,043	10,732	25,775	34,214
Deferred Inflows of Resources				
Property taxes levied for subsequent year	-	38,025	38,025	39,202
Unavailable revenue - delinquent property taxes	-	314	314	403
Total Deferred Inflows of Resources	-	38,339	38,339	39,605
Fund Balances				
Nonspendable for				
Inventories	1,698	-	1,698	1,746
Restricted for				
Food service	6,988	-	6,988	7,797
Community education	-	57,538	57,538	56,402
Early childhood family education	-	23,120	23,120	5,009
School readiness	-	(125)	(125)	94
Community service	-	386	386	-
Unassigned	-	(26,990)	(26,990)	(67,152)
Total Fund Balances	8,686	53,929	62,615	3,896
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 23,729	$ 103,000	$ 126,729	$ 77,715

Independent School District No. 391
Cleveland, Minnesota
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes In Fund Balances
For the Year Ended June 30, 2017
With Comparative Totals for the Year Ended June 30, 2016

	Special Revenue		Totals	
	Food Service	Community Service	2017	2016
Revenues				
Local property tax levies	$ -	$ 37,849	$ 37,849	$ 38,907
Other local and county revenue	-	143,363	143,363	120,026
Interest earned on investments	23	125	148	102
Revenue from State sources	16,793	17,631	34,424	28,340
Revenue from Federal sources	121,369	-	121,369	119,555
Sales and other conversion of assets	157,561	-	157,561	142,846
Total Revenues	295,746	198,968	494,714	449,776
Expenditures				
Current				
Community education and services	-	139,392	139,392	170,593
Pupil support services	295,214	-	295,214	281,086
Capital outlay	1,389	-	1,389	942
Total Expenditures	296,603	139,392	435,995	452,621
Net Change in Fund Balances	(857)	59,576	58,719	(2,845)
Fund Balances, July 1	9,543	(5,647)	3,896	6,741
Fund Balances, June 30	$ 8,686	$ 53,929	$ 62,615	$ 3,896

Independent School District No. 391
Cleveland, Minnesota
General Fund
Comparative Balance Sheets
June 30, 2017 and 2016

	2017	2016
Assets		
Cash and temporary investments	$ 1,180,388	$ 639,581
Receivables		
Taxes	538,937	496,706
Accounts and interest	1,386	2,808
Due from other school districts	63,244	45,195
Intergovernmental	383,803	471,335
Total Assets	$ 2,167,758	$ 1,655,625
Liabilities		
Salaries and wages payable	$ 190,838	$ 181,993
Accounts and other payables	6,422	69,470
Due to other school districts	9,095	35,960
Due to other governments	1,183	1,387
Accrued expenses	179,973	170,603
Total Liabilities	387,511	459,413
Deferred Inflows of Resources		
Property taxes levied for subsequent year	1,032,281	943,474
Unavailable revenue - delinquent property taxes	5,037	6,043
Total Deferred Inflows of Resources	1,037,318	949,517
Fund Balances		
Restricted for		
Staff development	13,167	5,115
Deferred maintenance	-	27,677
Operating capital	-	1,867
Learning and development	6,267	254
Gifted and talented	4,366	20,559
Teacher development	4,991	4,991
Safe schools - crime levy	52,628	34,072
Medical assistance	107,637	-
Assigned for		
Music equipment	755	462
Box tops/milk money	4,803	4,424
Observation deck	3,040	-
Unassigned	545,275	147,274
Total Fund Balances	742,929	246,695
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 2,167,758	$ 1,655,625

Independent School District No. 391
Cleveland, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes In Fund Balances
Budget and Actual - Continued On the Following Pages
For the Year Ended June 30, 2017
With Comparative Actual Amounts for the Year Ended June 30, 2016

	2017				2016
	Budgeted Amounts			Variance With	
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local property tax levies	$ 1,014,957	$ 1,004,969	$ 1,004,734	$ (235)	$ 744,287
Other local and county revenue	103,420	105,479	120,575	15,096	152,863
Interest earned on investments	1,000	2,000	1,780	(220)	840
Revenue from State sources	3,829,594	3,940,650	4,057,583	116,933	3,665,045
Revenue from Federal sources	102,580	119,791	112,525	(7,266)	115,123
Sales and other conversion of assets	14,850	14,595	14,132	(463)	835
Total Revenues	5,066,401	5,187,484	5,311,329	123,845	4,678,993
Expenditures					
Current					
Administration					
Salaries	351,769	358,052	358,456	(404)	284,248
Employee benefits	85,229	86,189	85,016	1,173	70,852
Purchased services	16,100	15,600	12,154	3,446	12,977
Supplies and materials	900	900	-	900	604
Other expenditures	5,908	6,075	7,440	(1,365)	5,871
Total administration	459,906	466,816	463,066	3,750	374,552
District support services					
Salaries	97,709	123,394	118,820	4,574	94,578
Employee benefits	22,455	23,415	23,036	379	26,661
Purchased services	119,800	67,500	45,767	21,733	123,841
Supplies and materials	18,500	17,000	13,860	3,140	17,446
Other expenditures	13,465	11,665	9,611	2,054	6,843
Total district support services	271,929	242,974	211,094	31,880	269,369
Elementary and secondary regular instruction					
Salaries	1,792,618	1,766,258	1,725,470	40,788	1,749,912
Employee benefits	311,020	345,356	344,311	1,045	394,810
Purchased services	114,835	175,825	157,942	17,883	145,376
Supplies and materials	124,495	99,945	92,537	7,408	153,385
Other expenditures	200	510	11,581	(11,071)	-
Total elementary and secondary regular instruction	2,343,168	2,387,894	2,331,841	56,053	2,443,483

Independent School District No. 391
Cleveland, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes In Fund Balances
Budget and Actual (Continued)
For the Year Ended June 30, 2017
With Comparative Actual Amounts for the Year Ended June 30, 2016

	2017 Budgeted Amounts Original	2017 Budgeted Amounts Final	2017 Actual	2017 Variance With Final Budget	2016 Actual
Expenditures (Continued)					
Current (continued)					
Vocational education instruction					
Salaries	$ -	$ -	$ 15,651	$ (15,651)	$ 21,049
Employee benefits	-	-	2,245	(2,245)	3,759
Purchased services	-	-	-	-	2,250
Other expenditures	-	-	111	(111)	-
Total vocation education instruction	-	-	18,007	(18,007)	27,058
Special education instruction					
Salaries	205,107	209,750	214,930	(5,180)	199,608
Employee benefits	43,713	43,710	57,887	(14,177)	43,298
Purchased services	103,750	107,800	74,530	33,270	82,065
Supplies and materials	1,800	3,250	16,662	(13,412)	1,915
Other expenditures	-	-	423	(423)	-
Total special education instruction	354,370	364,510	364,432	78	326,886
Instructional support services					
Salaries	91,425	91,677	92,462	(785)	85,833
Employee benefits	14,920	14,600	17,523	(2,923)	21,761
Purchased services	44,000	64,000	50,129	13,871	41,787
Supplies and materials	13,500	12,567	6,604	5,963	8,756
Other expenditures	-	-	195	(195)	-
Total instructional support services	163,845	182,844	166,913	15,931	158,137
Pupil support services					
Salaries	237,060	235,271	231,041	4,230	232,801
Employee benefits	52,771	57,106	53,624	3,482	46,824
Purchased services	54,645	169,045	163,539	5,506	72,690
Supplies and materials	60,300	55,800	58,316	(2,516)	60,110
Other expenditures	700	850	1,077	(227)	670
Total pupil support services	405,476	518,072	507,597	10,475	413,095

Independent School District No. 391
Cleveland, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes In Fund Balances
Budget and Actual (Continued)
For the Year Ended June 30, 2017
With Comparative Actual Amounts for the Year Ended June 30, 2016

	2017 Budgeted Amounts Original	2017 Budgeted Amounts Final	2017 Actual	2017 Variance With Final Budget	2016 Actual
Expenditures (Continued)					
Current (continued)					
Sites and buildings					
Salaries	$ 134,509	$ 135,000	$ 143,945	$ (8,945)	$ 143,239
Employee benefits	42,235	43,570	42,325	1,245	39,542
Purchased services	303,004	249,501	155,905	93,596	166,434
Supplies and materials	71,000	69,125	69,031	94	66,455
Other expenditures	1,845	1,050	1,183	(133)	1,745
Total sites and buildings	552,593	498,246	412,389	85,857	417,415
Fiscal and other fixed cost programs					
Purchased services	36,000	37,600	37,587	13	34,348
Total current	4,587,287	4,698,956	4,512,926	186,030	4,464,343
Capital outlay					
District support services	-	2,200	2,142	58	-
Elementary and secondary regular instruction	58,050	115,850	126,726	(10,876)	124,874
Special education instruction	3,000	13,000	-	13,000	4,052
Instructional support services	500	500	-	500	312
Pupil support services	-	-	61,350	(61,350)	-
Sites and buildings	-	30,000	112,774	(82,774)	46,766
Total capital outlay	61,550	161,550	302,992	(141,442)	176,004
Debt service					
Principal	60,820	60,820	59,474	1,346	69,130
Interest and other charges	3,435	3,435	1,053	2,382	5,454
Total debt service	64,255	64,255	60,527	3,728	74,584
Total Expenditures	4,713,092	4,924,761	4,876,445	48,316	4,714,931
Excess (Deficiency) of Revenues Over (Under) Expenditures	353,309	262,723	434,884	172,161	(35,938)
Other Financing Sources (Uses)					
Debt issued	-	-	61,350	61,350	-
Net Change in Fund Balances	353,309	262,723	496,234	233,511	(35,938)
Fund Balances, July 1	246,695	246,695	246,695	-	282,633
Fund Balances, June 30	$ 600,004	$ 509,418	$ 742,929	$ 233,511	$ 246,695

Independent School District No. 391
Cleveland, Minnesota
Food Service Fund
Schedule of Revenues, Expenditures and Changes In Fund Balances
Budget and Actual
For the Year Ended June 30, 2017
With Comparative Actual Amounts for the Year Ended June 30, 2016

	2017 Budgeted Amounts Original	2017 Budgeted Amounts Final	2017 Actual	2017 Variance With Final Budget	2016 Actual
Revenues					
Other local and county revenue	$ 200	$ 200	$ -	$ (200)	$ 213
Interest earned on investments	50	50	23	(27)	59
Revenue from State sources	15,900	18,500	16,793	(1,707)	15,970
Revenue from Federal sources	106,815	102,500	121,369	18,869	119,555
Sales and other conversion of assets	140,250	162,050	157,561	(4,489)	142,846
Total Revenues	263,215	283,300	295,746	12,446	278,643
Expenditures					
Current					
Pupil support services					
Salaries	86,246	91,835	91,321	514	83,290
Employee benefits	15,590	16,245	15,807	438	14,317
Purchased services	4,165	3,672	3,551	121	4,940
Supplies and materials	155,440	157,250	184,452	(27,202)	178,539
Other expenditures	-	-	83	(83)	-
Total current	261,441	269,002	295,214	(26,212)	281,086
Capital outlay					
Pupil support services	-	1,400	1,389	11	942
Total Expenditures	261,441	270,402	296,603	(26,201)	282,028
Net Change in Fund Balances	1,774	12,898	(857)	(13,755)	(3,385)
Fund Balances, July 1	9,543	9,543	9,543	-	12,928
Fund Balances, June 30	$ 11,317	$ 22,441	$ 8,686	$ (13,755)	$ 9,543

Independent School District No. 391
Cleveland, Minnesota
Community Service Fund
Schedule of Revenues, Expenditures and Changes In Fund Balances
Budget and Actual
For the Year Ended June 30, 2017
With Comparative Actual Amounts for the Year Ended June 30, 2016

	2017 Budgeted Amounts Original	2017 Budgeted Amounts Final	2017 Actual	2017 Variance With Final Budget	2016 Actual
Revenues					
Local property tax levies	$ 39,175	$ 37,683	$ 37,849	$ 166	$ 38,907
Other local and county revenue	117,800	152,500	143,363	(9,137)	119,813
Interest earned on investments	-	-	125	125	43
Revenue from State sources	14,218	16,645	17,631	986	12,370
Total Revenues	171,193	206,828	198,968	(7,860)	171,133
Expenditures					
Current					
Community education and services					
Salaries	107,295	90,229	85,881	4,348	113,452
Employee benefits	18,693	16,933	17,716	(783)	21,470
Purchased services	15,925	16,225	17,333	(1,108)	14,478
Supplies and materials	14,380	15,280	18,002	(2,722)	21,193
Other expenditures	-	-	460	(460)	-
Total Expenditures	156,293	138,667	139,392	(725)	170,593
Net Change in Fund Balances	14,900	68,161	59,576	(8,585)	540
Fund Balances, July 1	(5,647)	(5,647)	(5,647)	-	(6,187)
Fund Balances, June 30	$ 9,253	$ 62,514	$ 53,929	$ (8,585)	$ (5,647)

Independent School District No. 391
Cleveland, Minnesota
Schedules of Tax Capacity, Tax Levy and Tax Rates
For the Years Ended June 30, 2017 and 2016

	2017	2016
Tax capacity		
Agricultural	$ 1,806,468	$ 1,790,436
Nonagricultural	3,152,984	3,124,537
Total	$ 4,959,452	$ 4,914,973
Tax levy		
General	$ 1,081,151	$ 991,026
Community Service	37,989	39,174
Total	$ 1,119,140	$ 1,030,200
Tax capacity rates		
General	6.267	6.463
Community Service	0.766	0.797
Total	7.033	7.260

DEPARTMENT OF EDUCATION

Fiscal Compliance Report - 6/30/2017
District: CLEVELAND (391-1) Back Print

01 GENERAL FUND	Audit	UFARS	Audit - UFARS
Total Revenue	$5,311,329	$5,311,325	$4
Total Expenditures	$4,876,445	$4,876,439	$6
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.03 Staff Development	$13,167	$13,167	$0
4.06 Health and Safety	($110,228)	($110,229)	$1
4.07 Capital Projects Levy	$0	$0	$0
4.08 Cooperative Revenue	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.14 Operating Debt	$0	$0	$0
4.16 Levy Reduction	$0	$0	$0
4.17 Taconite Building Maint	$0	$0	$0
4.24 Operating Capital	$0	$0	$0
4.26 $25 Taconite	$0	$0	$0
4.27 Disabled Accessibility	$0	$0	$0
4.28 Learning & Development	$6,267	$6,268	($1)
4.34 Area Learning Center	$0	$0	$0
4.35 Contracted Alt. Programs	$0	$0	$0
4.36 State Approved Alt. Program	$0	$0	$0
4.38 Gifted & Talented	$4,366	$4,365	$1
4.40 Teacher Development and Evaluation	$4,991	$4,991	$0
4.41 Basic Skills Programs	$0	$0	$0
4.45 Career Tech Programs	$0	$0	$0
4.48 Achievement and Integration	$0	$0	$0
4.49 Safe School Crime - Crime Levy	$52,628	$52,628	$0
4.50 Pre-Kindergarten	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.53 Unfunded Sev & Retiremt Levy	$0	$0	$0
4.67 LTFM	($73,293)	($73,292)	($1)
4.72 Medical Assistance	$107,637	$107,637	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Committed:			
4.18 Committed for Separation	$0	$0	$0
4.61 Committed Fund Balance	$0	$0	$0
Assigned:			
4.62 Assigned Fund Balance	$8,598	$8,599	($1)
Unassigned:			
4.22 Unassigned Fund Balance	$728,796	$728,798	($2)

02 FOOD SERVICES	Audit	UFARS	Audit - UFARS
Total Revenue	$295,746	$295,745	$1
Total Expenditures	$296,603	$296,602	$1
Non Spendable:			
4.60 Non Spendable Fund Balance	$1,698	$1,698	$0
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$6,988	$6,988	$0
Unassigned:			
4.63 Unassigned Fund Balancee	$0	$0	$0

06 BUILDING CONSTRUCTION	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.07 Capital Projects Levy	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.67 LTFM	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

07 DEBT SERVICE	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.25 Bond Refundings	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

08 TRUST	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

20 INTERNAL SERVICE	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

25 OPEB REVOCABLE TRUST	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

45 OPEB IRREVOCABLE TRUST	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

47 OPEB DEBT SERVICE	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted:			

04 COMMUNITY SERVICE

Total Revenue	$198,968	$198,965	$3
Total Expenditures	$139,392	$139,391	$1
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.26 $25 Taconite	$0	$0	$0
4.31 Community Education	$57,538	$57,538	$0
4.32 E.C.F.E	$23,120	$23,120	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.44 School Readiness	($22,630)	($22,633)	$3
4.47 Adult Basic Education	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$386	$389	($3)
Unassigned:			
4.63 Unassigned Fund Balance	($4,485)	($4,484)	($1)
4.25 Bond Refundings	$0	$0	$0
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

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Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE

Members of the School Board
Independent School District No. 391
Cleveland, 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 United States, the financial statements of governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 391 Cleveland, Minnesota, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2017.

The *Minnesota Legal Compliance Audit Guide for School Districts,* promulgated by the State Auditor pursuant to Minnesota. Statute §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and uniform financial accounting and reporting standards for school districts. Our audit considered all of the listed categories.

In connections with our audit, nothing came to our attentions that caused us to believe that the District 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 attentions regarding the District's noncompliance with the above referenced provisions.

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

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
November 8, 2017

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Certified Public Accountants & Consultants

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*

Members of the School Board
Independent School District No. 391
Cleveland, Minnesota

We have audited, in accordance with the 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, each major fund and the aggregate remaining fund information of the Independent School District No. 391, Cleveland, Minnesota (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements and have issued our report thereon dated November 8, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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, such that there is a reasonable possibility that a material misstatement of the entity'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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 or other matters that are required to be reported under *Government Auditing Standards*.

The District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
November 8, 2017

People
+Process.
Going
Beyond the
Numbers

2017-001 Financial Report Preparation

Condition: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

Criteria: Internal controls should be in place to provide reasonable assurance over financial reporting.

Cause: From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.

Recommendation: It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the District is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the District should agree its financial software to the numbers reported in the financial statements.

Management response:

Management is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of small districts. Each year, the District has a presentation from our auditor to the Board of Education after the audit is performed. Management recognizes that it is not economically feasible to fully correct this finding; it is aware of the deficiency and is relying on oversight of management and Board to monitor the deficiency. The Business Manager continues training dealing with UFARS financial/accounting practices.

Updated progress since prior year:

No progress has been made in addressing this finding in the current year.

2017-002 Year-end Audit/Accounting Adjustments

Condition: During our audit, adjustments were needed to record several accounting and audit adjustments.

Criteria: The financial statements are the responsibility of the District's management.

Cause: District staff has not prepared a year-end trial balance reflecting all necessary accounting entries.

Effect: It is likely that if a misstatement were to occur, it would not be detected by the District's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.

Recommendation: We recommend the business manager review each journal entry, obtain an understanding of why the entry was necessary, and modify current procedures to ensure that future corrections are not needed.

Management response:

The District is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of school districts. Each year, the District has a presentation from our auditor to the School Board after the audit is performed. Management recognizes that it is not economically feasible to fully correct this finding; it is aware of the deficiency and is relying on oversight by management and School Board to monitor the deficiency. The Business Manager continues training dealing with governmental financial/accounting practices.

Updated progress since prior year:

No changes in the current year.

Cleveland Public School

Independent School District #391
400 Sixth Street
P.O. Box 310
Cleveland, Minnesota 56017

2017-001 Financial Report Preparation

Corrective Action Plan (CAP):

1. Explanation of Disagreement with Audit Finding

   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

   The Business manager continues training dealing with UFARS financial/accounting practices.

3. Official Responsible for Ensuring CAP

   Brian Phillips, Superintendent of Schools, is the official responsible for ensuring continued implementation of certain control measures.

4. Planned Completion Date for CAP

   Continuous.

5. Plan to Monitor Completion of CAP

   The Cleveland School Board monitors this corrective action plan.

Sincerely,

Brian J. Phillips

Brian Phillips
Superintendent of Schools

Phone 507-931-5953 Fax 507-931-9088 http://cleveland.k12.mn.us

Cleveland Public School

Independent School District #391
400 Sixth Street
P.O. Box 310
Cleveland, Minnesota 56017

2017-002 Year-End Audit/Accounting Adjustments

Corrective Action Plan (CAP):

1. Explanation of Disagreement with Audit Finding

   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

   The Business Manager continues training dealing with governmental financial/accounting practices.

3. Official Responsible for Ensuring CAP

   Brian Phillips, Superintendent of Schools, is the official responsible for ensuring continued implementation of certain control measures.

4. Planned Completion Date for CAP

   Continuous.

5. Plan to Monitor Completion of CAP

   The Cleveland School Board monitors this corrective action plan.

Sincerely,

Brian J. Phillips

Brian Phillips
Superintendent of Schools

Phone 507-931-5953 Fax 507-931-9088 http://cleveland.k12.mn.us

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MEYERS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Members of the School Board, Advisors, and Students
Independent School District No. 391
Cleveland, Minnesota

Report on the Financial Statements

We have audited the accompanying statement of changes in assets and liabilities of the student activity accounts of the Independent School District No. 391, Cleveland, Minnesota, (the District) as of and for the year ended June 30, 2017.

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on this finance statement 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 whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement.

An audit also included assessing the accounting principles used as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the changes in assets and liabilities of the District's student activity accounts for the year ended June 30, 2017, and the balances at that date, in conformity with accounting principles generally accepted in the United States of America.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
November 8, 2017

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Independent School District No. 391
Cleveland, Minnesota
Student Activity Accounts
Statement of Changes In Assets and Liabilities
For the Year Ended June 30, 2017

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Assets				
Cash and temporary investments				
Student Council	$ 4,710	$ 10,552	$ 10,674	$ 4,588
High School YRB.	4,351	3,731	2,581	5,501
Elem. Yearbook	2,896	1,841	-	4,737
Class of 2017	3,168	30	3,198	-
Class of 2018	3,086	7,782	6,646	4,222
Class of 2019	1,177	5,958	3,597	3,538
Class of 2020	473	693	-	1,166
Class of 2021	172	361	-	533
Class of 2022	-	196	-	196
All School Play	1,195	849	363	1,681
SADD	1,016	560	979	597
Football Team	1,327	4,201	4,313	1,215
Interest Account	-	86	86	-
Volleyball Team	504	2,860	1,862	1,502
Band Trip Account	1,494	23,767	15,638	9,623
Spanish Club	557	2	-	559
Art Club	1,094	53	39	1,108
Drama Club	31	869	280	620
Roller Skating	307	3,488	3,416	379
Girl's Basketball	622	9,479	10,096	5
Hockey	-	2,000	2,000	-
Cheerleading	1,705	3	256	1,452
Baseball	-	500	500	-
American Heart	-	2,573	2,573	-
Softball	2,076	698	2,774	-
Total Assets	$ 31,961	$ 83,132	$ 71,871	$ 43,222
Liabilities				
Due to student activities	$ 31,961	$ 83,132	$ 71,871	$ 43,222

Independent School District No. 391
Cleveland, Minnesota
Notes to Student Activity Accounts Financial Statements
For the Year Ended June 30, 2017

Student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by the students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fund raising events.

The accounts of the Student Activity Funds are maintained, and the accompanying financial statements have been prepared, on the accrual basis of accounting as discussed in Note 1C of the District's financial statements.

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INDEPENDENT AUDITOR'S REPORT ON
STUDENT ACTIVITY COMPLIANCE

Members of the School Board, Advisors, and Students
Independent School District No. 391
Cleveland, Minnesota

We have audited the statement of changes in assets and liabilities of the extracurricular student activity accounts of the Independent School District No. 391, Cleveland, Minnesota (the District) as of and for the year ended June 30, 2017, and have issued our report thereon dated November 8, 2017.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Manual of Instruction for Uniform Student Activities Accounting for Minnesota School Districts and Area Vocational-Technical Colleges*, issued by the Minnesota Department of Education, pursuant to Minnesota statutes section 123.38.

The *Manual of Instruction for Uniform Student Activities Accounting for Minnesota School Districts and Area Vocational-Technical Colleges* provides uniform financial accounting and reporting standards for student activities. Compliance with this manual is the responsibility of the District's management. We have performed auditing procedures to test compliance with the provisions of this manual. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance indicate that, with respect to the items tested, the District complied, in all material respects, with the provisions referred to in the preceding paragraph.

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of the *Manual of Instruction for Uniform Student Activities Accounting for Minnesota School Districts and Area Vocational-Technical Colleges*, and the result of that testing, and not to provide an opinion on the Districts compliance with those provisions. Accordingly, this report is not suitable for any other purpose.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
November 8, 2017

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APPENDIX B

FORM OF LEGAL OPINION

(See following page)

KNUTSON, FLYNN & DEANS, P.A.
1155 Centre Pointe Drive, Suite 10
Mendota Heights, MN 55120
651.222.2811 fax 651.225.0600
www.kfdmn.com

$19,280,000*
GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2018A
INDEPENDENT SCHOOL DISTRICT NO. 391
(CLEVELAND PUBLIC SCHOOL)
LE SUEUR AND BLUE EARTH COUNTIES, MINNESOTA

We have acted as Bond Counsel in connection with the issuance by Independent School District No. 391 (Cleveland Public School), Le Sueur and Blue Earth, Minnesota (the "District"), of its General Obligation School Building Bonds, Series 2018A (the "Bonds"), in the aggregate principal amount of $19,280,000*, bearing a date of original issue of November 8, 2018. The Bonds are fully registered as to principal and interest and are originally issued using a global book-entry system.

We have not been engaged or undertaken to review the accuracy, completeness, or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

We have examined the law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other affidavits and certificates of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based upon our examination of these materials, assuming the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and based upon present Minnesota and federal laws, regulations, rulings and decisions, it is our opinion that:

(1) The Bonds are in due form and the proceedings show lawful authority for their issuance according to their terms under the Constitution and laws of the State of Minnesota now in force.

(2) The Bonds are valid and binding general obligations of the District enforceable

in accordance with their terms except to the extent to which enforceability thereof may be limited by the exercise of judicial discretion in accordance with general principles of equity, by the constitutional powers of the United States of America and by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted. All of the taxable property in the District is subject to the levy of ad valorem taxes to pay the principal and interest on the Bonds, which taxes are without limitation as to rate or amount.

(3) Interest on the Bonds is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates or trusts for Minnesota income tax purposes. Interest on the Bonds is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax measured by income. Interest on the Bonds is not an item of tax preference required to be included in the computation of "alternative minimum taxable income" for purposes of the federal alternative minimum tax applicable to individuals and other taxpayers under Section 55 of the Internal Revenue Code of 1986, as amended, (the "Code") or for purposes of the Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Bonds is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal and Minnesota alternative minimum taxes applicable to corporations.

(4) The opinion set forth in Paragraph (3) above is subject to the condition that the District comply with all the requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal and state income tax purposes. The District has covenanted in the resolution authorizing the issuance of the Bonds to comply with these continuing requirements. Noncompliance with these covenants by the District following the issuance of the Bonds may result in inclusion of interest on the Bonds in federal gross income and Minnesota taxable net income for federal and Minnesota income tax purposes retroactive to the date of issuance of the Bonds. Except as stated in this opinion, we express no opinion regarding federal, state or other tax consequences caused by the receipt or accrual of interest on or arising with respect to ownership of the Bonds.

(5) The Bonds have not been designated as "qualified tax-exempt obligations" for the purposes of Section 265 of the Code relating to the deduction of interest expenses allocable to the Bonds by financial institutions.

DATED at Mendota Heights, Minnesota, this 8th day of November, 2018.

KNUTSON, FLYNN & DEANS
Professional Association

APPENDIX C

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following page)

CONTINUING DISCLOSURE CERTIFICATE
(Full Disclosure)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by Independent School District No. 391 (Cleveland Public School), State of Minnesota (the "District"), in connection with the issuance of its General Obligation School Building Bonds, Series 2018A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the School Board on October 15, 2018 (the "Resolution"). The District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55 (the "State Payment Law" described in the Official Statement for the Bonds) which provides for payment by the State of Minnesota in the event of a potential default of a District obligation. The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Bondholders or beneficial owners, if different, and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5). This Disclosure Certificate constitutes the written Undertaking required by the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in Sections 3 and 4 of this Disclosure Certificate.

"Audited Financial Statements" shall mean the financial statements of the District audited annually by an independent certified public accounting firm and prepared in accordance with generally accepted accounting principles or as otherwise required by Minnesota law for the preceding Fiscal Year, including a balance sheet and statement of revenues, expenditures and changes in fund balances.

"Dissemination Agent" shall mean the District, or any successor Dissemination Agent which has been designated in writing by the District and which has filed with the District a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system: www.emma.msrb.org, established by the MSRB and which contains a component that includes a continuing disclosure service for the receipt and public availability of continuing disclosure documents and related information to be submitted by issuers, obligated persons, and their agents pursuant to continuing disclosure undertakings entered into consistent with the Rule.

"Fiscal Year" shall mean the fiscal year of the District.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including written interpretations thereof by the Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

(a) The District shall provide, or shall cause the Dissemination Agent to provide not later than June 30, 2019, and twelve (12) months after the end of each Fiscal Year during which the Bonds are outstanding, to the MSRB, in an electronic format through the use of EMMA, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. If audited financial statements are not available by the date specified above, the District shall submit unaudited financial statements by that date to the MSRB and will submit the audited financial statements as soon as they are available.

(b) If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a) above, the District shall send a timely notice to the MSRB.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the required method of submission to the MSRB and (if the Dissemination Agent is other than the District)

(ii) file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate and stating the date it was provided.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following:

1. An annual Audited Financial Statement.

2. Updates of the operating and financial data included in the Official Statement under headings substantially similar to the following or containing financial information directly relating to the following: "Current Property Valuations", "Tax Levies & Collections", "Student Body", "Direct Debt", and "Employment/Unemployment."

All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must also be available from the Municipal Securities Rulemaking Board (MSRB). The District shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events, with respect to the Bonds:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

7. Modifications to rights of security holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the securities, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the obligated person;

13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such action, other than pursuant to its terms, if material;

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever a Listed Event occurs, the District shall in a timely manner not in excess of ten business days after the occurrence of the Listed Event file a notice of such occurrence with the MSRB.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all the Bonds.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, including but not limited to its duties under Sections 3 and 5 hereof, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

If this Disclosure Certificate is amended, the District will disclose such amendment, together with a narrative explanation of that amendment, to the MSRB with its annual financial information disclosure.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Bondholder or beneficial owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution or with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and Holders from time to time of the Bonds or the beneficial owners, if different, and shall create no rights in any other person or entity.

SECTION 13. Reserved Rights. The District reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or to modify the Undertaking under this Disclosure Certificate if the District determines that such modification is required by the Rule, or by a court of competent jurisdiction.

SECTION 14. District Contact Information.

Title:	Superintendent
Name of District:	Independent School District No. 391 (Cleveland Public School)
Address:	400 Sixth Street
	Cleveland, MN 56017
Telephone No.	(507) 931-5953

Dated as of this 8th day of November, 2018.

INDEPENDENT SCHOOL DISTRICT NO. 391
CLEVELAND, MINNESOTA

By: ____________________________________
Chair

And: ____________________________________
Clerk

APPENDIX E

TERMS OF PROPOSAL

$19,280,000* GENERAL OBLIGATION SCHOOL BUILDING BONDS, SERIES 2018A INDEPENDENT SCHOOL DISTRICT NO. 391 (CLEVELAND PUBLIC SCHOOL), MINNESOTA

Proposals for the purchase of $19,280,000* General Obligation School Building Bonds, Series 2018A (the "Bonds") of Independent School District No. 391 (Cleveland Public School), Minnesota (the "District") will be received at the offices of Ehlers & Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Municipal Advisors to the District, until 11:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 11:00 A.M. Central Time, on October 15, 2018, at which time they will be opened, read and tabulated. The proposals will be presented to the Board of Education for consideration for award by resolution at a meeting to be held at 7:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the District will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475, and a special election held August 14, 2018 by the District for the purpose of financing the acquisition and betterment of school sites and facilities in the District. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated November 8, 2018, will be issued as fully registered Bonds in the denomination of $5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2020	$385,000	2027	$875,000	2034	$1,150,000
2021	560,000	2028	910,000	2035	1,195,000
2022	580,000	2029	945,000	2036	1,240,000
2023	770,000	2030	980,000	2037	1,290,000
2024	800,000	2031	1,020,000	2038	1,345,000
2025	825,000	2032	1,060,000	2039	1,395,000
2026	850,000	2033	1,105,000		

ADJUSTMENT OPTION

* The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

TERM BOND OPTION

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2020 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

PAYING AGENT

The District has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 2028 shall be subject to optional redemption prior to maturity on February 1, 2027 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the District. If only part of the Bonds having a common maturity date are called for redemption, then the District or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

DELIVERY

On or about November 8, 2018, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the District will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the District, threatened. Payment for the Bonds must be received by the District at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota, Bond Counsel to the District, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the District; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

SUBMISSION OF PROPOSALS

Proposals must not be for less than $19,145,040 plus accrued interest on the principal sum of $19,280,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

1) Electronically to bondsale@ehlers-inc.com; or

2) Facsimile submission to Ehlers, Facsimile Number (651) 697-8555; or

3) Electronically via **PARITY** in accordance with this Terms of Proposal until 11:00 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the District nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of $385,600 shall be made by the winning bidder by wire transfer of funds to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder’s federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the District as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The District and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to $250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the District scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The District's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The District reserves the right to reject any and all proposals and to waive any informality in any proposal.

BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the District requested and received a rating on the Bonds from a rating agency, the District will pay that rating fee. Any rating agency fees not requested by the District are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

CUSIP NUMBERS

The District will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

NON-QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will NOT designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Internal Revenue Code of 1986, as amended, which permits financial institutions to deduct interest expenses allocable to the Bonds to the extent permitted under prior law.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the District will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the District in establishing the issue price of the Bonds and shall execute and deliver to the District at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the District under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the District by the District's municipal advisor identified herein and any notice or report to be provided to the District may be provided to the District's municipal advisor.

(b) The District intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

(1) The District shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;

(2) all bidders shall have an equal opportunity to bid;

(3) the District may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and

(4) the District anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a "competitive sale" are not satisfied, the District shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the Underwriter. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the District agrees to use the rule selected by the Underwriter on its proposal form to determine the issue price for the Bonds. On its proposal form, each Underwriter must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the "hold-the-offering-price rule").

(d) If all of the requirements of a "competitive sale" are not satisfied and the Underwriter selects the hold-the-offering-price rule, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(1) the close of the fifth (5^{th}) business day after the sale date; or

(2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder will advise the District promptly after the close of the fifth (5^{th}) business day after the sale whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5^{th}) business day after the sale date.

The District acknowledges that in making the representation set forth above, the winning bidder will rely on:

(i) the agreement of each underwriter to comply with requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-price rule, if applicable to the Bonds, as set forth in an agreement among underwriters and the related pricing wires,

(ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and

(iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The District further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price rule of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Bonds.

(e) If all of the requirements of a "competitive sale" are not satisfied and the Underwriter selects the 10% test, the Underwriter agrees to promptly report to the District, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until either (i) all Bonds of that maturity have been sold or (ii) the 10% test has been satisfied as to each maturity of the Bonds, provided that, the winning bidder's reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the District or bond counsel.

(f) By submitting a proposal, each bidder confirms that:

(i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such third-party distribution agreement, as applicable, to:

(A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred until either all securities of that maturity allocated to it have been sold or it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the District or bond counsel.

(B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and

(ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group and each broker dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to:

(A) to promptly notify the winning bidder of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below), and

(B) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder shall assume that each order submitted by the underwriter, dealer or broker-dealer is a sale to the public.

(g) Sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each term being used as defined below) shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

(i) "public" means any person other than an underwriter or a related party,

(ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public),

(iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) "sale date" means the date that the Bonds are awarded by the District to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Syndicate Manager will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of $10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the Board of Education

Independent School District No. 391
(Cleveland Public School), Minnesota

PROPOSAL FORM

The Board of Education **October 15, 2018**
Independent School District No. 391 (Cleveland Public School), Minnesota

RE: **$19,280,000* General Obligation School Building Bonds, Series 2018A**
DATED: **November 8, 2018**

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you $__________________ (not less than $19,145,040) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

________	% due	2020	________	% due	2027	________	% due	2034
________	% due	2021	________	% due	2028	________	% due	2035
________	% due	2022	________	% due	2029	________	% due	2036
________	% due	2023	________	% due	2030	________	% due	2037
________	% due	2024	________	% due	2031	________	% due	2038
________	% due	2025	________	% due	2032	________	% due	2039
________	% due	2026	________	% due	2033			

* The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2020 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

We enclose our Deposit in the amount of $385,600, to be held by the District pending delivery and payment. Alternatively, if we are the winning bidder, we will wire our Deposit to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138.** Such Deposit shall be received by Ehlers & Associates no later than two hours after the proposal opening time. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. If our proposal is not accepted, said deposit shall be promptly returned to us. If the Deposit is wired to such escrow account, we agree to the conditions and duties of Ehlers & Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about November 8, 2018.

This proposal is subject to the District's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for this Issue.

We have received and reviewed the Official Statement and have submitted our requests for additional information or corrections to the Final Official Statement. As Syndicate Manager, we agree to provide the District with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an Underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: ____ NO: ____.

If the competitive sale requirements are not met, we elect to use the (circle one): 10% test / hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: ______________________________ By: ______________________________
Account Members:

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from November 8, 2018 of the above proposal is $_______________and the true interest cost (TIC) is __________%.

The foregoing offer is hereby accepted by and on behalf of the Board of Education of Independent School District No. 391 (Cleveland Public School), Minnesota, on October 15, 2018.

By: ______________________________ By: ______________________________

Title: ______________________________ Title: ______________________________