PRELIMINARY OFFICIAL STATEMENT DATED JULY 3, 2019

In the opinion of Dorsey & Whitney LLP, Bond Counsel, based on existing law and assuming the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excluded from gross income for federal income tax purposes, (ii) is not an item of tax preference for federal alternative minimum tax purposes, (iii) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and (iv) is not an item of tax preference for federal or Minnesota alternative minimum tax purposes. Interest on the Bonds is included, however, in taxable income for purposes of the Minnesota franchise tax imposed on corporations and financial institutions.

The District will not designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986. See "TAX CONSIDERATIONS" herein.

New Issue **Rating Application Made: S&P Global Ratings**

INDEPENDENT SCHOOL DISTRICT NO. 500 (SOUTHLAND), MINNESOTA
(Mower County)

(Minnesota School District Credit Enhancement Program)

$1,225,000* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2019B

PROPOSAL OPENING: July 15, 2019, 11:00 A.M., C.T. **CONSIDERATION**: July 15, 2019, 6:30 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The $1,225,000* General Obligation Facilities Maintenance Bonds, Series 2019B (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475 and Section 123B.595 (long-term facilities maintenance revenue) by Independent School District No. 500 (Southland), Minnesota (the "District") to provide funds for facility maintenance projects included in the ten-year facility plan of the District and approved by the Commissioner of Education. 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 Dorsey & Whitney LLP, Minneapolis, Minnesota.

DATE OF BONDS: August 8, 2019

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2021	$120,000	2024	$130,000	2027	$145,000
2022	125,000	2025	135,000	2028	150,000
2023	130,000	2026	140,000	2029	150,000

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: February 1, 2020 and semiannually thereafter.

OPTIONAL REDEMPTION: The Bonds are being offered without option of prior optional redemption.

MINIMUM PROPOSAL: $1,212,750.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of $24,500 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

BOND COUNSEL: Dorsey & Whitney LLP

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 and 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 and Associates, Inc., payable entirely by the District, is contingent upon the delivery of the Bonds.

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 and 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 District is 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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SOUTHLAND
SCHOOL BOARD

		Term Expires
Michelle Nelsen	Chairperson	January 2022
Dave Kirtz	Vice Chairperson	January 2020
Dana Sorenson	Clerk	January 2020
Wayne Kiefer	Treasurer	January 2020
Holly Meyer	Member	January 2022
Vance Wilson	Member	January 2022

ADMINISTRATION

Scott Hall, Superintendent of Schools
Melanie Welsh, Business Manger

PROFESSIONAL SERVICES

Dorsey & Whitney LLP, Bond Counsel, Minneapolis, Minnesota

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

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Independent School District No. 500 (Southland), Minnesota (the "District") and the issuance of its $1,225,000* General Obligation Facilities Maintenance Bonds, Series 2019B (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 issuance and sale of the Bonds ("Award Resolution") to be adopted by the Board of Education on July 15, 2019.

Inquiries may be directed to Ehlers and 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 Bond Sales link 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 August 8, 2019. 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 February 1, 2020, 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"). 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

The Bonds are being offered without the option of prior optional redemption.

AUTHORITY; PURPOSE

The Bonds being issued pursuant to Minnesota Statutes, Chapter 475 and Section 123B.595 (long-term facilities maintenance revenue) by the District to provide funds for facility maintenance projects included in the ten-year facility plan of the District and approved by the Commissioner of Education.

ESTIMATED SOURCES AND USES*

Sources			
	Par Amount of Bonds	$1,225,000	
	Reoffering Premium	28,886	
	Total Sources		**$1,253,886**
Uses			
	Total Underwriter's Discount (1.000%)	$12,250	
	Costs of Issuance	38,600	
	Deposit to Capitalized Interest (CIF) Fund	17,661	
	Deposit to Project Construction Fund	1,185,375	
	Total Uses		**$1,253,886**

*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 S&P Global Ratings ("S&P"). S&P has a policy which assigns a minimum rating of "AAA" to issuers participating in the MNCEP. The "AAA" rating is based on the State of Minnesota's current "AAA" rating from S&P. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS" for further details.

The District currently has an "A" underlying rating from S&P and will be requesting an underlying rating on this issue. 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 judgement 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 May 20, 2019 (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 fund."

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 brokers, dealers, and municipal securities dealers, in connection with their participation in the offering of the Bonds, to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities and Exchange Act of 1934, as amended (the "Rule"), the District shall agree to provide certain information to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system, or any system that may be prescribed in the future. The Rule was last amended, effective February 27, 2019, to include an expanded list of material events.

On the date of issue and delivery, the District shall execute and deliver a Continuing Disclosure Certificate, under which the District will covenant for the benefit of holders including beneficial holders, to provide electronically, or in a manner otherwise prescribed, certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule (the "Disclosure Undertaking"). The details and terms of the Disclosure Undertaking for the District are set forth in Appendix D. Such Disclosure Undertaking will be in substantially the form attached hereto.

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

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. The District has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance. Ehlers is currently engaged as dissemination agent for the District.

LEGAL OPINION

An opinion in substantially the form attached hereto as Appendix B will be furnished by Dorsey & Whitney LLP ("Bond Counsel"), Minneapolis, Minnesota, bond counsel to the District.

TAX CONSIDERATIONS

The following is a summary of certain U.S. federal and Minnesota income tax considerations relating to the purchase, ownership, and disposition of the Bonds. This summary is based on the U.S. Internal Revenue Code of 1986 (the "Code") and the Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service (the "IRS"), all as of the date hereof and all of which are subject to change, possibly with retroactive effect. Any such change could adversely affect the matters discussed below, including the tax exemption of interest on the Bonds. The District has not sought and will not seek any rulings from the IRS regarding the matters discussed below, and there can be no assurance the IRS or a court will not take a contrary position regarding these matters.

Prospective purchasers of Bonds should consult their own tax advisors with respect to applicable federal, state, and local tax rules, and any pending or proposed legislation or regulatory or administrative actions, relating to the Bonds based on their own particular circumstances.

This summary is for general information only and is not intended to constitute a complete analysis of all tax considerations relating to the purchase, ownership, and disposition of Bonds. It does not address the U.S. federal estate and gift tax or any state, local, or non-U.S. tax consequences except with respect to Minnesota income tax to the extent specified herein. This summary is limited to consequences to U.S. holders that purchase the Bonds for cash at original issue and hold the Bonds as "capital assets" (generally, property held for investment).

This discussion does not address all aspects of U.S. federal income or state taxation that may be relevant to particular holders of Bonds in light of their specific circumstances or the tax considerations applicable to holders that may be subject to special income tax rules, such as holders subject to special tax accounting rules under Section 451(b) of the Code; insurance companies, brokers, dealers, or traders in stocks, securities, or currencies or notional principal contracts; foreign corporations subject to the branch profits tax; holders receiving payments in respect to the Bonds through foreign entitites; and S corporations, partnerships, or other pass-through entities or investors therein.

For purposes of this discussion, the "issue price" of a maturity of Bonds is the first price at which a substantial amount of Bonds of that maturity is sold for cash to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers.

Tax Exempt Interest

In the opinion of Bond Counsel, based on existing law and assuming the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excluded from gross income for federal income tax purposes (ii) is not an item of tax preference for federal alternative minimum tax purposes; (iii) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and (iv) is not an item of tax preference for federal or Minnesota alternative minimum tax purposes. Interest on the Bonds is included, however, in taxable income for purposes of the Minnesota franchise tax imposed on corporations and financial institutions.

The Code establishes certain requirements that must be met after the issuance of the Bonds in order that interest on the Bonds be excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. These requirements include, but are not limited to, provisions regarding the use of Bond proceeds and the facilities financed or refinanced with such proceeds and restrictions on the investment of Bond proceeds and other amounts. The District has made certain representations and has covenanted to comply with certain restrictions, conditions, and requirements designed to ensure interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or noncompliance with these covenants may cause interest on the Bonds to be included in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Bond Counsel has not independently verified the accuracy of these representations and will not verify the continuing compliance with these covenants. 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 is included in federal gross income or in Minnesota taxable net income.

Original Issue Discount

Bonds may be issued at a discount from their principal amount (any such Bonds being "Discount Bonds"). The excess of the principal amount payable on Bonds of a given maturity over their issue price constitutes "original issue discount" ("OID"). OID that accrues to a holder of a Discount Bond is excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts to the same extent that stated interest on such Discount Bond would be so excluded. The amount of OID that accrues on a Discount Bond is added to the holder's federal and Minnesota tax bases. OID is taxable under the Minnesota franchise tax on corporations and financial institutions.

OID on a Discount Bond generally accrues pursuant to a constant-yield method that reflects semiannual compounding on dates that are determined by reference to the maturity date of the Discount Bond. The amount of OID that accrues for any particular semiannual accrual period generally is equal to the excess of (1) the product of (a) one-half of the yield on such Discount Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Discount Bonds, over (2) the amount of stated interest actually payable. For this purpose, the adjusted issue price is determined by adding to the issue price for such Discount Bonds the OID that is treated as having accrued during all prior accrual periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that accrual period for federal income tax purposes is allocated ratably to the days in such accrual period.

If a Discount Bond is purchased for a cost that exceeds the sum of the issue price plus accrued interest and accrued OID, the amount of OID that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Discount Bond. If the excess is greater than the amount of remaining OID, the basis reduction rules for amortizable bond premium may result in taxable gain upon sale or other disposition of the Bonds, even if the Bonds are sold, redeemed or retired for an amount equal to or less than their cost.

It is possible under certain state and local income tax laws that original issue discount on a Discount Bond may be taxable in the year of accrual and may be deemed to accrue differently than under federal law.

Market Discount

If a Bond is purchased for a cost that is less than the Bond's issue price (plus accrued original issue discount, if any), the purchaser will be treated as having purchased the Bond with market discount (unless a statutory *de minimis* rule applies). Market discount is treated as ordinary income and generally is recognized on the maturity or earlier disposition of the Bond (to the extent that the gain realized does not exceed the accrued market discount on the Bond.

Bond Premium

A holder that acquires a Bond for an amount in excess of its principal amount generally must, from time to time, reduce the holder's federal and Minnesota tax basis for the Bond. Premium generally is amortized for federal income tax purposes and Minnesota income and franchise tax purposes on the basis of a bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Accordingly, holders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds, even if such Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal income tax purposes or for purposes of the Minnesota income tax applicable to individuals, estates, or trusts.

Related Tax Considerations

Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain social security and railroad retirement benefits to take interest on the Bonds into account in determining the taxability of such benefits.

Section 265(a) of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates, and trusts. In the case of a financial institution, generally, no deduction is allowed under Section 265(b) of the Code for that portion of the holder's interest expense that is allocable to interest on tax-exempt obligations, such as the Bonds, unless the obligations are "qualified tax-exempt obligations". Indebtedness may be allocated to the Bonds for this purpose even though not directly traceable to the purchaser of the Bonds. The Bonds are not "qualified tax exempt obligations" for purposes of Section 265(b)(3) of the Code.

The ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds, may affect a holder's federal, state, or local tax liability in some additional circumstances. The nature and extent of these other tax consequences depends upon the particular tax status of the holder and the holder's other items of income or deduction.

Sale or Other Disposition

A holder will generally recognize gain or loss on the sale, exchange, redemption, retirement, or other disposition of a Bond equal to the difference between (i) the amount realized less amounts attributable to any accrued but unpaid stated interest and (ii) the holder's adjusted tax basis in the Bond. The amount realized includes the cash and the fair market value of any property received by the holder in exchange for the Bond. A holder's adjusted tax basis in a Bond generally will be equal to the amount that the holder paid for the Bond, increased by any accrued original issue discount with respect to the Bond and reduced by the amount of any amortized bond premium on the Bond. Except to the extent attributable to market discount (which will be taxable as ordinary income to the extent not previously included in income), any gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holder held the Bond for more than one year. Long-term capital gains recognized by certain non-corporate persons, including individuals, generally are taxable at a reduced rate. The deductibility of capital losses is subject to significant limitations.

Information Reporting and Backup Withholding

Payments of interest on the Bonds (including any allocable bond premium or accrued original issue discount) and proceeds from the sale or other disposition of the Bonds are expected to be reported to the IRS as required under applicable Treasury Regulations. Backup withholding will apply to these payments if the holder fails to provide an accurate taxpayer identification number and certification that it is not subject to backup withholding (generally on an IRS Form W-9) or otherwise fails to comply with the applicable backup withholding requirements. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against the holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. Certain holders are exempt from information reporting. Potential holders should consult their own tax advisors regarding qualification for an exemption and the procedures for obtaining such an exemption.

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, 2018, have been audited by Smith, Schafer & Associates, Ltd., Rochester, Minnesota, 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 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 bond 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 United States 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	2016/17	2017/18	2018/19
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 $2,050,000 - 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]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $1,900,000 - 0.50% [2] Over $1,900,000 - 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 $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%	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 $139,000 - .75% Over $139,000 - .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[1]	980,706,248[2]

	2018/19 Assessor's Estimated Market Value	2018/19 Net Tax Capacity
Real Estate	$1,026,755,300	$ 8,200,626
Personal Property	13,508,200	266,371
Total Valuation	$1,040,263,500	$ 8,466,997

[1] The most recent value available from the Minnesota Department of Revenue.

[2] According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for Independent School District No. 500 (Southland) is about 102.81% 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 980,706,248.

2018/19 NET TAX CAPACITY BY CLASSIFICATION

	2018/19 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	$ 900,668	10.64%
Agricultural	6,546,652	77.32%
Commercial/industrial	324,863	3.84%
Public utility	192,992	2.28%
Non-homestead residential	205,414	2.43%
Commercial & residential seasonal/rec.	30,037	0.35%
Personal property	266,371	3.15%
Total	$ 8,466,997	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
2014/15	$1,144,686,800	$1,115,946,900	$ 9,310,117	$ 9,310,117	+2.89%
2015/16	1,082,492,600	1,054,302,700	8,701,409	8,701,409	-5.43%
2016/17	1,055,137,100	1,027,276,600	8,501,817	8,501,817	-2.53%
2017/18	1,067,886,072	1,021,510,014	8,555,927	8,555,927	+1.21%
2018/19	1,040,263,500	995,031,800	8,466,997	8,466,997	-2.59%

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	2018/19 Net Tax Capacity	Percent of District's Total Net Tax Capacity
ITC Midwest, LLC	Commercial	$250,630	2.96%
Xcel Energy	Utility	162,286	1.92%
Binkley Family, LLLP	Commercial	111,394	1.32%
Individual	Residential	83,150	0.98%
Individual	Residential	74,867	0.88%
Individual	Residential	73,860	0.87%
Individual	Residential	65,510	0.77%
R & S Farms, LLC	Agricultural	64,475	0.76%
Individual	Residential	52,452	0.62%
Individual	Residential	52,080	0.62%
Total		$990,704	11.70%

District's Total 2018/19 Net Tax Capacity $8,466,997

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpayers have been furnished by Mower County.

DEBT

DIRECT DEBT[1]

General Obligation Debt (see schedule following)

Total g.o. debt secured by taxes (includes the Bonds)*	$18,400,000

Lease Obligations

Issue Date	Original Amount	Purpose	Final Maturity	Principal Outstanding
08/01/17	$167,512	Blue Bird Vision Type C - School Bus	09/29/2020	$90,468

*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. The District does not currently qualify for Long Term Facilities Maintenance Aid in the debt service fund.

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

Independent School District No. 500 (Southland), Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Taxes
(As of 08/08/2019)

	School Building Bonds Series 2019A		Facilities Maintenance Bonds Series 2019B							
Dated	03/14/2019		08/08/2019							
Amount	$17,175,000		$1,225,000*							
Maturity	02/01		02/01							
Fiscal Year Ending	**Principal**	**Interest**	**Principal**	**Estimated Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Fiscal Year Ending**
2020	720,000	344,622	0	17,660	720,000	362,282	1,082,282	17,680,000	3.91%	**2020**
2021	520,000	653,244	120,000	36,750	640,000	689,994	1,329,994	17,040,000	7.39%	**2021**
2022	550,000	627,244	125,000	33,150	675,000	660,394	1,335,394	16,365,000	11.06%	**2022**
2023	620,000	599,744	130,000	29,400	750,000	629,144	1,379,144	15,615,000	15.14%	**2023**
2024	655,000	568,744	130,000	25,500	785,000	594,244	1,379,244	14,830,000	19.40%	**2024**
2025	685,000	535,994	135,000	21,600	820,000	557,594	1,377,594	14,010,000	23.86%	**2025**
2026	720,000	501,744	140,000	17,550	860,000	519,294	1,379,294	13,150,000	28.53%	**2026**
2027	755,000	465,744	145,000	13,350	900,000	479,094	1,379,094	12,250,000	33.42%	**2027**
2028	800,000	427,994	150,000	9,000	950,000	436,994	1,386,994	11,300,000	38.59%	**2028**
2029	835,000	387,994	150,000	4,500	985,000	392,494	1,377,494	10,315,000	43.94%	**2029**
2030	880,000	346,244			880,000	346,244	1,226,244	9,435,000	48.72%	**2030**
2031	915,000	302,244			915,000	302,244	1,217,244	8,520,000	53.70%	**2031**
2032	955,000	265,644			955,000	265,644	1,220,644	7,565,000	58.89%	**2032**
2033	985,000	236,994			985,000	236,994	1,221,994	6,580,000	64.24%	**2033**
2034	1,015,000	207,444			1,015,000	207,444	1,222,444	5,565,000	69.76%	**2034**
2035	1,045,000	176,994			1,045,000	176,994	1,221,994	4,520,000	75.43%	**2035**
2036	1,080,000	145,644			1,080,000	145,644	1,225,644	3,440,000	81.30%	**2036**
2037	1,110,000	111,894			1,110,000	111,894	1,221,894	2,330,000	87.34%	**2037**
2038	1,145,000	77,206			1,145,000	77,206	1,222,206	1,185,000	93.56%	**2038**
2039	1,185,000	39,994			1,185,000	39,994	1,224,994	0	100.00%	**2039**
	17,175,000	7,023,366	1,225,000	208,460	18,400,000	7,231,826	25,631,826			

* 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:

2018/19 Assessor's Estimated Market Value	$1,040,263,500
Multiply by 15%	0.15
Statutory Debt Limit	$ 156,039,525
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	(18,400,000)
Unused Debt Limit*	$ 137,639,525

*Preliminary, subject to change.

OVERLAPPING DEBT[1]

Taxing District	2018/19 Taxable Net Tax Capacity	% In District	Total G.O. Debt[2]	District's Proportionate Share
Mower County	$ 42,196,530	20.0700%	$ 9,380,000	$ 1,882,566
City of Adams	340,216	100.0000%	1,735,000	1,735,000
District's Share of Total Overlapping Debt				$ 3,617,566

DEBT PAYMENT HISTORY

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

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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 (980,706,248)	Debt/ Current Population Estimate (3,357)
Total General Obligation Debt (includes the Bonds)*	$18,400,000	1.88%	$5,481.08
District's Share of Total Overlapping Debt	$ 3,617,566	0.37%	$1,077.62
Total*	$22,017,566	2.25%	$6,558.70

*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
2014/15	$ 589,493	$ 581,838	$ 589,088	99.93%
2015/16	1,135,287	1,113,400	1,133,145	99.81%
2016/17	1,128,704	1,110,043	1,124,388	99.62%
2017/18	1,066,978	1,047,229	1,057,847	99.14%
2018/19	2,129,694	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.

TAX CAPACITY RATES[4]

	2014/15	2015/16	2016/17	2017/18	2018/19
I.S.D. No. 500 (Southland)	3.962%	4.876%	5.202%	4.746%	20.537%
Mower County	42.776%	46.127%	48.204%	51.210%	52.009%
City of Adams	99.594%	100.289%	108.110%	128.806%	123.152%
Town of Adams[5]	14.572%	15.589%	18.776%	19.430%	18.935%
Cedar River Watershed	0.957%	0.997%	1.392%	1.418%	1.366%
County HRA	0.300%	0.345%	0.374%	0.413%	0.444%
Referendum Market Value Rates:					
I.S.D. No. 500 (Southland)	0.13201%	0.39766%	0.38778%	0.35177%	0.40879%

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Mower County.

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

2 Collections are through May 28, 2019.

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

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

5 Representative town rate.

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 77, including 38 non-licensed employees and 39 licensed employees (36 of whom are teachers). The District provides education for 394 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
Ed/MN - Southland	June 30, 2019

Status of Contracts

Contract which expires on June 30, 2019 is currently in negotiations.

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. 75 (GASB 75). The District's most recent actuarial study of its OPEB obligations shows a total OPEB liability of $591,236 as of June 30, 2018. The District has been funding these obligations on a pay-as-you-go basis.

Source: The District's most recent actuarial study.

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	32	175	227	434
2015/16	20	181	229	429
2016/17	28	185	222	435
2017/18	38	174	207	419
2018/19	17	175	185	377

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

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2019/20	22	170	195	388
2020/21	28	166	199	393
2021/22	26	163	204	393

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
Southland Middle School/High School	1916	1934, 1956, 1966, 1991, 1995
Southland Elementary	1920	1956, 1977
Early Childhood	1974	1956, 1977

FUNDS ON HAND (as of April 30, 2019)

Fund	Total Cash and Investments
General	$ 1,073,346
Food Service	96,360
Community Service	150,445
Building/Construction	17,826,745
Trust & Agency	140,702
Total Funds on Hand	$19,287,599

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 2018 audited financial statements.

	FISCAL YEAR ENDING JUNE 30				
COMBINED STATEMENT	**2016 Audited**	**2017 Audited**	**2018 Audited**	**2018-19 Revised Budget[1]**	**2019-20 Adopted Budget[2]**
Revenues					
Local property taxes	$ 582,769	$ 1,136,061	$ 1,068,494	$ 1,025,055	$ 1,158,004
Other local and county revenues	784,086	733,715	1,077,766	905,743	627,660
Investment income	3,159	3,956	8,570	8,000	10,000
Revenues from state sources	4,160,297	4,403,753	4,322,893	3,919,044	3,859,404
Revenues from federal sources	112,390	104,638	121,080	102,328	104,400
Total Revenues	$ 5,642,701	$ 6,382,123	$ 6,598,803	$ 5,960,170	$ 5,759,468
Expenditures					
Current					
Administration	$ 492,027	$ 500,374	$ 491,223	$ 516,302	$ 442,744
District support services	255,501	301,783	334,076	335,494	366,742
Elementary & secondary regular instruction	2,429,479	2,399,903	2,672,540	2,837,724	2,971,255
Vocational education instruction	153,615	145,870	123,777	95,599	98,429
Special education instruction	1,261,438	1,240,860	1,172,289	913,696	724,744
Instructional support services	192,889	229,847	179,710	209,600	150,804
Pupil support services	527,143	590,194	599,805	616,191	624,540
Sites and buildings	548,545	582,953	630,617	742,996	705,602
Fiscal and other fixed cost programs	32,718	37,407	29,689	26,800	41,000
Total Expenditures	$ 5,893,355	$ 6,029,191	$ 6,233,726	$ 6,294,402	$ 6,125,860
Excess of revenues over (under) expenditures	$ (250,654)	$ 352,932	$ 365,077	$ (334,232)	$ (366,392)
Other Financing Sources (Uses)					
Operating transfers in	$ 36,999	$ 0	$ 0		
Operating transfers out	(30,621)	0	0		
Capital lease proceeds	0	0	0		
Proceeds from sale of equipment	2,725	34,734	184		
Total Other Financing Sources (Uses)	$ 9,103	$ 34,734	$ 184		
Net Change in Fund Balances	$ (241,551)	$ 387,666	$ 365,261		
General Fund Balance July 1	1,150,580	909,029	1,296,695		
Prior Period Adjustment	0	0	0		
Residual Equity Transfer in (out)	0	0	0		
General Fund Balance June 30	$ 909,029	$ 1,296,695	$ 1,661,956		
DETAILS OF JUNE 30 FUND BALANCE					
Nonspendable	$ 3,813	$ 12,922	$ 73,878		
Restricted	83,067	232,639	286,101		
Assigned	40,004	106,377	183,736		
Unassigned	782,145	944,757	1,118,241		
Total	$ 909,029	$ 1,296,695	$ 1,661,956		

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1 The 2018-19 revised budget as adopted on May 20, 2019. The District has a history of conservative budgeting and consistently producing actual financial results that are more favorable than the budget. Final student counts for 2018-19 are coming in better than estimated; therefore, the District expects that the actual reductions in fund balance will be substantially less than shown above.

2 The 2019-20 budget was adopted on June 17, 2019.

GENERAL INFORMATION

LOCATION

The District, with a 2010 U.S. Census population of 3,562 and a current population estimate of 3,357, and comprising an area of 128,000 acres, is located approximately 117 miles south 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
Adams Health Care Center	Nursing & convalescent home	90
I.S.D. No. 500 (Southland)	Elementary and secondary education	77
R & S Grain Systems, Inc.	Grain elevators-equipment	20
United Farmers State Bank	Banks	15
Parenting Resource Center	Non-profit	15
Wagner's Foods	Grocers-retail	13
Corky's Corner	Convenience store	12
Sacred Heart	Church & school	11
JD Driver Limited	General contractor	10
Haven Industries	Grain handling	10

Source: *ReferenceUSA, written and telephone survey (January 2019), 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. 500 (Southland), Minnesota

2000 U.S. Census population[1]	
2010 U.S. Census population	3,562
2017 Population Estimate	3,357
Percent of Change 2000 - 2010	- 5.76%

Income and Age Statistics

	Southland School District	Mower County	State of Minnesota	United States
2017 per capita income	$31,323	$28,613	$34,712	$31,177
2017 median household income	$67,065	$53,700	$65,699	$57,652
2017 median family income	$79,688	$69,439	$82,785	$70,850
2017 median gross rent	$528	$704	$906	$982
2017 median value owner occupied units	$133,200	$114,700	$199,700	$193,500
2017 median age	44.7 yrs.	39.3 yrs.	37.9 yrs.	37.8 yrs.

	State of Minnesota	United States
District % of 2017 per capita income	90.24%	100.47%
District % of 2017 median family income	96.26%	112.47%

Source: *2000 and 2010 Census of Population and Housing, and 2017 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	**Mower County**	**Mower County**	**State of Minnesota**
2015	19,707	3.2%	3.7%
2016	19,926	3.2%	3.9%
2017	19,991	3.8%	3.4%
2018	19,903	2.7%	2.9%
2019, May	20,207	2.7%	2.9%

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

[1] Information not available.

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 or engaged the Auditor to perform, and the Auditor has not performed, any additional examination, assessments, procedures or evaluation with respect to such financial statements since the date thereof or with respect to this Official Statement, nor has the District requested that the Auditor consent to the use of such financial statements in this 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 #500
ADAMS, MINNESOTA
Southland SD
FINANCIAL STATEMENTS

JUNE 30, 2018

SMITH•SCHAFER
& ASSOCIATES, LTD.
Certified Public Accountants and Consultants

Members of American Institute of CPAs,
Private Companies Practice Section, Minnesota Society of CPAs

INDEPENDENT AUDITOR'S REPORT

Board of Education
Independent School District #500
Adams, 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 #500, Adams, Minnesota as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District #500, Adams, Minnesota as of June 30, 2018, and the respective changes in financial position and budgetary comparison for the general fund and each major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 of the notes to financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for the Post-Employment Benefits Other Than Pensions*, during the year ended June 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information as listed in the table of contents 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 response 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, supplementary information, and Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and Uniform Financial Accounting and Reporting Standards Compliance 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 addition 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 supplementary information and Uniform Financial Accounting and Reporting Standards Compliance 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.

Report on Summarized Comparative Information

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statement for the year ended June 30, 2017, from which such partial information was derived.

We have previously audited the District's 2017 financial statements and our report, dated November 14, 2017, expressed unmodified opinions on the respective financial statements of the governmental activities and each major fund. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued a report dated September 28, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District's internal control over financial reporting and 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.

Smith, Schafer and Associates, Ltd.

Rochester, Minnesota
September 28, 2018

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Independent School District #500 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- Total assets: $5,551,952.
- Overall revenues for the General Fund were $6,598,803 while overall expenditures totaled $6,233,726.
- The General Fund Unassigned Fund Balance is $1,118,241. This represents an increase of $212,655 from last fiscal year.
- The district continues to share staff including the superintendent, technology staff, EL teacher, Social Studies teacher, business manager, human resource/payroll manager, and special education with neighboring districts which realized cost savings to the district.
- Capital asset additions included two school buses and a bus garage.
- District average adjusted daily membership decreased by 7 students in Fiscal year 2018. The decrease is due to a smaller number of district residents. An increase of students enrolling into the District from other districts helped offset a sharper decline in adjusted daily membership. The District continues to project and monitor enrollment in order to make the necessary budget adjustments to maintain educational opportunities with current and future funding.
- The district was able to use its reserves for cash flow purposes and did not participate in short term borrowing for fiscal year 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund-financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

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

The two district-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements the District's activities are shown in one category: Governmental activities. Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements. The fund financial statements provide more detailed information about the District's funds – focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District establishes other funds to control and manage money for particular purposes (i.e. repaying its long-term debts) or to show that it is properly using certain revenues (i.e. federal grants).

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The District has two kinds of funds:

- ***Governmental funds.*** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or difference) between them.

- ***Fiduciary funds.*** The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The district's combined net position from Governmental activities was a deficit balance of $3,373,515 on June 30, 2018. This was a decrease of $1,657,338 from the prior year. The decrease is primarily related to the required recording of the district's share of the net pension liability and other postemployment benefits payable.

	Total	
	2018	2017
Assets		
Current and other assets	$ 3,285,400	$ 3,083,602
Capital assets	2,266,552	2,280,051
Total assets	5,551,952	5,363,653
Deferred Outflows of Resources	4,332,951	7,762,537
Liabilities		
Current liabilities	541,024	566,137
Long-Term liabilities	10,776,558	12,773,424
Total liabilities	11,317,582	13,339,561
Deferred Inflows of Resources	1,940,836	1,502,806
Net Position		
Net investment in capital assets	2,062,466	2,155,435
Restricted	422,831	294,657
Unrestricted	(5,858,812)	(4,166,269)
Total net position	$ (3,373,515)	$ (1,716,177)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

District's Revenue. The District's total revenues were $6,940,735 for the year ended June 30, 2018; compared to $6,932,674 for the year ended June 30, 2017. State sources accounted for 47% (compared to 49% the previous year) of the total revenue. Local property taxes (levies) accounted for 17% (compared to 18% the previous year) of the total revenue, with the remaining revenue coming from other sources.

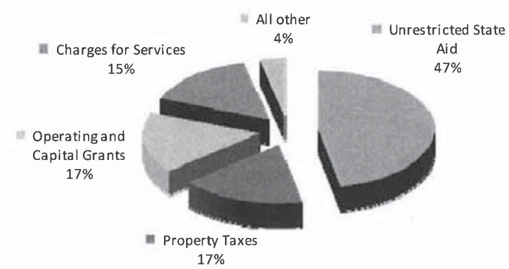
A condensed version of the Statement of Activities follows:

	Total	
	2018	2017
Revenue		
Program revenues:		
Charges for services	$ 1,079,450	$ 845,631
Operating grants and contributions	1,178,023	1,247,416
General revenues:		
Property taxes	1,183,595	1,236,732
Unrestricted state aid	3,251,234	3,416,888
Investment earnings	10,083	4,464
Other	238,350	181,543
Total revenues	6,940,735	6,932,674
Expenses		
Administration	643,099	644,468
District support services	330,654	302,003
Regular instruction	3,353,467	3,164,609
Vocational education instruction	169,440	193,576
Special education instruction	1,441,184	1,558,866
Instructional support services	179,507	253,490
Pupil support services	502,146	584,082
Sites and buildings	755,335	542,690
Fiscal and other fixed cost programs	29,689	37,407
Food service	232,974	246,908
Community service	192,632	192,356
Total expenses	7,830,127	7,720,455
Change in net position	(889,392)	(787,781)
Net position, beginning of year as restated (Note 1)	(2,484,123)	(928,396)
Net position, end of year	$ (3,373,515)	$ (1,716,177)

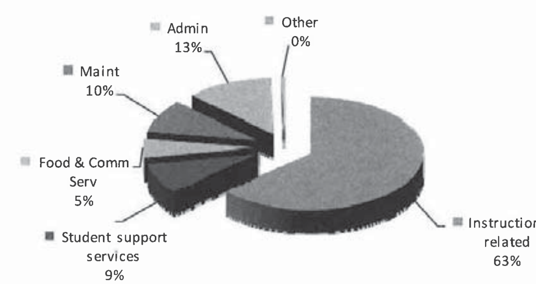
INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Sources of District's Revenues



District Expenses



FUND BASIS FINANCIAL ANALYSIS

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $1,798,686.

Enrollment trend information shows that the number of students the District will be physically serving will continue to decrease in FY 2018-2019. However, the number of ADM's will be lower than served. This is due to the special education consortium beginning to report students.

History of enrollment measured by adjusted average daily membership (ADM):

Fiscal Year	ADM	% Change
2009	560.43	
2010	554.02	-1.1%
2011	518.85	-6.3%
2012	485.41	-6.4%
2013	480.58	-1.0%
2014	457.46	-4.8%
2015	438.62	-4.1%
2016	433.64	-1.1%
2017	440.46	1.6%
2018	433.12	-1.7%

General Fund. The General Fund includes the primary operations of the District in providing educational services to students in kindergarten through grade twelve including pupil transportation activities and capital outlay projects.

The most significant fluctuating factors affecting this fund are enrollment, special education needs, inflation, and building and equipment repair/replacement. During the 2017-2018 year the District saw a slight decrease in enrollment mainly due to fewer resident students. An increase in non-resident students enrolling into the District helped offset the decrease.

FUND BASIS FINANCIAL ANALYSIS (Continued)

General fund revenues were as follows:

	2018	2017	Increase/ (Decrease)
Local Sources			
Local property tax levies	$ 1,068,494	$ 1,136,061	$ (67,567)
Investment income	8,570	3,956	4,614
Other local and county sources	1,077,766	733,715	344,051
State sources	4,322,893	4,403,753	(80,860)
Federal sources	121,080	104,638	16,442
Total General Fund Revenues	$ 6,598,803	$ 6,382,123	$ 216,680

Federal sources increased in FY 18. State sources decreased due to decreased student enrollment and recalculation of special education funding. Property taxes decreased in FY 18. Earnings from investments saw a slight increase despite low interest rates on money market funds. The category of "other" is revenue primarily from cost sharing of staff and donations.

General fund expenditures were as follows:

	2018	2017	Increase/ (Decrease)
District and school administration	$ 491,223	$ 500,374	$ (9,151)
District support services	334,076	301,783	32,293
Regular instruction	2,672,540	2,399,903	272,637
Vocational instruction	123,777	145,870	(22,093)
Special education	1,172,289	1,240,860	(68,571)
Instructional support services	179,710	229,847	(50,137)
Pupil support services	599,805	590,194	9,611
Site, buildings, and equipment	630,617	582,953	47,664
Fiscal and other fixed cost programs	29,689	37,407	(7,718)
Total General Fund Expenditures	$ 6,233,726	$ 6,029,191	$ 204,535

The General Fund expenditures increased by 3.3%, primarily due to the purchase of buses, increased PSEO costs, and DC/NY trip being moved from a student activity account to a district account.

FUND BASIS FINANCIAL ANALYSIS (Continued)

General Fund Budgetary Highlights. The administration starts looking at the next year's potential budget in the spring of the previous year. Midyear budget revisions will be done if needed based on enrollment changes, salary adjustments based on staff leaving and new staff hires after budget approval in June and unexpected building needs.

Food Service Fund. The Food Service fund ended with a balance of $59,240 in FY 2018. We will continue to monitor revenue and expenditures to insure the fund balance in food service remains stable.

Community Service Fund. The Community Service fund ended with a balance of $77,490 in FY 2018.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. Capital assets decreased 2.6%.

Capital assets are recorded in the District-wide financial statements, but are not reported in the Fund financial statements.

	Total (Net of Depreciation) 2018	2017
Land	$ 11,155	$ 11,155
Land improvements	88,363	83,381
Buildings and improvements	1,591,966	1,659,741
Equipment	575,068	525,774
Total	$ 2,266,552	$ 2,280,051

Construction – Next Five Years. In the fall of 2018, the District is asking voters to approve two building bond questions. One for renovation to the MS/HS building and one for a replacement gymnasium. If successful the District will be updating HVAC, adding space, and building a replacement gymnasium. If not successful, the District will be doing a minimal amount of work in order to make space for the move of the elementary students/staff to the current MS/HS campus.

Long Term Liabilities. Current long-term debt increased in FY 17-18 mainly due to a new capital lease for two school buses. Long-term debt will be increasing over the next 20-25 years either due to a successful bond referendum or facility bonds if the bond referendum is unsuccessful.

	Total 2018	2017
Capital Lease Payable - 2014 Bus	$ 24,321	$ 56,805
Capital Lease Payable - 2018 Buses	107,512	
Compensated Absences Payable	3,839	4,397
Severance Payable	68,414	63,414
Total	$ 204,086	$ 124,616

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The voters approved a 10 year operating levy in 2015 that increased general property tax revenues by approximately $500,000.

The District will be closing the elementary building and moving those students to the MS/HS campus. The District is asking voters to approve two question building bond referendum in the fall of 2018. If successful, the District will be updating HVAC, adding space, and building a replacement gymnasium. If unsuccessful, the District will be doing a minimal amount of work in order to make space for the move of the elementary students/staff to the current MS/HS campus.

The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our 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. If you have questions about this report or need additional financial information, contact the Business Office, Southland Independent School District #500, 203 2nd Street NW, P.O. Box 351, Adams, Minnesota, 55909.

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2018
With Comparative Data As of June 30, 2017

	Governmental Activities	
	2018	2017
Assets		
Cash and cash equivalents	$ 1,254,888	$ 1,296,754
Taxes receivable	513,858	571,789
Other receivables	55,335	22,248
Due from other governmental units	1,385,224	1,017,516
Inventory	2,217	6,523
Prepaid expenses	73,878	12,922
Net OPEB asset		155,850
Capital Assets:		
Non-depreciable	11,155	11,155
Depreciable, Net	2,255,397	2,268,896
TOTAL ASSETS	5,551,952	5,363,653
Deferred Outflows of Resources		
Deferred outflow from pension activities	4,332,951	7,762,537
Liabilities		
Accounts payable	36,082	57,993
Due to other governmental units	36,019	24,640
Unearned revenue	33,044	45,905
Accrued liabilities	435,879	437,599
Long-Term Liabilities:		
Due within one year	24,321	8,162
Due in more than one year	179,765	116,454
Net pension liability	9,981,236	12,648,808
Other postemployment benefits payable	591,236	
TOTAL LIABILITIES	11,317,582	13,339,561
Deferred Inflows of Resources		
Deferred inflows from pension activities	999,414	512,874
Property taxes levied for subsequent year	941,422	989,932
TOTAL DEFERRED INFLOWS OF RESOURCES	1,940,836	1,502,806
Net Position		
Net investment in capital assets	2,062,466	2,155,435
Restricted		
Operating capital purposes	145,414	164,523
State-mandated reserves	140,687	68,116
Food service	59,240	20,636
Community service	77,490	41,382
Unrestricted	(5,858,812)	(4,166,269)
TOTAL NET POSITION	$ (3,373,515)	$ (1,716,177)

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018
With Partial Comparative Data for the Year Ended June 30, 2017

	2018			
		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
District and school administration	$ 643,099	$ 4,706	$	$
District support services	330,654			
Regular instruction	3,353,467	65,444	483,103	
Vocational instruction	169,440	2,916		
Special education	1,441,184	773,140	518,335	
Community education and services	192,632	77,653	61,113	
Instruction support services	179,507			
Pupil support services	502,146			
Food service	232,974	155,591	115,472	
Site, buildings, and equipment	755,335			
Fiscal and other fixed cost programs	29,689			
Total governmental activities	$ 7,830,127	$ 1,079,450	$ 1,178,023	$

General Revenues:
Property taxes levied for:
General purposes
Community Service
State aid not restricted to specific purposes
Gain on sale of fixed assets
Miscellaneous
Investment income
Total general revenues and transfers

Change in net position

Net Position - Beginning, as orginally stated
Change in accounting principle (Note 1)
Net Position - Beginning, as restated

Net Position - Ending

See Notes to Financial Statements

2018	2017
Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Total Governmental Activities	Total Governmental Activities
$ (638,393)	$ (641,495)
(330,654)	(302,003)
(2,804,920)	(2,696,485)
(166,524)	(192,123)
(149,709)	(341,653)
(53,866)	(48,253)
(179,507)	(253,490)
(502,146)	(584,082)
38,089	12,273
(755,335)	(542,690)
(29,689)	(37,407)
(5,572,654)	(5,627,408)
1,129,728	1,189,816
53,867	46,916
3,251,234	3,416,888
184	34,734
238,166	146,809
10,083	4,464
4,683,262	4,839,627
(889,392)	(787,781)
(1,716,177)	(928,396)
(767,946)	
(2,484,123)	(928,396)
$ (3,373,515)	$ (1,716,177)

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018
With Partial Comparative Data as of June 30, 2017

	General	Food Service	Community Service	Total Governmental Funds 2018	Total Governmental Funds 2017
Assets					
Cash and cash equivalents	$ 1,074,457	$ 57,930	$ 122,501	$ 1,254,888	$ 1,296,754
Current property taxes receivable	479,416		30,174	509,590	558,819
Delinquent property taxes receivable	4,045		223	4,268	12,970
Accounts receivable	55,335			55,335	22,248
Due from other Minnesota school districts	677,075			677,075	318,076
Due from Minnesota Department of Education	703,665		4,484	708,149	699,440
Inventory		2,217		2,217	6,523
Prepaid expenses	73,878			73,878	12,922
TOTAL ASSETS	$ 3,067,871	$ 60,147	$ 157,382	$ 3,285,400	$ 2,927,752
Liabilities, Deferred Inflows of Resources, and Fund Balance					
Liabilities					
Accounts payable	$ 34,628	$ 907	$ 547	$ 36,082	$ 57,993
Salaries and accrued liabilities payable	424,416		11,463	435,879	437,599
Due to other Minnesota school districts	36,019			36,019	24,640
Unearned revenue	27,026		6,018	33,044	45,905
TOTAL LIABILITIES	522,089	907	18,028	541,024	566,137
Deferred Inflows of Resources					
Unavailable revenue:					
Property taxes levied for subsequent year	879,781		61,641	941,422	989,932
Delinquent property taxes	4,045		223	4,268	12,970
TOTAL DEFERRED INFLOWS OF RESOURCES	883,826		61,864	945,690	1,002,902
Fund Balances					
Nonspendable	73,878	2,217		76,095	19,445
Restricted	286,101	57,023	119,140	462,264	327,034
Assigned	183,736			183,736	145,548
Unassigned	1,118,241		(41,650)	1,076,591	866,686
TOTAL FUND BALANCES	1,661,956	59,240	77,490	1,798,686	1,358,713
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 3,067,871	$ 60,147	$ 157,382	$ 3,285,400	$ 2,927,752

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018
With Partial Comparative Data for the Year Ended June 30, 2017

	General	Food Service	Community Service	Total Governmental Funds 2018	Total Governmental Funds 2017
Revenues					
Local sources:					
Property tax levies	$ 1,068,494	$	$ 63,367	$ 1,131,861	$ 1,192,477
Other local and county sources	1,077,766		97,911	1,175,677	846,849
Investment income	8,570	515	998	10,083	4,464
State sources	4,322,893	12,152	46,473	4,381,518	4,452,559
Federal sources	121,080	103,320		224,400	194,639
Sales and other conversions of assets		155,591		155,591	157,948
TOTAL REVENUES	6,598,803	271,578	208,749	7,079,130	6,848,936
Expenditures					
District and school administration	491,223			491,223	500,374
District support services	334,076			334,076	301,783
Regular instruction	2,672,540			2,672,540	2,399,903
Vocational instruction	123,777			123,777	145,870
Special education	1,172,289			1,172,289	1,240,860
Community education and services			160,285	160,285	156,209
Instructional support services	179,710			179,710	229,847
Pupil support services	599,805	232,974	12,356	845,135	847,016
Site, buildings, and equipment	630,617			630,617	582,953
Fiscal and other fixed cost programs	29,689			29,689	37,407
TOTAL EXPENDITURES	6,233,726	232,974	172,641	6,639,341	6,442,222
EXCESS OF REVENUES OVER EXPENDITURES	365,077	38,604	36,108	439,789	406,714
Other Financing Sources					
Proceeds from sale of equipment	184			184	34,734
NET CHANGE IN FUND BALANCES	365,261	38,604	36,108	439,973	441,448
FUND BALANCE - BEGINNING	1,296,695	20,636	41,382	1,358,713	917,265
FUND BALANCE - ENDING	$ 1,661,956	$ 59,240	$ 77,490	$ 1,798,686	$ 1,358,713

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
DISTRICT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
June 30, 2018

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

Total governmental fund balances (page 15)		$ 1,798,686
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	$ 5,567,417	
Less: Accumulated depreciation	3,300,865	
		2,266,552
Other long-term assets not available soon enough to pay for current-period expenditures and, therefore, are unavailable in the funds:		
Delinquent property taxes		4,268
OPEB costs are recognized as expenditures in the fund financial statements, but are deferred in the district-wide statements		(591,236)
Long-term liabilities, including capital leases payable, are not due and payable in the current period and therefore are not reported in the funds.		
Capital leases payable	$ (131,833)	
Net pension liability	(6,647,699)	
Severance payable	(68,414)	
Accrued compensated absences	(3,839)	
		(6,851,785)
Net position of governmental activities (page 12)		$ (3,373,515)

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

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

Net change in fund balances - total governmental funds (page 16)		$ 439,973
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 173,874	
Depreciation expense	(187,373)	
		(13,499)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Delinquent property taxes		(8,702)
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.		
Severance payable		(5,000)
Change in accrued compensated absences		558
OPEB costs are recognized as expenditures in the fund statements, but are deferred in the district-wide statements resulting in a net difference		20,860
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal retirement on long-term debt	$ 92,484	
Issuance of capital leases payable	(167,512)	
Net pension liability	(1,248,554)	
		(1,323,582)
Change in net position of governmental activities (pages 13 and 14)		$ (889,392)

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2018
With Partial Comparative Data for the Year Ended June 30, 2017

	Budgeted Amounts		2018	Over (Under)	2017
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$ 990,488	$ 1,068,494	$ 1,068,494	$	$ 1,136,061
Other local and county sources	674,081	1,006,276	1,077,766	71,490	733,715
Investment income	3,500	8,200	8,570	370	3,956
State sources	4,414,252	4,158,252	4,322,893	164,641	4,403,753
Federal sources	90,362	121,080	121,080		104,638
TOTAL REVENUES	6,172,683	6,362,302	6,598,803	236,501	6,382,123
Expenditures					
District and school administration	510,781	491,847	491,223	(624)	500,374
District support services	232,617	335,649	334,076	(1,573)	301,783
Regular instruction	2,470,447	2,680,804	2,672,540	(8,264)	2,399,903
Vocational instruction	156,568	123,821	123,777	(44)	145,870
Special education	1,354,068	1,178,254	1,172,289	(5,965)	1,240,860
Instructional support services	302,879	181,625	179,710	(1,915)	229,847
Pupil support services	601,698	614,998	599,805	(15,193)	590,194
Site, buildings, and equipment	660,747	657,061	630,617	(26,444)	582,953
Fiscal and other fixed cost programs	38,380	29,689	29,689		37,407
TOTAL EXPENDITURES	6,328,185	6,293,748	6,233,726	(60,022)	6,029,191
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(155,502)	68,554	365,077	296,523	352,932
Other Financing Sources					
Proceeds from sale of equipment	1,200	200	184	(16)	34,734
NET CHANGE IN FUND BALANCE	(154,302)	68,754	365,261	296,507	387,666
FUND BALANCE - BEGINNING	1,296,695	1,296,695	1,296,695		909,029
FUND BALANCE - ENDING	$ 1,142,393	$ 1,365,449	$ 1,661,956	$ 296,507	$ 1,296,695

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOOD SERVICE FUND
For the Year Ended June 30, 2018
With Partial Comparative Data for the Year Ended June 30, 2017

	Budgeted Amounts		2018	Over (Under)	2017
	Original	Final	Actual	Final Budget	Actual
Revenues					
State sources	$ 11,000	$ 12,000	$ 12,152	$ 152	$ 11,232
Federal sources	87,643	96,500	103,320	6,820	90,001
Investment income			515	515	127
Sales and other conversions of assets	145,665	156,100	155,591	(509)	157,948
TOTAL REVENUES	244,308	264,600	271,578	6,978	259,308
Expenditures					
Pupil support services	235,158	259,700	232,974	(26,726)	246,908
NET CHANGE IN FUND BALANCES	9,150	4,900	38,604	33,704	12,400
FUND BALANCES - BEGINNING	20,636	20,636	20,636		8,236
FUND BALANCES - ENDING	$ 29,786	$ 25,536	$ 59,240	$ 33,704	$ 20,636

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND

For the Year Ended June 30, 2018

With Partial Comparative Data for the Year Ended June 30, 2017

	Budgeted Amounts		2018	Over (Under)	2017
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$ 60,297	$ 56,699	$ 63,367	$ 6,668	$ 56,416
Other local and county sources	87,000	91,000	97,911	6,911	113,134
Investment income			998	998	381
State sources	32,865	44,751	46,473	1,722	37,574
TOTAL REVENUES	180,162	192,450	208,749	16,299	207,505
Expenditures					
Community education and services	147,351	145,096	160,285	15,189	156,209
Pupil support services	10,759	12,634	12,356	(278)	9,914
TOTAL EXPENDITURES	158,110	157,730	172,641	14,911	166,123
NET CHANGE IN FUND BALANCES	22,052	34,720	36,108	1,388	41,382
FUND BALANCES - BEGINNING	41,382	41,382	41,382		
FUND BALANCES - ENDING	$ 63,434	$ 76,102	$ 77,490	$ 1,388	$ 41,382

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2018

	Private Purpose Trust
	Scholarship
ASSETS	
Cash and cash equivalents	$ 141,041
TOTAL ASSETS	$ 141,041
NET POSITION	$ 141,041

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2018

	Private Purpose Trust
	Scholarship
Additions	
Earnings on investments	$ 2,062
Deductions	
Miscellaneous	1,549
CHANGE IN NET POSITION	513
NET POSITION - BEGINNING	140,528
NET POSITION - ENDING	$ 141,041

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The financial statements of Independent School District #500 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

Financial Reporting Entity

Independent School District #500 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting principles generally accepted in the United States of America (GAAP) require that the District's financial statements include all funds, account groups, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds and account groups of the District. There are no other entities for which the District is financially accountable.

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

Basic Financial Statement Presentation

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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*. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material inter-fund activity has been removed from the District-wide financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Basic Financial Statement Presentation (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and the 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 is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenue when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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, and donations. On an accrual basis, revenue from property taxes are recognized in the year for which the tax is levied. Revenue from grants and donations are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements including timing requirements, which specify the year in 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 specific 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 is recognized.

Unearned revenue is recorded when assets are recognized before revenue recognition criteria have been satisfied. Grants received before eligibility requirements other than time requirements are met and recorded as unearned revenue. Grants received before time requirements are met are recorded as deferred inflow of resources.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. A description of each fund included in this report is as follows:

The *general fund* is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the district, as well as the capital related activities such as maintenance of facilities, equipment purchases, health and safety projects, and disabled accessibility projects.

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

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

The District reports the following fiduciary funds:

The *private-purpose trust fund* is used to account for trust arrangements under which principal and income benefits individuals, private organizations, or other governments. This fund accounts for funds established for various annual scholarships that are awarded to students based on the requirements of the donator.

SOUTHLAND - INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, and Community Service Funds. The approved budget is published in summary form in the District's legal newspaper by October 1 of each year. Reported budgeted amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control for most funds is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

Cash and Investments

Cash and investments consist of demand deposits, money market accounts, cash on hand, and investments with Minnesota Liquid Asset Fund. Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivable not expected to be collected within one year is current property taxes receivable.

Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section of deferred outflows of resources. This separate financial statement element 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) until that time. The District has one type of item which occurs related to revenue recognition. The deferred outflow of resources is pension related.

Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate financial statement element, 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 three items which occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year-end) under the modified accrual basis of accounting. The third type is pension related.

1. Summary of Significant Accounting Policies (Continued)

Inventories

Inventories are recorded using the consumption method of accounting and consist of food and surplus commodities received from the federal government. Food purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

Prepaid Expenses

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

Property Taxes

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1. Taxes are due on May 15 and October 15. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of District revenue in the General fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between 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 the "tax shift". Currently, the mandated tax shift recognizes $150,305 of the property tax levy collectible in 2018 as revenue to the District is fiscal year 2017-2018. The remaining portion of the taxes collectible in 2018 is recorded as deferred inflows of resources.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2018, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District maintains a capitalization threshold level of $2,500. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

SOUTHLAND - INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Capital assets are recorded in the District-wide financial statements, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes.

	Useful Life in Years
Buildings	20 - 50
Furniture and fixtures	5 - 15

Capital assets not being depreciated include land.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums 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.

Compensated Absences

The District has employee and union contracts with several different employee groups. Employee benefits under the contracts are different, but generally include provisions for sick leave and vacation leave. The District accounts for the employee benefits as follows:

Vacation pay has not been accrued in any funds, as these benefits do not vest to employees.

Sick Leave-Upon leaving the employment of the District, non-certified employees with fifteen to twenty or more years of service are compensated $10 per unused accumulated sick leave day. Non-certified employees with twenty or more years of service are compensated $15 per unused accumulated sick leave day. As of June 30, 2018, the total established payments of $3,839 have been recorded as a long-term liability.

Other Postemployment Benefits

Under the terms of certain collectively bargained employment contracts, including the teachers' and administrators' contracts, the District makes no contributions toward the health insurance premiums of retired employees. However, the District has an implicit rate or subsidy for OPEB. This amount was actuarially determined in accordance with GASB Statement No. 75.

1. Summary of Significant Accounting Policies (Continued)

Severance

The District provides for early retirement severance pay that qualifies as a termination benefit. Teachers hired prior to 1996-97 may receive a severance payment of $600 per year of service not to exceed $13,000. If a qualifying teacher for severance elects to participate in the 403B Match, any District contributions to the 403B Match will be subtracted from the severance amount. Any severance funds will follow the guidelines for severance payment. Any 403B matching funds will follow the guidelines for 403B Match. An amount equal to the value of 100% of the amount calculated above will be placed into a Minnesota Retirement System Health Care Savings Plan account. The employee will not receive any direct payment from the school district for severance pay. This agreement is effective for those retiring after the 2006-2007 school year. An estimate of the potential obligation to be paid in future years is $68,414. This amount is included in the financial statements as part of long-term liabilities.

Retiree Health Insurance

The School District shall continue existing health care coverage for those teachers who retired by June 30, 2007. Such coverage shall cease when the teacher is eligible for full Medicare benefits. The District shall continue existing health care coverage for those teachers hired prior to June 30, 2008 who retires no more than 10 years prior to Medicare eligibility. The single policy includes current district contribution capped at $4,500 per year and the family policy includes current district contribution capped at $6,800 per year. Such coverage shall cease when the teacher is eligible for full Medicare benefits. Teachers hired after June 30, 2008 will receive, starting with their fourth year of employment, an employer contribution of $1,000 per year into the Minnesota Post-Retirement Health Care Savings Plan. Teachers must be at least 0.5 FTE to be eligible for this benefit.

Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned. Nonspendable portions of fund balance relate to inventory. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The District currently doesn't report any committed fund balances. The Board of Education passed a resolution authorizing the Board Chair, Superintendent and the Business Manager the ability to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

SOUTHLAND - INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Net Position

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

Pensions

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

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 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 (DTRFA) in 2015. Additional information can be found in Note 8.

Change in Accounting Principle

During the year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions.* This statement included major changes in how plans and employers account for OPEB benefit obligations. This statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses/expenditures. Certain amounts necessary to fully restate fiscal year 2017 financial information are not determinable; therefore, prior year comparative amounts have not been restated. The implementation of the new GASB statement in the current year resulted in the restatement of net position as of June 30, 2017. The details of the restatement are as follows:

Activities/Fund	Net Position June 30, 2017 as Previously Reported	Restatement for Change in Accounting Principle	Net Position June 30, 2017 as Restated
Governmental Activities	$ (1,716,177)	$ (767,946)	$ (2,484,123)

2. Stewardship and Accountability

Excess of expenditures over appropriations at the individual fund level during FY 2017-2018 is as follows:

	Budget	Expenditures	Excess
Community Service Fund	$ 157,730	$ 172,641	$ 14,911

Excess expenditures were the result of planned process.

3. Cash and Investments

Summary of Cash and Investments

As of June 30, 2018, the District's cash and cash equivalents consisted of the following items, all of which are held in an internal investment pool:

Deposits	$ 108,822
Money market savings	851,797
Non-negotiable certificates of deposit	135,035
Minnesota School District Liquid Asset Funds Plus (MSDLAF+)	300,275
Less: Fiduciary funds cash and cash equivalents	(141,041)
Total Cash and cash equivalents reported on the Statement of Net Position	$ 1,254,888

The District's investments held with broker consisted of the following:

Investment	Amortized Cost
Minnesota School District Liquid Asset Funds Plus (MSDLAF+)	$ 300,275

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

Credit Risk – The MSDLAF+ pool is rated AAAm by Standard & Poor's.

3. Cash and Investments (Continued)

Investments Authorized by Minnesota Statues

The District is authorized by Minnesota Statues to invest idle funds as follows:

a) Direct obligations or obligations guaranteed by the United States or its agencies.

b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is 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.

c) General obligations rated "A" or better; revenue obligations rated "AA" or better.

d) General obligations of the Minnesota Housing Finance Agency rated "A" or better.

e) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.

f) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.

g) Repurchase or reverse purchase 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.

h) Guaranteed Investments Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's policy for custodial credit risk follows Minnesota Statutes for deposits. The District's deposits are entirely covered by federal depository insurance or by collateral held by the District's custodial banks in the District's name.

Minnesota Statues require that all District deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank must equal 110% of the deposits not covered by insurance or surety bonds. Authorized collateral includes certain state of local government obligations and legal investments. Minnesota Statues also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

3. Cash and Investments (Continued)

Fair Value Measurement

Fair value measurements are determined utilizing the framework established by the Governmental Accounting Standards Board. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access
- Level 2: Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets
  - Quoted prices for identical assets or liabilities in inactive markets
  - Inputs other than quoted prices that are observable for the asset or liability
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specific (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

There were no assets measured at fair value on a recurring basis noted at the District.

4. Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2018 are as follows:

Fund	Minnesota Department of Education	Other Minnesota School Districts	Total
General	$ 703,665	$ 677,075	$ 1,380,740
Community Service	4,484		4,484
	$ 708,149	$ 677,075	$ 1,385,224

5. Capital Assets

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

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 11,155	$	$	$ 11,155
Total capital assets, not being depreciated	11,155			11,155
Capital assets, being depreciated:				
Buildings and improvements	3,897,944			3,897,944
Land improvements	130,471	11,800		142,271
Equipment	1,469,683	162,074	115,710	1,516,047
Total capital assets, being depreciated	5,498,098	173,874	115,710	5,556,262
Less accumulated depreciation for:				
Buildings and improvements	2,238,203	67,775		2,305,978
Land improvements	47,090	6,818		53,908
Equipment	943,909	112,780	115,710	940,979
Total accumulated depreciation	3,229,202	187,373	115,710	3,300,865
Total capital assets, being depreciated, net	2,268,896	(13,499)		2,255,397
Governmental activities capital assets, net	$ 2,280,051	$ (13,499)	$	$ 2,266,552

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Regular instruction	$ 83,737
Instructional support services	265
Pupil support services	82,599
Site and building	20,772
Total depreciation expense - governmental activities	$ 187,373

6. Long-Term Liabilities

The long-term debt obligations outstanding and related maturities and interest rates are summarized in the following schedule.

	Original Amount of Debt	Range of Interest Rates	Final Maturity	Balance June 30, 2018
Capital Leases Payable - 2014 Bus	$ 82,217	2.79%	7/7/2018	$ 24,321
Capital Leases Payable - 2018 Buses	167,512	2.75%	9/29/2020	107,512
Compensated Absences Payable				3,839
Severance Payable				68,414
				$ 204,086

Minimum annual principal and interest payments required to retire long-term debt, not including severance, are as follows:

	Capital Leases Payable	
Year Ending June 30	Principal	Interest
2019	$ 41,364	$ 3,636
2020	27,512	2,488
2021	62,957	1,731
	$ 131,833	$ 7,855

Description of long term debt

Capital Leases Payable. On July 7, 2014, the District entered into a capital lease for a bus, and on August 1, 2017 the District entered into a capital lease for two buses. Annual principal and interest will be paid by the General Fund.

Compensated Absences Payable. Compensated absences payable consist of convertible sick leave benefits payable to non-certified employees upon retirement. These benefits are paid by the General Fund.

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Capital Leases Payable:					
Capital Lease Payable - 2014 Bus	$ 56,805	$	$ 32,484	$ 24,321	$ 24,321
Capital Lease Payable - 2018 Buses		167,512	60,000	107,512	17,043
Other Liabilities:					
Compensated Absences	4,397		558	3,839	
Severance Payable	63,414	5,000		68,414	
Governmental Activities Long-term Liabilities	$ 124,616	$ 172,512	$ 93,042	$ 204,086	$ 41,364

7. Fund Equity

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained to due constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Assignment of fund balances can be made by the District Superintendent, Business Manager, or the School Board. Assignments so made are to be reported to the School Board on a monthly basis.

In accordance with the District's fund balance policy, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available; it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the District's policy to use committed first, then assigned and finally unassigned fund balance.

The District has a minimum fund balance policy, which identifies a minimum unassigned fund balance in the General Fund between 15% and 25% of prior fiscal year's expenditures.

Restriction of fund balance indicates that a portion of the fund balance is legally segregated for a specific future use. The following is a summary of the restricted fund balances for the governmental funds:

Restricted for Staff Development – Represents available resources within the General Fund reserved for staff development.

Restricted for Operating Capital – Restricted for operating capital represents general education aid resources to be expended for operating capital.

Restricted for Health and Safety – Restricted for health and safety represents available resources to be used only to provide for the removal of hazardous substances and other state approved life/health safety projects. Under Minnesota Statute, a deficit in this reserve generates specific future levy authority.

Restricted for Long Term Facilities Maintenance – Represents the resources available to be used for LTFM projects in accordance with the 10 Year Plan.

Restricted for Medical Assistance – Represents the resources available for Medical Assistance expenditures.

Restricted for Teacher Development and Evaluation – Represents available resources within the General Fund reserved for teacher development and evaluation.

Restricted for Safe Schools – Crime Levy – Represents available resources to provide Safe School programs.

7. Fund Equity (Continued)

Restricted for Community Education Programs – The fund balance restriction represents accumulated resources available to provide general community education programs.

Restricted for Early Childhood and Family Education Programs – The fund balance restriction represents accumulated resources available to provide services for early childhood and family education planning.

Restricted for School Readiness – The fund balance restriction represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

The following is a summary of fund balances as of June 30, 2018:

	General	Food Service	Community Service	2018 Totals	2017 Totals
Nonspendable					
Inventory	$	$ 2,217	$	$ 2,217	$ 6,523
Prepaid Items	73,878			73,878	12,922
Total nonspendable	73,878	2,217		76,095	19,445
Restricted					
Staff development	6,679			6,679	6,679
Operating capital	145,414			145,414	164,523
Health and safety					6,436
Long-term facilities maintenance	123,141			123,141	44,811
Medical assistance	6,175			6,175	2,606
Teacher development and evaluation					2,892
Safe schools - crime levy	4,692			4,692	4,692
Food service		57,023		57,023	14,113
Community education			77,079	77,079	42,101
Early childhood and family education			27,132	27,132	26,071
Community service			14,929	14,929	12,110
Total restricted	286,101	57,023	119,140	462,264	327,034
Assigned					
Rebel Nation projects	24,978			24,978	16,593
Student activities	31,375			31,375	22,578
Technology insurance	93,503			93,503	87,497
Transportation	33,880			33,880	18,880
Total assigned	183,736			183,736	145,548
Unassigned	1,118,241		(41,650)	1,076,591	866,686
Total Fund Balance	$ 1,661,956	$ 59,240	$ 77,490	$ 1,798,686	$ 1,358,713

SOUTHLAND - INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Fund Equity (Continued)

The Uniform Financial Accounting and Reporting Standards (UFARS) fund balance reporting standards are slightly different than the reporting standards under GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Below is a reconciliation between the fund balances following GASB standards and UFARS reporting standards:

	GASB Balance	Reconciling Balance	UFARS Balance June 30, 2018	UFARS Balance June 30, 2017
Nonspendable				
Inventory	$ 2,217	$	$ 2,217	$ 6,523
Prepaid Items	73,878		73,878	12,922
Total nonspendable	76,095		76,095	19,445
Restricted				
Staff development	6,679		6,679	6,679
Operating capital	145,414		145,414	164,523
Health and safety		(1,274)	(1,274)	6,436
Long-term facilities maintenance	123,141		123,141	44,811
Medical assistance	6,175		6,175	2,606
Teacher development and evaluation				2,892
Safe schools - crime levy	4,692		4,692	4,692
Food service	57,023		57,023	14,113
Community education	77,079		77,079	42,101
Early childhood and family education	27,132		27,132	26,071
School readiness		(41,650)	(41,650)	(38,900)
Community service	14,929		14,929	12,110
Total restricted	462,264	(42,924)	419,340	288,134
Assigned				
Rebel Nation projects	24,978		24,978	16,593
Student activities	31,375		31,375	22,578
Technology insurance	93,503		93,503	87,497
Transportation	33,880		33,880	18,880
Total assigned	183,736		183,736	145,548
Unassigned	1,076,591	42,924	1,119,515	905,586
Total Fund Balance	$ 1,798,686	$	$ 1,798,686	$ 1,358,713

8. Defined Benefit Pension Plans – Statewide

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

Plan Description

1. General Employees Retirement Fund

PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Teachers Retirement Association (TRA)

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

Teachers employed in Minnesota's public elementary and secondary school, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State 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.

Benefits Provided

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

1. General Employees Plan Benefits

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 one 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.

SOUTHLAND - INDEPENDENT SCHOOL DISTRICT #500
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (Continued)

Benefits Provided (Continued)

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining ear. The annuity accrual rate of 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.

2. TRA Benefits

Postretirement benefit increases are provided to benefit recipients each January. The TRA increase is 2.0 percent. After the TRA funded ratio exceeds 90 percent for two consecutive years, the annual postretirement benefit will increase 2.5 percent.

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 benefits as described.

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

With these provisions:

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

b) 3 percent per year early retirement reduction factors for all years under normal retirement age.

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

or

8. Defined Benefit Pension Plans – Statewide (Continued)

Benefits Provided (Continued)

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent 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 of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of five plans that 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 plan provisions in effect at the time they last terminated their public service.

Contributions

1. General Employees Fund Contributions

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018. The District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2018 were $59,079. The District's contributions were equal to the required contributions as set by the state statute.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended were:

	Ended June 30, 2018		Ended June 30, 2017	
	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.5%
Coordinated	7.5%	7.5%	7.5%	7.5%

SOUTHLAND - INDEPENDENT SCHOOL DISTRICT #500
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (Continued)

Contributions (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	$	367,791,000
Add employer contributions not related to future contribution effort		810,000
Deduct TRA's contributions not included in allocation		(456,000)
Total employer contributions		368,145,000
Total non-employer contributions		35,588,000
Total Contributions reported in *Schedule of Employer and Non-Employer Allocations*	$	403,733,000

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.

Pension Costs

1. General Employees Fund Pension Costs

At June 30, 2018, the District reported a liability of $778,840 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $9,815. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 0.0122 percent which was a decrease of 0.0014 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $17,544 for its proportionate share of General Employees Plan's pension expense. In addition, the District recognized an additional $283 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

8. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (Continued)

At June 30, 2018, the District reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$	$ 32,711
Changes in actuarial assumptions	66,064	
Difference between projected and actual investment earnings		29,539
Changes in proportion		179,192
Contributions paid to PERA subsequent to the measurement date	60,024	
Total	$ 126,088	$ 241,442

$60,024 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2019	$ (96,923)
2020	(6,330)
2021	(39,064)
2022	(33,061)

2. TRA Pension Costs

At June 30, 2018, the District reported a liability of $9,202,396 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.0461% at the end of the measurement period and 0.0484% for the beginning of the period.

SOUTHLAND - INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (Continued)

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	$ 9,202,396
State's proportionate share of the net pension liability associated with the district	$ 890,334

For the year ended June 30, 2018, the District recognized pension expense of $1,499,025. It also recognized $17,076 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 29,990	$
Changes in actuarial assumptions	3,980,573	
Difference between projected and actual investment earnings		78,378
Changes in proportion		679,594
Contributions paid to TRA subsequent to the measurement date	196,300	
Total	$ 4,206,863	$ 757,972

$196,300 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2019	$ 858,379
2020	1,072,062
2021	926,937
2022	757,345
2023	(362,132)

8. Defined Benefit Pension Plans – Statewide (Continued)

Aggregate Pension Costs

Pension expense recognized by the District for the year ended June 30, 2018 is as follows:

General Employees Retirement Fund	$17,827
TRA	1,516,101
Total	$1,533,928

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

1. General Employees Fund Actuarial Assumptions

Assumptions	General Employees Retirement Fund
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 males and females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent per year for the General Employees Plan through 2044 and 2.5 percent thereafter.

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

The following changes in PERA actuarial assumptions occurred in 2017:

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

8. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Assumptions (Continued)

2. TRA Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation Date	July 1, 2017
Experience Study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	5.12%, from the Single Equivalent Interest Rate Calculation
Price Inflation	2.50%
Wage Growth Rate	2.85% for 10 years and 3.25%, thereafter
Projected Salary Increases	2.85 - 8.85% for 10 years and
	3.25 to 9.25%, thereafter
Cost of Living Adjustment	2.00%
Mortality Assumptions:	
Pre-Retirement:	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projections 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 adjustment of the rates. Generational projection uses the MP-2015 scale
Post-Disability:	RP-2014 disabled retiree morality table, without adjustment.

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

8. Defined Benefit Pension Plans – Statewide (Continued)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return 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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Unallocated Cash	2%	0.00%
Total	100%	

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

The following changes in TRA actuarial assumptions since the 2016 valuation:

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

Discount Rate

1. General Employees Fund Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates specified in Minnesota Statutes. Based on those assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SOUTHLAND - INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (Continued)

Discount Rate (Continued)

2. TRA Discount Rate

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

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 one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
General Employees Retirement Fund Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the General Employees Retirement Fund net pension liability	$ 1,208,039	$ 778,840	$ 427,463
TRA Discount Rate	4.12%	5.12%	6.12%
District's proportionate share of the TRA net pension liability	$ 12,145,390	$ 9,202,396	$ 6,721,095

Pension Plan Fiduciary Net Position

Detailed information about General Employees Retirement Fund'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.

Detailed information about TRA'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 400, St. Paul, Minnesota, 55103-4000; or by calling (651) 296-2409 or 1-800-657-3669.

9. Defined Contribution Plan

The district provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2018, 2017, and 2016, are $28,092, $23,639, and $22,728, respectively. The related employee contributions were $93,155, $71,440, and $85,009, for the years ended June 30, 2018, 2017, and 2016, respectively.

10. Other Postemployment Benefit Plan

The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions for the year ended June 30, 2018.

Plan Description

The District provides health insurance benefits for certain retired employees under a single-employer plan. The District provides benefits for retirees as required by state statute to active employees when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and if they do not participate in any other health benefits program providing similar coverage.

Benefits Provided

These retirees will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the District's health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active retiree population, the retirees are receiving an implicit rate subsidy. As of June 30, 208 there were approximately 27 active participants and 7 retired participants in the District's group health plan.

Funding Policy

The required contribution is based on projected pay-as-you-go method under which contributions to the plan are generally made at the same time and in the same amount as retiree benefits and expenses become due.

10. Other Postemployment Benefit Plan (Continued)

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of date. The components of the net OPEB liability of the District at year-end were as follows:

Total OPEB liability	$	591,236
Plan fiduciary net position		-
Net OPEB liability	$	591,236
Plan fiduciary net position as a percentage of the total OPEB liability		0.00%
Liability discount rate		3.56%

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. 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.

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

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.56%
Expected return on plan assets	N/A
Inflation rate	2.75%
Mortality	Mortality rates were based on the RP-2014 mortality tables with projected morality improvements based on scale MP-2017, and other adjustments.
Health care cost trend rate	6.80% for FY 2018, gradually decreasing over several decades to an ultimate rate of 4.40% in FY 2075 and later years. In addition, the medical trend rates above were increased to reflect the projected effect of the Affordable Care Act's Excise Tax on high-cost health insurance plans. The additional trend rate adjustments vary by year, but average 0.40% beginning calendar year 2038 for plans other than Medicare plans.

10. Other Postemployment Benefit Plan (Continued)

Actuarial Methods and Assumptions (Continued)

The following changes in OPEB actuarial assumptions were changed during fiscal year 2018:

- The discount rate was changed from 2.92% to 3.56% based on updated 20-year municipal bond rates.
- The actuarial cost method changed from using the Projected Unit Credit cost method to the Entry Age Normal level percent of pay cost method due to new GASB 74/75 accounting rules.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Withdrawal rates were updated from the age-based turnover data provided in Table 1 in Paragraph 35b of GASB 45 to the rates used in the 7/1/2017 PERA General and TRA actuarial valuations.
- A salary scale assumption was added to reflect the cost method change. Rates are from 7/1/2017 PERA General Employees Retirement Plan and 7/1/2017 Teachers Retirement Association valuations.
- Mortality rates were updated from 2000 United States Life Tables to the RP-2014 headcount-weighted tables to reflect recently-published mortality rates. This changes was made due to updated valuation methods.

Changes in Net OPEB Liability

	Total OPEB Liability	
Beginning Balance 6/30/2017	$	612,096
Changes for the Year		
Service cost		37,698
Interest		18,229
Changes in assumptions		(25,519)
Benefit payments		(51,265)
Net changes		(20,860)
Balance End of Year 6/30/2018	$	591,236

Net OPEB Liability Sensitivity to Discount and Health-Care Cost Trend Rate Changes

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

	Total OPEB Liability	
1% decrease in Discount Rate (2.56%)	$	631,596
Current Discount Rate (3.56%)		591,236
1% increase in Discount Rate (4.56%)		553,564

10. Other Postemployment Benefit Plan (Continued)

Net OPEB Liability Sensitivity to Discount and Health-Care Cost Trend Rate Changes (Continued)

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	Total OPEB Liability	
1% decrease in Trend Rates	$	553,317
Current Trend Rates		591,236
1% increase in Trend Rates		635,756

11. Commitments and Contingencies

Federal and State Receivables

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial. The financial assistance received is subject to audits by the grantor agency.

12. Jointly Governed Organization

The Southern Minnesota Special Education Consortium No. 6083 was established by a joint powers agreement entered into on July 21, 2009. This agreement was updated on February 10, 2015 by and between the School Boards of Lyle, LeRoy-Ostrander, Glenville-Emmons, Southland, Grand Meadow, Kingsland, and Alden-Conger. The primary objective of the Consortium is to provide, by a cooperative effort, special education programs and other related services as can be effectively operated by its member districts. Each member district shares in the cost of the programming, which is paid to the Consortium in the form of reimbursements and other charges for services in excess of federal special education grants received by the Consortium. The jointly governed organization's financial statements are audited and available for inspection.

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA

Schedule of Changes in District's Net OPEB Liability and Related Ratios
Year Ended June 30, 3018

Total OPEB Liability	
Service cost	$ 37,698
Interest	18,226
Changes of assumptions	(25,519)
Benefit payments	(51,265)
Net change in total OPEB liability	(20,860)
Total OPEB Liability - beginning of year	612,096
Total OPEB Liability - end of year	$ 591,236
Net OPEB Liability - End of Year	$ 591,236
Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.0%
OPEB-eligible payroll for measurement period	$2,610,125
Net OPEB Liability as a Percentage of eligible payroll	22.7%

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA

Schedule of District's Contributions
General Employees Retirement Funds
Last Ten Years

Fiscal Year Ended June 30	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	PERA	$ 63,118	$ 63,118	$	$ 841,573	7.50%
2016	PERA	71,660	71,660		955,467	7.50%
2017	PERA	63,313	63,313		844,173	7.50%
2018	PERA	59,079	59,079		787,720	7.50%
2019						
2020						
2021						
2022						
2023						
2024						

Schedule of District's Contributions
TRA Retirement Funds
Last Ten Years

Fiscal Year Ended June 30	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	TRA	$ 188,580	$ 188,580	$	$2,514,400	7.50%
2016	TRA	197,826	197,826		2,637,680	7.50%
2017	TRA	189,007	189,007		2,520,093	7.50%
2018	TRA	186,107	186,107		2,481,427	7.50%
2019						
2020						
2021						
2022						
2023						
2024						

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
Public Employees PERA
Last Ten Years (presented prospectively)

Fiscal Year Ended June 30	District's Proportionate (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the District (a+b)	District's Covered Payroll (c)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0181%	$ 850,247	$	$	$ 841,573	101%	78.7%
2015	0.0165%	855,116			955,467	89%	78.2%
2016	0.0136%	1,104,253	14,445	1,118,698	844,173	133%	68.9%
2017	0.0122%	778,840	9,815	788,655	787,720	100%	75.9%
2018							
2019							
2020							
2021							
2022							
2023							

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
TRA
Last Ten Years (presented prospectively)

Fiscal Year Ended June 30	District's Proportionate (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) (b)	Districts Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the District (a+b)	District's Covered Payroll (c)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0590%	$ 2,718,678	$ 191,405	$ 2,910,083	$ 2,514,400	108%	81.5%
2015	0.0520%	3,216,714	394,707	3,611,421	2,637,680	122%	76.8%
2016	0.0484%	11,544,555	1,159,684	12,704,239	2,520,093	458%	44.9%
2017	0.0461%	9,202,396	890,334	10,092,730	2,481,427	371%	51.6%
2018							
2019							
2020							
2021							
2022							
2023							

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
COMPARATIVE BALANCE SHEET
GENERAL FUND
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 1,074,457	$ 1,197,318
Current property taxes receivable	479,416	529,023
Delinquent property taxes receivable	4,045	12,298
Accounts receivable	55,335	22,248
Due from other Minnesota school districts	677,075	318,076
Due from Minnesota Department of Education	703,665	695,777
Prepaid expenses	73,878	12,922
TOTAL ASSETS	3,067,871	2,787,662
Liabilities		
Accounts payable	34,628	57,634
Salaries and accrued liabilities payable	424,416	427,072
Due to other Minnesota school districts	36,019	24,640
Unearned revenue	27,026	39,688
TOTAL LIABILITIES	522,089	549,034
Deferred Inflows of Resources		
Unavailable revenue:		
Property taxes levied for subsequent year	879,781	929,635
Delinquent property taxes	4,045	12,298
TOTAL DEFERRED INFLOWS OF RESOURCES	883,826	941,933
Fund Balances		
Nonspendable	73,878	12,922
Restricted	286,101	232,639
Assigned	183,736	145,548
Unassigned	1,118,241	905,586
	1,661,956	1,296,695
TOTAL FUND BALANCES		
TC RESOURCES, AND FUND BALANCES	$ 3,067,871	$ 2,787,662

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
SUPPLEMENTAL COST SCHEDULES
For the Year Ended June 30, 2018 and 2017
(Unaudited)

Fiscal year Ended June 30, 2018	2017 - 2018 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	$ 491,223	$ 1,134
District support services	334,076	771
Regular instruction	2,672,540	6,170
Vocational instruction	123,777	286
Exceptional instruction	1,172,289	2,707
Community education and services	160,285	370
Instructional support services	179,710	415
Pupil support services	845,135	1,951
Site, buildings, and equipment	630,617	1,456
Fiscal and other fixed cost programs	29,689	69
TOTALS	$ 6,639,341	$ 15,329

2017 - 2018 Adjusted Average Daily Membership - 433.12

Fiscal year Ended June 30, 2017	2016 - 2017 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	$ 500,374	$ 1,136
District support services	301,783	685
Regular instruction	2,399,903	5,449
Vocational instruction	145,870	331
Exceptional instruction	1,240,860	2,817
Community education and services	156,209	355
Instructional support services	229,847	522
Pupil support services	847,016	1,923
Site, buildings, and equipment	582,953	1,324
Fiscal and other fixed cost programs	37,407	85
TOTALS	$ 6,442,222	$ 14,626

2016 - 2017 Adjusted Average Daily Membership - 440.46

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA

TAX LEVY HISTORY

	17 Pay 18 Fiscal 19	16 Pay 17 Fiscal 18	15 Pay 16 Fiscal 17	14 Pay 15 Fiscal 16	13 Pay 14 Fiscal 15
Tax Levy*					
General	$ 1,030,086	$ 1,094,833	$ 1,101,552	$ 564,120	$ 461,007
Community Service	61,641	60,297	60,197	50,692	47,549
Debt Redemption (Net)					148,689
TOTAL TAX LEVY	$ 1,091,727	$ 1,155,130	$ 1,161,749	$ 614,812	$ 657,245

* The tax levy includes property tax apportionments from Fillmore and Mower County and state aid credits from the State of Minnesota.

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

To the Board of Education
Independent School District #500
Adams, Minnesota

We have audited, the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Independent School District #500, Adams, Minnesota, as of and for the year ended June 30, 2018, and the related note to financial statements, which collectively comprises the District's basic financial statements and have issued our report thereon dated September 28, 2018. We conducted our audit 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; and the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Section 6.65.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 the attention of 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2011-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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, 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*.

Minnesota Legal Compliance

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

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

District's Response to Finding

District's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Responses. The District's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Smith, Schafer and Associates, Ltd.

September 28, 2018
Rochester, Minnesota

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2018

FINDING 2011-001 **ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPALS (GAAP)**

Condition: The District does have a control in place for the review of the drafted financial statements. However, the District does not have the expertise to ensure all disclosures required by generally accepted accounting principles are included in the annual financial statements. The potential exists that a material disclosure could be omitted from the financial statements and not be prevented or detected by the District's internal controls.

Criteria: The District should have controls in place to prevent or detect the omission of a material disclosure in the annual financial statements.

Questioned Costs: None.

Context: The District has informed us they will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures, and will review and approve these prior to the issuance of the financial statements.

Effect: No effect on the financial statements.

Cause: The District does not have the expertise to draft the notes to the financial statements; however, they have reviewed and approved the annual financial statements as prepared by the audit firm.

Recommendation: We recommend the District continue to evaluate their internal staff and expertise to determine if further controls over the annual financial reporting are beneficial.

SMITH•SCHAFER
& ASSOCIATES, LTD.
Certified Public Accountants and Consultants

Members of American Institute of CPAs,
Private Companies Practice Section, Minnesota Society of CPAs

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Independent School District #500
Adams, Minnesota

We have audited the statements of cash receipts and disbursements of the student activity accounts of Independent School District #500, Adams, Minnesota for the year ended June 30, 2018. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with accounting 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been susceptible to satisfactory audit tests, the financial statements referred to above presents fairly, in all material respects, the cash balances of the District's Student Activity Funds as of June 30, 2018, and the receipts and disbursements for the year then ended on the basis of accounting describe in the notes to the Student Activity Funds Financial Statement.

Smith, Schafer and Associates, Ltd.

Rochester, Minnesota
September 28, 2018

Rochester Office • 220 South Broadway • Suite 102 • Rochester, MN 55904 • PH (507) 288-3277 • FAX (507) 288-4571
Offices in: Twin Cities and Red Wing • www.smithschafer.com

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA
HIGH SCHOOL STUDENT ACTIVITY FUNDS
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
For the Year Ended June 30, 2018

Funds	Balance 6/30/2017	Receipts	Disbursements	Balance 6/30/2018
FFA	$ 6,532	$ 30,220	$ 30,925	$ 5,827
FCCLA	2,122		2,122	
Middle School Student Council	2,195	498	64	2,629
Class of 2019	1,289	15,499	16,788	
Music Project	5,410	3,089	3,200	5,299
Candy/Student Council	9,918	3,614	5,931	7,601
Middle School Annual	139		139	
Drama	206	1,085	534	757
Band	4,425	262	2,715	1,972
Washington D.C. Trip	4,634	100	4,734	
Eagle Bluff	1,759	10,096	9,806	2,049
Elementary Student Council	311	111	418	4
NHS	1,309	1,064	280	2,093
TOTAL	$ 40,249	$ 65,638	$ 77,656	$ 28,231

INDEPENDENT SCHOOL DISTRICT #500
ADAMS, MINNESOTA

NOTES TO STUDENT ACTIVITY FUNDS FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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 cash basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

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Certified Public Accountants and Consultants

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Private Companies Practice Section, Minnesota Society of CPAs

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Education
Independent School District #500
Adams, Minnesota

We have audited the statements of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District #500; Adams, Minnesota for the year ended June 30, 2018, and have issued our report thereon dated September 28, 2018.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Manual for Activity Fund Accounting for Minnesota School Districts*, issued by the Minnesota Department of Education, pursuant to Minnesota Statutes Section 123.38.

The *Manual for Activity Fund Accounting for Minnesota School Districts* provides uniform financial accounting and reporting standards for student activities. 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.

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

This report is intended for the information of the School Board, management, and students of Independent School District #500, Adams, Minnesota and the Minnesota Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Smith, Schafer and Associates, Ltd.

Rochester, Minnesota
September 28, 2018

Rochester Office • 220 South Broadway • Suite 102 • Rochester, MN 55904 • PH (507) 288-3277 • FAX (507) 288-4571
Offices In: Twin Cities and Red Wing • www.smithschafer.com

Fiscal Compliance Report - 6/30/2018
District: SOUTHLAND (500-1)

01 GENERAL FUND	Audit	UFARS	Audit - UFARS
Total Revenue	$6,598,803	$6,598,803	$0
Total Expenditures	$6,233,726	$6,233,725	$1
Non Spendable:			
4.60 Non Spendable Fund Balance	$73,878	$73,878	$0
Restricted / Reserved:			
4.03 Staff Development	$6,679	$6,679	$0
4.06 Health and Safety	$0	($1,274)	$1,274
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	$145,414	$145,414	$0
4.26 $25 Taconite	$0	$0	$0
4.27 Disabled Accessibility	$0	$0	$0
4.28 Learning & Development	$0	$0	$0
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	$0	$0	$0
4.40 Teacher Development and Evaluation	$0	$0	$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	$4,692	$4,692	$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
4.59 Basic Skills Extended Time	$0	$0	$0
4.67 LTFM	$123,141	$123,141	$0
4.72 Medical Assistance	$6,175	$6,175	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
4.75 Title VII Impact Aid	$0	$0	$0
4.76 Payments in Lieu of Taxes	$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	$183,736	$183,737	($1)
Unassigned:			
4.22 Unassigned Fund Balance	$1,118,241	$1,119,516	($1,275)

02 FOOD SERVICES	Audit	UFARS	Audit - UFARS
Total Revenue	$271,578	$271,577	$1
Total Expenditures	$232,974	$232,972	$2
Non Spendable:			
4.60 Non Spendable Fund Balance	$2,217	$2,217	$0
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$57,023	$57,023	$0
Unassigned:			
4.63 Unassigned Fund Balancee	$0	$0	$0

04 COMMUNITY SERVICE	Audit	UFARS	Audit - UFARS
Total Revenue	$208,749	$208,750	($1)
Total Expenditures	$172,641	$172,639	$2
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.26 $25 Taconite	$0	$0	$0
4.31 Community Education	$77,079	$77,079	$0
4.32 E.C.F.E	$27,132	$27,132	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.44 School Readiness	$0	($41,650)	$41,650
4.47 Adult Basic Education	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$14,929	$14,929	$0
Unassigned:			
4.63 Unassigned Fund Balance	($41,650)	$0	($41,650)

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
4.33 Maximum Effort Loan Aid	$0	$0	$0
4.51 QZAB Payments	$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

08 TRUST	Audit	UFARS	Audit - UFARS
Total Revenue	$2,062	$2,062	$0
Total Expenditures	$1,549	$1,550	($1)
4.22 Unassigned Fund Balance (Net Assets)	$141,041	$141,041	$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:			
4.25 Bond Refundings	$0	$0	$0
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

APPENDIX B

FORM OF LEGAL OPINION

(See following pages)

FORM OF LEGAL OPINION

DORSEY

Independent School District No. 500
Adams, Minnesota

[Original Purchaser]

Re: $1,225,000* General Obligation Facilities Maintenance Bonds, Series 2019B
Independent School District No. 500 (Southland), Minnesota
Mower County, Minnesota

Ladies and Gentlemen:

As Bond Counsel in connection with the authorization, issuance and sale by Independent School District No. 500 (Southland), Minnesota (the District), of the obligations described above, dated, as originally issued, as of August 8, 2019 (the Bonds), we have examined certified copies of certain proceedings taken, and certain affidavits and certificates furnished, by the District in the authorization, sale and issuance of the Bonds, including the form of the Bonds. As to questions of fact material to our opinion, we have assumed the authenticity of and relied upon the proceedings, affidavits and certificates furnished to us without undertaking to verify the same by independent investigation. From our examination of such proceedings, affidavits and certificates and on the basis of existing law, it is our opinion that:

1. The Bonds are valid and binding general obligations of the District, enforceable in accordance with their terms.

2. The principal of and interest on the Bonds are payable from ad valorem taxes heretofore duly levied on all taxable property in the District, but if necessary for payment thereof, additional ad valorem taxes are required by law to be levied on all such property, which taxes are not subject to any limitation as to rate or amount.

3. The resolution authorizing the issuance of the Bonds obligates the District to be bound by the provisions of Minnesota Statutes, Section 126C.55. We express no opinion as to the enforceability of the provisions of such law against the State of Minnesota in the absence of legally appropriated and available funds to pay the obligations of the State thereunder.

4. Interest on the Bonds (a) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the Code) and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed by Section 55 of the Code.

DORSEY & WHITNEY LLP · WWW.DORSEY.COM · T 612.340.2600 · F 612.340.2868
SUITE 1500 · 50 SOUTH SIXTH STREET · MINNEAPOLIS, MINNESOTA 55402-1498
USA CANADA EUROPE ASIA

5. Interest on the Bonds (a) is excluded from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes and (b) is not an item of tax preference for purposes of the Minnesota alternative minimum tax imposed on individuals, estates, and trusts.

The opinions expressed in paragraphs 1, 2, and 3 above are subject, as to enforceability, to the effect of any state or federal laws relating to bankruptcy, insolvency, reorganization, moratorium or creditors' rights and the application of equitable principles, whether considered at law or in equity.

The opinions expressed in paragraphs 4 and 5 above are subject to the compliance by the District with certain requirements of the Code that must be satisfied subsequent to the issuance of the Bonds. Noncompliance with these requirements could result in the inclusion of interest on the Bonds in gross income for federal income tax purposes and taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, retroactive to the date of issuance of the Bonds.

Except as stated herein, we express no opinion regarding federal, state, or other tax consequences to the owner of the Bonds. We note, however, that notwithstanding the opinion expressed in paragraph 5 above, interest on the Bonds is included in net income of corporations and financial institutions for purposes of the Minnesota franchise tax.

We have not been asked, and have not undertaken, to review the accuracy, completeness or sufficiency of any offering materials relating to the Bonds, and, accordingly, we express no opinion with respect thereto.

Dated this 8th day of August, 2019.

Very truly yours,

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 COVENANTS
(EXCERPTS FROM SALE RESOLUTION)

(See following pages)

FORM OF CONTINUING DISCLOSURE

Continuing Disclosure. (a) Purpose and Beneficiaries. To provide for the public availability of certain information relating to the Bonds and the security therefor and to permit the Purchaser and other participating underwriters in the primary offering of the Bonds to comply with amendments to Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12), relating to continuing disclosure (as in effect and interpreted from time to time, the Rule), which will enhance the marketability of the Bonds, the District hereby makes the following covenants and agreements for the benefit of the Owners (as hereinafter defined) from time to time of the outstanding Bonds. The District is the only obligated person in respect of the Bonds within the meaning of the Rule for purposes of identifying the entities in respect of which continuing disclosure must be made. If the District fails to comply with any provisions of this section, any person aggrieved thereby, including the Owners of any outstanding Bonds, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this section, including an action for a writ of mandamus or specific performance. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder to the extent permitted by law. Notwithstanding anything to the contrary contained herein, in no event shall a default under this section constitute a default under the Bonds or under any other provision of this resolution. As used in this section, Owner or Bondowner means, in respect of a Bond, the registered owner or owners thereof appearing in the bond register maintained by the Registrar or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, Beneficial Owner means, in respect of a Bond, any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Bond for federal income tax purposes.

(b) Information To Be Disclosed. The District will provide, in the manner set forth in subsection (c) hereof, either directly or indirectly through an agent designated by the District, the following information at the following times:

(1) on or before twelve (12) months after the end of each fiscal year of the District, commencing with the fiscal year ending June 30, 2019, the following financial information and operating data in respect of the District (the Disclosure Information):

(A) the audited financial statements of the District for such fiscal year, prepared in accordance with generally accepted accounting principles in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Minnesota law, as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the District, noting the discrepancies therefrom and the effect thereof, and certified as to accuracy and completeness in all material respects by the fiscal officer of the District; and

(B) to the extent not included in the financial statements referred to in paragraph (A) hereof, the information for such fiscal year or for the period most recently available of the type contained in the Official Statement under the headings: Current Property Valuations; Direct Debt; Tax Levies and Collections; Student Body; and Employment/ Unemployment Data, which information may be unaudited.

Notwithstanding the foregoing paragraph, if the audited financial statements are not available by the date specified, the District shall provide on or before such date unaudited financial statements in the format required for the audited financial statements as part of the Disclosure Information and, within 10 days after the receipt thereof, the District shall provide the audited financial statements. Any or all of the Disclosure Information may be incorporated by reference, if it is updated as required hereby, from other documents, including official statements, which have been submitted to the Municipal Securities Rulemaking Board (the MSRB) through its Electronic Municipal Market Access System (EMMA) or the SEC. The District shall clearly identify in the Disclosure Information each document so incorporated by reference. If any part of the Disclosure Information can no longer be generated because the operations of the District have materially changed or been discontinued, such Disclosure Information need no longer be provided if the District includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other District operations in respect of which data is not included in the Disclosure Information and the District determines that certain specified data regarding such replacement operations would be a Material Fact (as defined in paragraph (2) hereof), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations. If the Disclosure Information is changed or this section is amended as permitted by this paragraph (b)(1) or subsection (d), then the District shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(2) In a timely manner, not in excess of 10 business days, to the MSRB through EMMA, notice of the occurrence of any of the following events (each a "Material Fact," as hereinafter defined):

(A) principal and interest payment delinquencies;
(B) non-payment related defaults, if material;
(C) unscheduled draws on debt service reserves reflecting financial difficulties;
(D) unscheduled draws on credit enhancements reflecting financial difficulties;
(E) substitution of credit or liquidity providers, or their failure to perform;
(F) 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 Bonds or other material events affecting the tax status of the Bonds;

(G) modifications to rights of Bond holders, if material;
(H) Bond calls, if material and tender offers;
(I) defeasances;
(J) release, substitution, or sale of property securing repayment of the Bonds if material;
(K) rating changes;
(L) bankruptcy, insolvency, receivership, or similar event of the obligated person;
(M) 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 actions, other than pursuant to its terms, if material;
(N) appointment of a successor or additional trustee or the change of name of a trustee, if material;
(O) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; "financial obligation" means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule; and
(P) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

As used herein, for those events that must be reported if material, a "Material Fact" is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing sentence, a Material Fact is also a fact that would be deemed material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

For the purposes of the event identified in (L) hereinabove, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(3) In a timely manner, to the MSRB through EMMA, notice of the occurrence of any of the following events or conditions:

(A) the failure of the District to provide the Disclosure Information required under paragraph (b)(1) at the time specified thereunder;

(B) the amendment or supplementing of this section pursuant to subsection (d), together with a copy of such amendment or supplement and any explanation provided by the District under subsection (d)(2);

(C) the termination of the obligations of the District under this section pursuant to subsection (d);

(D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the Disclosure Information are prepared; and

(E) any change in the fiscal year of the District.

(c) <u>Manner of Disclosure</u>.

(1) The District agrees to make available to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, the information described in subsection (b).

(2) All documents provided to the MSRB pursuant to this subsection (c) shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(d) <u>Term; Amendments; Interpretation</u>.

(1) The covenants of the District in this section shall remain in effect so long as any Bonds are outstanding. Notwithstanding the preceding sentence, however, the obligations of the District under this section shall terminate and be without further effect as of any date on which the District delivers to the Registrar an opinion of Bond Counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the District to comply with the requirements of this section will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

(2) This section (and the form and requirements of the Disclosure Information) may be amended or supplemented by the District from time to time, without notice to (except as provided in paragraph (c)(2) hereof) or the consent of the Owners of any Bonds, by a resolution of this Board filed in the office of the recording officer of

the District accompanied by an opinion of Bond Counsel, who may rely on certificates of the District and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the District or the type of operations conducted by the District, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) this section as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Bondowners under the Rule.

If the Disclosure Information is so amended, the District agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

(3) This section is entered into to comply with the continuing disclosure provisions of the Rule and should be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

APPENDIX E

TERMS OF PROPOSAL

$1,225,000* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2019B INDEPENDENT SCHOOL DISTRICT NO. 500 (SOUTHLAND), MINNESOTA

Proposals for the purchase of $1,225,000* General Obligation Facilities Maintenance Bonds, Series 2019B (the "Bonds") of Independent School District No. 500 (Southland), Minnesota (the "District") will be received at the offices of Ehlers and 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 July 15, 2019, 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 6:30 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 Section 123B.595 (long-term facilities maintenance revenue) by the District to provide funds for facility maintenance projects included in the ten-year facility plan of the District and approved by the Commissioner of Education. 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 August 8, 2019, 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*
2021	$120,000	2024	$130,000	2027	$145,000
2022	125,000	2025	135,000	2028	150,000
2023	130,000	2026	140,000	2029	150,000

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 February 1, 2020, 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. 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

The Bonds are being offered without the option of prior optional redemption.

DELIVERY

On or about August 8, 2019, 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 in substantially the form attached hereto as Appendix B will be furnished by Dorsey & Whitney LLP ("Bond Counsel"), Minneapolis, Minnesota, bond counsel to the District.

SUBMISSION OF PROPOSALS

Proposals must not be for less than $1,212,750 plus accrued interest on the principal sum of $1,225,000 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) 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 $24,500 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. 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.

ESTABLISHMENT OF ISSUE PRICE AT TIME OF AWARD

In order to establish the issue price of the Bonds for federal income tax purposes, the District requires bidders to agree to the following, and by submitting a proposal, each bidder agrees to the following.

If a proposal is submitted by a potential underwriter, the bidder confirms that (i) the underwriters have offered or reasonably expect to offer the Bonds to the public on or before the date of the award at the offering price (the "initial offering price") for each maturity as set forth in the proposal and (ii) the bidder, if it is the winning bidder, shall require any agreement among underwriters, selling group agreement, retail distribution agreement or other agreement relating to the initial sale of the Bonds to the public to which it is a party to include provisions requiring compliance by all parties to such agreements with the provisions contained herein. For purposes hereof, Bonds with a separate CUSIP number constitute a separate "maturity", and the public does not include underwriters (including members of a selling group or retail distribution group) or persons related to underwriters.

If, however, a proposal is submitted for the bidder's own account in a capacity other than as an underwriter of the Bonds, and the bidder has no current intention to sell, reoffer, or otherwise dispose of the Bonds, the bidder shall notify the District to that effect at the time it submits its proposal and shall provide a certificate to that effect in place of the certificate otherwise required below.

If the winning bidder intends to act as an underwriter, the District shall advise the winning bidder at or prior to the time of award whether (i) the competitive sale rule or (ii) the "hold-the-offering price" rule applies.

<u>If the District advises the Purchaser that the requirements for a competitive sale have been satisfied and that the competitive sale rule applies</u>, the Purchaser will be required to deliver to the District at or prior to closing a certification, in a form reasonably acceptable to bond counsel, as to the reasonably expected initial offering price as of the award date.

If the District advises the Purchaser that the requirements for a competitive sale have not been satisfied and that the hold-the-offering price rule applies, the Purchaser shall (1) upon the request of the District confirm that the underwriters did not offer or sell any maturity of the Bonds to any person at a price higher than the initial offering price of that maturity during the period starting on the award date and ending on the earlier of (a) the close of the fifth business day after the sale date or (b) the date on which the underwriters have sold at least 10% of that maturity to the public at or below the initial offering price; and (2) at or prior to closing, deliver to the District a certification as to such matters, in a form reasonably acceptable to bond counsel, together with a copy of the pricing wire.

Any action taken or documentation to be received by the District pursuant hereto may be taken or received on behalf of the District by Ehlers & Associates, Inc.

Bidders should prepare their proposals on the assumption that the Bonds will be subject to the "hold-the-offering-price" rule. Any proposal submitted pursuant to the Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, and Bonds submitted will not be subject to cancellation or withdrawal.

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. 500
(Southland), Minnesota

PROPOSAL FORM

The Board of Education **July 15, 2019**
Independent School District No. 500 (Southland), Minnesota

RE: $1,225,000* General Obligation Facilities Maintenance Bonds, Series 2019B (the "Bonds")
DATED: August 8, 2019

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 $1,212,750) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

________	% due	2021	________	% due	2024	________	% due	2027
________	% due	2022	________	% due	2025	________	% due	2028
________	% due	2023	________	% due	2026	________	% due	2029

* 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.

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%.

A good faith deposit ("Deposit") in the amount of $24,500 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. 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. We agree to the conditions and duties of Ehlers and 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 August 8, 2019.

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 the Bonds.

We have received and reviewed the Official Statement, and any addenda thereto, 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 August 8, 2019 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. 500 (Southland), Minnesota, on July 15, 2019.

By: ______________________ By: ______________________

Title: ______________________ Title: ______________________