INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA

FINANCIAL STATEMENTS

JUNE 30, 2020

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PRESTON, MINNESOTA
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INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2020

2019 - 2020

Ross Kiehne	Chairperson	12/31/2020
Craig Britton	Vice Chairperson	12/31/2022
Susan Sikkink	Treasurer	12/31/2022
Deb Ristau	Clerk	12/31/2020
James Love	Vice-Clerk	12/31/2020
Michelle Topness	Director	12/31/2022
Jennifer Pickett	Director	12/31/2022

2018 - 2019

Ross Kiehne	Chairperson	12/31/2020
Craig Britton	Vice Chairperson	12/31/2018
Susan Sikkink	Treasurer	12/31/2018
Deb Ristau	Clerk	12/31/2020
James Love	Vice-Clerk	12/31/2020
Michelle Topness	Director	12/31/2018
Emily Ellis-Onsager	Director	12/31/2018

Superintendent

Richard Keith

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INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA

FINANCIAL SECTION

JUNE 30, 2020

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& 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 #2198
Preston, 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 #2198, Preston, Minnesota as of and for the year ended June 30, 2020, 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 #2198, Preston, Minnesota as of June 30, 2020, 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.

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

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 additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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, 2019, from which such partial information was derived.

We have previously audited the District's 2019 financial statements and our report, dated October 8, 2019, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 December 14, 2020, 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
December 14, 2020

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Independent School District #2198 – Fillmore Central Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2019-2020 fiscal year include the following:

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by $4,672,425 *(net position)*.

- Overall revenues for the General Fund were $7,923,572 while overall expenditures totaled $9,907,396.

- The General Fund Unassigned Fund Balance is $1,016,839. This represents a decrease of $240,799 from last fiscal year. The restricted fund balances total $1,053,079 as compared to $709,191 last fiscal year. The assigned fund balances total $1,579,299 as compared to $4,050,603 last fiscal year. The assigned fund balances (excluding the impact due to the change in accounting standards) were intentionally spent down on district construction projects.

- The General Fund total fund balance decreased by $1,983,824 in 2019-2020. This fund balance decrease is due to district construction projects (high school office, media center, cafeteria relocation/remodel, and football and baseball field upgrades).

- The Food Service Fund total fund balance increased by $18,745 in 2019-2020. This increase is due to reduced milk break expense and increased SFSP revenues.

- The Community Service Fund total fund balance decreased by $17,616 in 2019-2020. Revenues in the areas of SAC, daycare and adult/youth enrichment decreased due to the Covid-19 pandemic/shut-down.

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 other required reports. 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.
- The proprietary fund statements offer short-term and long-term financial information about the activities the District operates in a manner similar to businesses.
- 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, deferred outflows of resources, liabilities, and deferred inflows of resources – 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 elementary and secondary regular instruction, 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. scholarship trust fund).

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The District has three 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.

- ***Proprietary funds.*** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. The District's sole proprietary fund is an internal service fund which charges the District's activities for the cost of other postemployment benefits consisting primarily of health insurance.

- ***Fiduciary funds.*** The District is the trustee, or fiduciary, for assets that belong to others, such as the trust fund. 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 $4,672,425 on June 30, 2020. This was an increase of $161,632 from the prior year, including the impact due to change in accounting standards.

	Total	
	2020	2019
Assets		
Current and other assets	$ 6,783,003	$ 8,830,520
Capital assets	12,167,693	10,199,905
Total assets	18,950,696	19,030,425
Deferred Outflows of Resources	3,462,993	4,981,833
Liabilities		
Current liabilities	826,273	827,072
Long-Term liabilities	10,555,749	10,932,939
Total liabilities	11,382,022	11,760,011
Deferred Inflows of Resources	6,359,242	7,741,454
Net Position		
Net investment in capital assets	7,356,133	4,982,344
Restricted	1,410,393	1,214,613
Unrestricted	(4,094,101)	(1,686,164)
Total net position	$ 4,672,425	$ 4,510,793

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

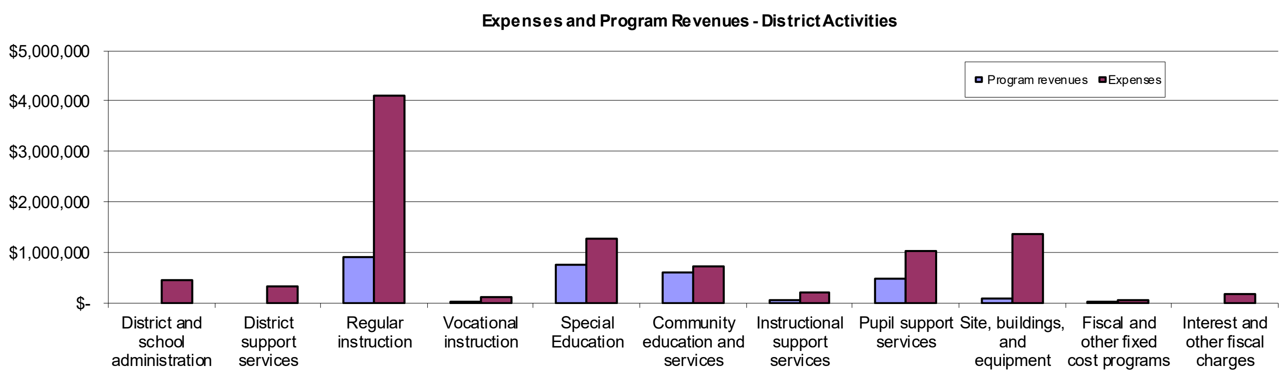
District's Revenue. The District's total revenues were $9,795,571 for the year ended June 30, 2020; compared to $9,669,685 on June 30, 2019. General revenues from federal and state sources accounted for 55.42% of total revenue for the year ended June 30, 2020, compared to 56.53% in the prior year. Local property taxes (levies) accounted for 14.90% percent (compared to 14.76% the previous year) of the total revenue, with the remaining revenue coming from other sources.

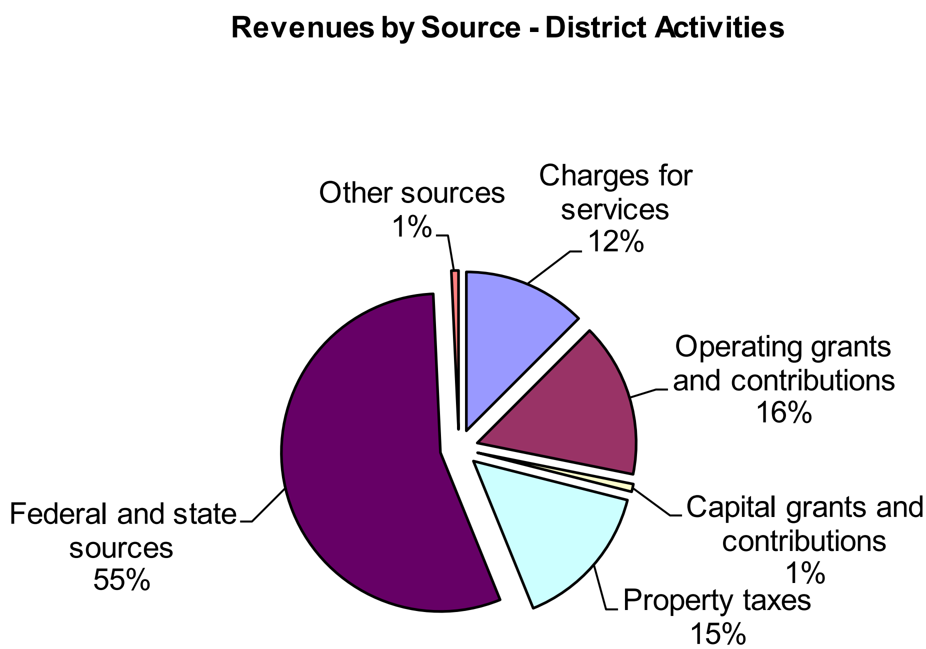
A condensed version of the Statement of Activities follows:

	Total	
	2020	2019
Revenue		
Program revenues:		
Charges for services	$ 1,223,624	$ 1,070,236
Operating grants and contributions	1,535,328	1,467,996
Capital grants and contributions	77,683	78,962
General revenues:		
Property taxes	1,459,920	1,427,055
State sources	5,428,481	5,466,070
Other sources	70,535	159,366
Total revenues	9,795,571	9,669,685
Expenses		
District and school administration	440,522	282,697
District support services	317,446	314,258
Regular instruction	4,091,391	2,330,562
Vocational instruction	114,182	63,072
Special Education	1,257,214	960,983
Community education and services	710,127	703,291
Instructional support services	208,555	148,330
Pupil support services	1,032,886	1,069,997
Site, buildings, and equipment	1,355,256	1,358,111
Fiscal and other fixed cost programs	42,823	26,829
Interest and other fiscal charges	176,819	228,114
Total expenses	9,747,221	7,486,244
Change in net position	48,350	2,183,441
Net position, beginning, as originally stated	4,510,793	2,327,352
Change in accounting standards	113,282	
Net position - beginning, as restated	4,624,075	2,327,352
Net position, end of year	$ 4,672,425	$ 4,510,793

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Below are specific graphs that provide comparisons of the district activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.





FUND BASIS FINANCIAL ANALYSIS

Financial Analysis of the District's Funds

The financial performance of the District as a school is reflected in its governmental funds as well. As the District completed the year, its Governmental Funds reported a combined fund balance of $4,309,137.

Enrollment is expected to decline in the 2020-2021 school year due to the Covid-19 pandemic and the potential transition of students to virtual options as well as homeschooling to keep families safe. With construction of the veteran's home in Preston to begin we are optimistic that enrollment could increase over time.

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

Fiscal Year	ADM	% Change
2011	540.87	#DIV/0!
2012	553.29	2.3%
2013	560.23	1.3%
2014	573.03	2.3%
2015	590.61	3.1%
2016	627.26	6.2%
2017	625.37	-0.3%
2018	634.51	1.5%
2019	615.93	-2.9%
2020	612.25	-0.6%

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

Total General Fund revenues increased by $201,883 from the previous year (being $7,923,572 in FY20, and $7,721,689 in FY19).

Basic general education revenue is determined by a state per student funding formula and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue includes excess levy referendum and the property tax shift also involves an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net revenue change.

Local property taxes are impacted by the state provided funds for school property tax relief. This relief was provided in two principle ways: 1) removal of the general education revenue property tax via a funding model of greater state aid; and 2) roll in of additional aid for referendum revenue into the basis formula for general education revenue.

FUND BASIS FINANCIAL ANALYSIS (Continued)

General fund revenues and other financing sources were as follows:

	2020	2019	Increase/ (Decrease)
Local property tax levies	$ 931,441	$ 889,066	$ 42,375
Other local and county sources	515,144	292,453	222,691
Investment income	55,997	121,557	(65,560)
State sources	5,892,744	5,916,644	(23,900)
Federal sources	526,127	491,717	34,410
Sales and other conversions of assets	2,119	10,252	(8,133)
Total	$ 7,923,572	$ 7,721,689	$ 201,883

Total General Fund expenditures increased by $1,604,973.

General fund expenditures and transfers were as follows:

	2020	2019	Increase/ (Decrease)
District and school administration	$ 405,101	$ 395,557	$ 9,544
District support services	303,131	341,495	(38,364)
Regular instruction	3,563,019	3,375,467	187,552
Vocational instruction	104,864	96,264	8,600
Special Education	1,170,116	1,162,860	7,256
Instructional support services	197,315	187,314	10,001
Pupil support services	605,056	652,043	(46,987)
Site, buildings, and equipment	3,509,970	2,058,593	1,451,377
Fiscal and other fixed cost programs and transfers out	48,824	32,830	15,994
Total	$ 9,907,396	$ 8,302,423	$ 1,604,973

The total General Fund balance on June 30, 2020, was $3,692,206 compared to $5,562,748 on June 30, 2019 (decrease of $1,870,542). Of the amount, $1,053,079 is restricted for specific purposes by state requirements, $1,579,299 is assigned; and $1,016,839 is the Unassigned General Fund Balance.

Food Service Fund. The Food Service Fund accounts for the activities related to providing child nutrition services to support K-12 academic programs. The fund operates with the goal that revenues exceed expenditures on day-to-day school breakfast and lunch operations so that the excess can be used to systematically replace and upgrade kitchen equipment. By operating in this manner, the child nutrition services program is self-supporting and does not rely upon resources from K-12 instruction programs other than for use of school facilities.

The total Food Service Fund Balance on June 30, 2020, was $132,432 compared to $113,687 on June 30, 2019.

The Food Service revenue for 2019-2020 totaled $465,147 compared to $468,487 the previous year – a decrease of $3,340.

The Food Service expenditures for 2019-2020 totaled $446,402 compared to $480,759 the previous year – a decrease in expenditures $34,357.

FUND BASIS FINANCIAL ANALYSIS (Continued)

Community Service Fund. The Community Service Fund accounts for the activities related to providing education and recreation programs for Pre-Kindergarten and Post-Grade 12 students. Fillmore Central School's major cost centers in the Community Service Fund are daycare, learning readiness (preschool), and Early Childhood Family Education. The fund operates on the goal of breaking even on a yearly basis so that is does not rely upon resources from K-12 instruction programs other than for use of school facilities.

The Community Service Fund realized a decrease in fund balance of $17,616.

Community Service Fund revenues for 2019-2020 totaled $664,998 compared to $717,332 in the previous year. This was a decrease in revenue of $52,334 from the previous year. This decrease is due a reduction of revenues in SAC, daycare, preschool, adult/youth enrichment summer rec and due to the Covid-19 pandemic/shut-down.

Community Service Fund expenditures for 2019-2020 totaled $682,614 compared to $718,246 in the previous year. This was a decrease in expenditures of $35,632 from the previous year. This decrease is primarily due to decreased expenditures in Preschool and Summer Rec programs due to the Covid-19 pandemic/shut-down.

Debt Service Funds. The Debt Service funds exist to service the principal and interest on long-term debt issued by the District to construct school facilities or acquire school equipment and for the funding of OPEB obligations. Annual levies will provide revenue at a rate of 105% for pending debt service payments for a fiscal year. This rate is specified in statute to ensure that principal and interest payment can be made as scheduled even if there are late property tax payments or delinquencies that may arise.

The Debt Service Restricted Fund Balances (including the OPEB debt service fund) increased by $38,837 in 2019-2020.

Internal Service Fund. The Postemployment Benefits Fund was established in fiscal 2009 with initial funding of $1,145,132 from bonds issued. The fund charges departments for the estimated cost of other postemployment benefits consisting primarily of health insurance. This fund had deficit net position of $106,502 at June 30, 2020.

***Fiduciary Fund**.* Private-purpose trust (scholarship trust) fund is the District's fiduciary fund. The net position of the scholarship trust is $55,219 (compared to $45,139 in FY19).

GENERAL FUND BUDGETARY HIGHLIGHTS

The District provided a Revised General Fund 2019-2020 budget in May of 2020. The Revised FY20 Budget stated revenues were the same as the original FY20 Budget.

The Actual FY20 revenues were $93,233 more than the Revised Budget for revenue.

The Revised FY20 Budget expenditures were $1,159,916 more than the Original FY20 Budget. This increase was due to the timing of completion of the district's summer 2019 construction projects (football field upgrades and high school remodeling).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2020, the District had invested $20,142,452 (before depreciation) in a broad range of capital assets including school buildings, athletic facilities, technology equipment, and other types of equipment.

	Total (Net of Depreciation) 2020	2019
Land	$ 44,373	$ 44,373
Construction in progress		1,081,593
Site improvements	3,585,574	965,974
Buildings	7,571,535	7,224,389
Machinery and equipment	966,211	883,576
Total	$ 12,167,693	$ 10,199,905

Long Term Liabilities. As of June 30, 2020, the District had $5,525,000 in bonds and capital improvement loans outstanding. The District also had $20,959 in severance benefits payable at the end of the year. A summary of outstanding long-term liabilities as of June 30, 2020, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable:					
General Obligation Bonds:					
Alternative Facilities Bond 2010A	$ 855,000	$	$ 130,000	$ 725,000	$ 135,000
Alternative Facilities Bond 2012A	605,000		65,000	540,000	65,000
Alternative & Capital Facilities Bond 2014A	3,690,000		205,000	3,485,000	215,000
OPEB Refunding Bonds 2017A	850,000		75,000	775,000	75,000
Bond Discount	(9,404)		(996)	(8,408)	
Bond Premium	76,965		6,997	69,968	
Other Liabilities:					
Severance Payable	18,917		(2,042)	20,959	
Governmental Activities Long-term Liabilities	$ 6,086,478	$	$ 478,959	$ 5,607,519	$ 490,000

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Covid-19 pandemic may significantly affect the district's enrollment for next year and possibly into the future as students transition to virtual options as well as homeschooling to keep families safe.

The construction of a veteran's home in Preston has been approved through the State of Minnesota and awaiting federal funding approval. This will increase the number of jobs available in the area and could bring new young working families to the area. We hope this will have a positive effect on our future enrollment.

The District will continue 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 District Office, Independent School District #2198, 702 Chatfield Street NW, Preston, Minnesota 55965.

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

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INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2020
With Comparative Data as of June 30, 2019

	Governmental Activities	
	2020	2019
Assets		
Cash and cash equivalents	$ 5,110,087	$ 6,979,474
Taxes receivable	772,269	879,118
Other receivables	109,958	34,386
Due from other governmental units	749,200	903,677
Inventory	5,119	4,277
Prepaid items	36,370	29,588
Capital Assets:		
Nondepreciable	44,373	1,125,966
Depreciable, net of accumulated depreciation	12,123,320	9,073,939
TOTAL ASSETS	18,950,696	19,030,425
Deferred Outflows of Resources		
Deferred outflows from pension activities	3,425,799	4,922,974
Deferred outflows from OPEB activity	37,194	58,859
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,462,993	4,981,833
Liabilities		
Accounts payable	49,602	74,809
Due to other governmental units	28,560	19,713
Unearned revenue	9,007	11,369
Accrued liabilities	669,386	646,074
Accrued interest payable	69,718	75,107
Long-Term Liabilities:		
Due within one year	490,000	450,000
Due in more than one year	5,117,519	5,636,478
Net pension liability	4,529,907	4,341,332
Other postemployment benefits payable	418,323	505,129
TOTAL LIABILITIES	11,382,022	11,760,011
Deferred Inflows of Resources		
Deferred inflows from pension activities	4,931,133	6,154,287
Deferred inflows from OPEB activity	56,386	
Property taxes levied for subsequent year	1,371,722	1,587,167
TOTAL DEFERRED INFLOWS OF RESOURCES	6,359,242	7,741,454
Net Position		
Net investment in capital assets	7,356,133	4,982,344
Restricted:		
Operating capital purposes	807,480	675,415
State-mandated restrictions	50,045	33,776
Food service	132,432	113,687
Community service	264,109	281,725
Debt service	156,327	110,010
Unrestricted	(4,094,101)	(1,686,164)
TOTAL NET POSITION	$ 4,672,425	$ 4,510,793

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020
With Partial Comparative Data for the Year Ended June 30, 2019

	2020			
		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
District and school administration	$ 440,522	$	$	$
District support services	317,446			
Regular instruction	4,091,391	462,840	431,774	
Vocational instruction	114,182		1,196	
Special education	1,257,214	15,659	735,173	
Community education and services	710,127	535,604	68,499	
Instruction support services	208,555		33,633	
Pupil support services	1,032,886	200,764	265,053	
Site, buildings, and equipment	1,355,256			77,683
Fiscal and other fixed cost programs	42,823	8,757		
Interest and other fiscal charges	176,819			
Total governmental activities	$ 9,747,221	$ 1,223,624	$ 1,535,328	$ 77,683

General Revenues:
Property taxes levied for:
General purposes
Community Service
Debt Service
State aid not restricted to specific purposes
Investment income
Total general revenues and transfers

Change in net position

Net Position - Beginning, as originally stated
Change in accounting standards
Net Position - Beginning, as restated

Net Position - Ending

See Notes to Financial Statements

2020	2019
Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Total Governmental Activities	Total Governmental Activities
$ (440,522)	$ (282,697)
(317,446)	(314,258)
(3,196,777)	(1,681,878)
(112,986)	(61,959)
(506,382)	(222,407)
(106,024)	(74,567)
(174,922)	(104,545)
(567,069)	(603,620)
(1,277,573)	(1,279,149)
(34,066)	(15,856)
(176,819)	(228,114)
(6,910,586)	(4,869,050)
1,025,392	980,938
70,197	72,350
364,331	373,767
5,428,481	5,466,070
70,535	159,366
6,958,936	7,052,491
48,350	2,183,441
4,510,793	2,327,352
113,282	
4,624,075	2,327,352
$ 4,672,425	$ 4,510,793

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2020
With Partial Comparative Data as of June 30, 2019

	General	Food Service	Community Service
Assets			
Cash and cash equivalents	$ 3,908,010	$ 114,709	$ 344,204
Current property taxes receivable	378,848		37,700
Delinquent property taxes receivable	8,242		678
Accounts receivable	99,801	278	9,879
Due from other school districts	10,168		
Due from Minnesota Department of Education	502,340		4,968
Due from Federal through Minnesota Department of Education	182,638	22,660	2,785
Prepaid items	42,990		
Inventory		5,119	
TOTAL ASSETS	$ 5,133,037	$ 142,766	$ 400,214
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	$ 36,838	$ 10,334	$ 815
Salaries and accrued liabilities payable	622,091		47,295
Due to other school districts	28,305		
Due to other governments	255		
Unearned revenue			9,007
TOTAL LIABILITIES	687,489	10,334	57,117
Deferred Inflows of Resources			
Unavailable revenue:			
Property taxes levied for subsequent year	745,100		78,310
Delinquent property taxes	8,242		678
TOTAL DEFERRED INFLOWS OF RESOURCES	753,342		78,988
Fund Balances			
Nonspendable	42,990	5,119	
Restricted	1,053,079	127,313	264,109
Assigned	1,579,299		
Unassigned	1,016,838		
TOTAL FUND BALANCES	3,692,206	132,432	264,109
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 5,133,037	$ 142,766	$ 400,214

See Notes to Financial Statements

		Total Governmental Funds	
Debt Service	OPEB Debt Service	2020	2019
$ 335,732	$ 69,799	$ 4,772,454	$ 6,639,232
295,223	45,923	757,694	870,359
4,804	851	14,575	8,759
		109,958	34,386
		10,168	12,583
22,836	805	530,949	588,603
		208,083	302,491
		42,990	26,914
		5,119	4,277
$ 658,595	$ 117,378	$ 6,451,990	$ 8,487,604
$ 1,335	$ 281	$ 49,603	$ 74,809
		669,386	646,074
		28,305	19,320
		255	393
		9,007	11,369
1,335	281	756,556	751,965
452,901	95,411	1,371,722	1,587,167
4,804	851	14,575	8,759
457,705	96,262	1,386,297	1,595,926
		48,109	31,191
199,555	20,835	1,664,891	1,281,879
		1,579,299	4,050,603
		1,016,838	776,040
199,555	20,835	4,309,137	6,139,713
$ 658,595	$ 117,378	$ 6,451,990	$ 8,487,604

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020
With Partial Comparative Data for the Year Ended June 30, 2019

	General	Food Service	Community Service
Revenues			
Local sources:			
Property tax levies	$ 931,441	$	$ 70,197
Other local and county sources	515,144	85	535,764
Investment income	55,997	1,353	4,938
State sources	5,892,744	16,981	50,004
Federal sources	526,127	242,574	4,095
Sales and other conversions of assets	2,119	204,154	
TOTAL REVENUES	7,923,572	465,147	664,998
Expenditures			
District and school administration	405,101		
District support services	303,131		
Regular instruction	3,563,019		
Vocational instruction	104,864		
Special education	1,170,116		
Community education and services			682,614
Instructional support services	197,315		
Pupil support services	605,056	446,402	
Site, buildings, and equipment	3,509,970		
Fiscal and other fixed cost programs	48,824		
TOTAL EXPENDITURES	9,907,396	446,402	682,614
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,983,824)	18,745	(17,616)
Other Financing Sources (Uses)			
Payment on bond refunding			
NET CHANGE IN FUND BALANCES	(1,983,824)	18,745	(17,616)
FUND BALANCE - BEGINNING	5,562,748	113,687	281,725
Change in accounting standards	113,282		
FUND BALANCE - BEGINNING AS RESTATED	5,676,030	113,687	281,725
FUND BALANCE - ENDING	$ 3,692,206	$ 132,432	$ 264,109

See Notes to Financial Statements

Debt Service	OPEB Debt Service	Total Governmental Funds 2020	Total Governmental Funds 2019
$ 364,330	$ 88,135	$ 1,454,103	$ 1,427,244
		1,050,993	874,041
4,639	745	67,672	151,472
230,082	8,114	6,197,925	6,228,958
		772,796	690,498
		206,273	254,917
599,051	96,994	9,749,762	9,627,130
		405,101	395,557
		303,131	341,495
		3,563,019	3,375,467
		104,864	96,264
		1,170,116	1,162,860
		682,614	718,246
		197,315	187,314
		1,051,458	1,132,802
		3,509,970	2,058,593
557,533	99,675	706,032	738,993
557,533	99,675	11,693,620	10,207,591
41,518	(2,681)	(1,943,858)	(580,461)
			(780,000)
41,518	(2,681)	(1,943,858)	(1,360,461)
158,037	23,516	6,139,713	7,500,174
		113,282	
158,037	23,516	6,252,995	7,500,174
$ 199,555	$ 20,835	$ 4,309,137	$ 6,139,713

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
DISTRICT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
June 30, 2020

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

Total governmental fund balances (pages 16 and 17)		$ 4,309,137
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	$ 20,142,452	
Less: Accumulated depreciation	7,974,759	
		12,167,693
Other long-term assets not available to pay for current-period expenditure and, therefore, are deferred in the funds		
Delinquent property taxes		14,575
Internal service funds are used by management to charge the costs of OPEB to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position		(106,502)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	$ (5,525,000)	
Bond premium	(69,968)	
Bond discount	8,408	
Net pension liability	(6,035,241)	
Severance payable	(20,959)	
Accrued interest	(69,718)	
		(11,712,478)
Net position of governmental activities (page 13)		$ 4,672,425

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, 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, 2020

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

Net change in fund balances - total governmental funds (pages 18 and 19)		$ (1,943,858)
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	$ 2,663,325	
Depreciation expense	(695,537)	
		1,967,788
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:		
Delinquent property taxes		5,816
The governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligations bonds and related items is as follows.		
Principal retirement on long-term debt	$ 475,000	
Change in bond discount	(996)	
Change in bond premium	6,997	
Change in accrued interest	5,389	
		486,390
In the statement of activities, certain operating expenses - net pension liability and severance - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
Severance payable	$ (2,042)	
Net pension liability	(462,596)	
		(464,638)
Internal service funds are used by management to charge the costs of OPEB to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities		(3,148)
Change in net position of governmental activities (pages 14 and 15)		$ 48,350

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2020
With Partial Comparative Data for the Year Ended June 30, 2019

	Budgeted Amounts		2020	Over (Under)	2019
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$ 1,084,775	$ 1,084,775	$ 931,441	$ (153,334)	$ 889,066
Other local and county sources	431,991	431,991	515,144	83,153	292,453
Investment income	68,000	68,000	55,997	(12,003)	121,557
State sources	5,673,245	5,673,245	5,892,744	219,499	5,916,644
Federal sources	570,528	570,528	526,127	(44,401)	491,717
Sales and other conversions of assets	1,800	1,800	2,119	319	10,252
TOTAL REVENUES	7,830,339	7,830,339	7,923,572	93,233	7,721,689
Expenditures					
District and school administration	419,259	411,629	405,101	(6,528)	395,557
District support services	310,429	306,209	303,131	(3,078)	341,495
Regular instruction	3,885,228	3,662,324	3,563,019	(99,305)	3,375,467
Vocational instruction	106,983	110,734	104,864	(5,870)	96,264
Special education	1,265,394	1,202,847	1,170,116	(32,731)	1,162,860
Instructional support services	256,103	205,231	197,315	(7,916)	187,314
Pupil support services	710,053	670,849	605,056	(65,793)	652,043
Site, buildings, and equipment	2,072,893	3,626,540	3,509,970	(116,570)	2,058,593
Fiscal and other fixed cost programs	59,988	49,883	48,824	(1,059)	32,830
TOTAL EXPENDITURES	9,086,330	10,246,246	9,907,396	(338,850)	8,302,423
NET CHANGE IN FUND BALANCE	(1,255,991)	(2,415,907)	(1,983,824)	432,083	(580,734)
FUND BALANCE - BEGINNING	5,562,748	5,562,748	5,562,748		6,143,482
Change in accounting standards	113,282	113,282	113,282		
FUND BALANCE - BEGINNING AS RESTATED	5,676,030	5,676,030	5,676,030		6,143,482
FUND BALANCE - ENDING	$ 4,420,039	$ 3,260,123	$ 3,692,206	$ 432,083	$ 5,562,748

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOOD SERVICE FUND
For the Year Ended June 30, 2020
With Partial Comparative Data for the Year Ended June 30, 2019

	Budgeted Amounts		2020	Over (Under)	2019
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Other local and county sources	$ 85	$ 85	$ 85	$	$ 2,500
Investment income			1,353	1,353	2,110
State sources	23,415	23,415	16,981	(6,434)	22,864
Federal sources	155,127	155,127	242,574	87,447	196,348
Sales and other conversions of assets	255,501	255,501	204,154	(51,347)	244,665
TOTAL REVENUES	434,128	434,128	465,147	31,019	468,487
Expenditures					
Pupil support services	444,531	441,855	446,402	4,547	480,759
NET CHANGE IN FUND BALANCE	(10,403)	(7,727)	18,745	26,472	(12,272)
FUND BALANCES - BEGINNING	113,687	113,687	113,687		125,959
FUND BALANCES - ENDING	$ 103,284	$ 105,960	$ 132,432	$ 26,472	$ 113,687

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
For the Year Ended June 30, 2020
With Partial Comparative Data for the Year Ended June 30, 2019

	Budgeted Amounts		2020	Over (Under)	2019
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$ 77,600	$ 77,600	$ 70,197	$ (7,403)	$ 72,350
Other local and county sources	517,718	517,718	535,764	18,046	579,088
Investment income			4,938	4,938	7,135
Federal sources	400	400	4,095	3,695	2,433
State sources	39,225	39,225	50,004	10,779	56,326
TOTAL REVENUES	634,943	634,943	664,998	30,055	717,332
Expenditures					
Community education and services	785,435	751,042	682,614	(68,428)	718,246
NET CHANGE IN FUND BALANCES	(150,492)	(116,099)	(17,616)	98,483	(914)
FUND BALANCES - BEGINNING	281,725	281,725	281,725		282,639
FUND BALANCES - ENDING	$ 131,233	$ 165,626	$ 264,109	$ 98,483	$ 281,725

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2020 and 2019

	Governmental Activities - Internal Service	
	Postemployment Benefits Fund	
	2020	2019
Assets		
Cash and investments	$ 337,633	$ 340,242
Prepaid items		2,674
TOTAL ASSETS	337,633	342,916
Deferred Outflows of Resources		
Deferred outflows from OPEB activity	37,194	58,859
Liabilities		
Accounts payable	6,620	
Postemployment benefits payable	418,323	505,129
TOTAL LIABILITIES	424,943	909,578
Deferred Inflows of Resources		
Deferred inflows from OPEB activity	56,386	
Net Position		
Unrestricted	$ (106,502)	$ (103,354)

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Years Ended June 30, 2020 and 2019

	Governmental Activities - Internal Service	
	Postemployment Benefits Fund	
	2020	2019
REVENUES		
Departmental charges	$ 18,894	$ 34,850
EXPENSES		
Post-retirement benefit expense	26,742	36,642
Other expenses		35,966
TOTAL EXPENSES	26,742	72,608
Operating income (loss)	(7,848)	(37,758)
Other Financing Sources		
Investment income	4,700	7,894
Change in Net Position	(3,148)	(29,864)
Net Position - Beginning	(103,354)	(73,490)
Net Position - Ending	$ (106,502)	$ (103,354)

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Years Ended June 30, 2020 and 2019

	Governmental Activities - Internal Service	
	Postemployment Benefits Fund	
	2020	**2019**
Cash Flows From Operating Activities		
Cash (payments) receipts for benefits	$ (7,309)	$ (18,200)
Cash Flows From Investing Activities		
Investment income	4,700	7,894
Decrease in Cash and Cash Equivalents	(2,609)	(10,306)
Cash and Cash Equivalents - Beginning	340,242	350,548
Cash and Cash Equivalents - Ending	$ 337,633	$ 340,242

Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities

	2020	2019
Operating loss	$ (7,848)	$ (37,758)
Adjustments to reconcile Operating income (loss) to Net Cash Provided By (Used In) Operating Activities:		
Deferred outflows from OPEB activity	21,665	2,011
Deferred inflows from OPEB activity	56,386	
Postemployment benefits asset		
Prepaid items	2,674	39,245
Accounts payable	6,620	
Postemployment benefits payable	(86,806)	(21,698)
Net Cash Used In Operating Activities	$ (7,309)	$ (18,200)

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2020

	Private Purpose Trust Scholarship Trust Fund
Assets	
Cash and cash equivalents	$ 55,219
TOTAL ASSETS	$ 55,219
Net Position, Unrestricted	$ 55,219
TOTAL NET POSITION	$ 55,219

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2020

	Private Purpose Trust
	Scholarship Trust Fund
Additions	
Other local and county sources	$ 58,140
Deductions	
Fiscal and other fixed cost programs	24,908
CHANGE IN NET POSITION	33,232
NET POSITION - BEGINNING, AS ORIGINALLY STATED	45,139
Change in accounting standards	(23,152)
NET POSITION - BEGINNING, AS RESTATED	21,987
NET POSITION - ENDING	$ 55,219

See Notes to Financial Statements

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INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

1. Summary of Significant Accounting Policies

Independent School District #2198 was formed and operates pursuant to applicable Minnesota laws and statutes.

The governing body consists of a seven-member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable 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. The following is a summary of the more significant accounting policies:

Financial Reporting Entity

Independent School District #2198 (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.

Based on the aforementioned criteria, the District has no component units.

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 is 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.

1. Summary of Significant Accounting Policies (Continued)

Basic Financial Statement Presentation (Continued)

Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material inter-fund activity has been removed from the District-wide financial statements.

Separate Fund financial statements are provided for governmental, proprietary, 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. Proprietary funds are presented in the proprietary fund financial statements by type. 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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The District-wide financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory “tax shift” described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

Governmental fund types are accounted for using the modified accrual basis of accounting. Under this method revenues are recognized when susceptible to accrual, i.e. both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual are property taxes, state aids, fees, and interest. For this purpose, the District considers all revenue to be available if it is collected within 60 days after the end of the current period.

Expenditures are generally recognized using the modified accrual basis of accounting when a related fund liability is incurred. Exceptions to this rule include (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued, and (2) principal and interest on general long-term debt which is recognized when due.

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 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.

1. Summary of Significant Accounting Policies (Continued)

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

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 a deferred inflow of resources.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary funds are departmental charges. Operating expenses for proprietary funds are post-retirement benefit payments and expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use the restricted resources first, then unrestricted resources as they are needed.

Description of Funds

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund equity, revenues and expenditures. District resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

GASB standards set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the individual funds in the governmental fund category) for the determination of major funds. The District electively added as major funds, those which had specific community focus. The major funds of the District are presented as follows:

The *general fund* is the District's primary operating fund. It accounts for all financial resources and transactions except those required to be accounted for in other funds.

The *food service fund* accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

The *community service fund* accounts for the resources designated for programs other than those for elementary and secondary students.

The *debt service fund* accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

The *OPEB debt service fund* accounts for the accumulation of resources for, and the payment of, the OPEB (other postemployment benefits) bond principal, interest and related costs.

The District reports the following proprietary fund:

The *postemployment benefits fund* is an internal service fund which accounts for the cost of postemployment benefits of the District. Postemployment benefit costs are charged to other funds of the District based on an established rate. Internal service funds account for the financing of services, provided by one fund to other funds of the District on a cost reimbursement basis.

1. Summary of Significant Accounting Policies (Continued)

Description of Funds (Continued)

The District reports the following fiduciary fund:

The *scholarship trust fund* is a private purpose trust fund for assets held in a trustee capacity. Contributions to the District are maintained in various scholarship funds in which the annual scholarships are awarded to students based on requirements established by the contributor.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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, Community Service, Building Construction, and Debt Service Funds. Reported budget 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

Except where otherwise required, the District maintains all deposits in bank accounts in the name of the District. These deposits are invested on a short-term basis with interest income allocated to each fund based upon their relative account balance. The balances shown in each fund represents an equity interest in the commingled pool of cash and temporary cash investments, which is under the management of the District. Investments consist primarily of nonparticipating certificates of deposit recorded at cost, which approximates market.

The District has designated cash and cash equivalents as demand deposits and all investments with an original maturity of three months or less.

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.

1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with United State generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 two types of items which occur related to revenue recognition. The deferred outflows of resources are pension and OPEB 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 and OPEB related.

Unearned Revenue

Unearned revenues are those in which resources are received by the district before it has a legal claim to them. The District has reported unearned revenues for fees collected for community education activities that have not occurred as of year-end.

Inventories

Inventories are recorded using the consumption method of accounting and consist of food and commodities on hand at June 30, 2020. The food is recorded at the lower of cost or market. The food inventories are valued using the latest invoice cost, which approximates FIFO inventory method. Surplus commodities are stated at standardized commodities cost as determined by the Department of Agriculture.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as 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.

1. Summary of Significant Accounting Policies (Continued)

Property Taxes (Continued)

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 inflows of resources (property taxes levied for subsequent year). The majority of District revenue in the General and Special Revenue Funds 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. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift", which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $81,458 of the property tax levy collectible in 2020 as revenue to the District in fiscal year 2019-2020. The remaining portion of the taxes collectible in 2020 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 inflows of resources 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, 2020, 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.

Capital assets are recorded in the District-wide financial statement, but are not reported in the Fund financial statements. 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. Deprecation is provided using the straight-line method applied over the following estimated useful lives of the assets.

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

Capital assets not being depreciated include land and construction in progress.

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

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, vacation leave, and termination benefits.

Unpaid vacation and sick leave has not been accrued in any funds, as these benefits do not vest to employees. They are recorded as an expense in the period paid. See Note 11 on severance pay.

1. Summary of Significant Accounting Policies (Continued)

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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses or revenues/income initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses or revenues/income in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Comparative Data

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data has not been presented since the inclusion would not provide meaningful comparisons. Certain amounts in the June 30, 2019 totals column have been reclassified to conform to the current year presentation.

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

Concentration of Credit Risk

Financial instruments which expose the District to a concentration of credit risk consist primarily of cash and investments. Credit risk associated with cash and investments are discussed in Note 3.

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.

1. Summary of Significant Accounting Policies (Continued)

Pensions

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 9.

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.

Change in Accounting Standards

During the year ended June 30, 2020 the District implemented Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, which establishes criteria for identifying and reporting fiduciary activities. The implementation of this statement resulted in changing the presentation of the financial statements by including the student activities that were previously separately reported and scholarships previously reported under a fiduciary scholarship fund are now included in the General Fund. The beginning balance/net position has been restated to reflect this change.

Activities/Fund	Fund Balance June 30, 2019 as Previously Reported	Restatement for Change in Accounting Standard	Fund Balance June 30, 2019 as Restated
General Fund	$ 5,562,748	$ 113,282	$ 5,676,030

Activities/Fund	Net Position June 30, 2019 as Previously Reported	Restatement for Change in Accounting Standard	Fund Balance June 30, 2019 as Restated
Fiduciary Scholarship Fund	$ 45,139	$ (23,152)	$ 21,987
Student Activities	90,130	(90,130)	
	$ 135,269	$ (113,282)	$ 21,987

Activities/Fund	Net Position June 30, 2019 as Previously Reported	Restatement for Change in Accounting Standard	Fund Balance June 30, 2019 as Restated
Governmental Activities	$ 4,510,793	$ 113,282	$ 4,624,075

2. Stewardship and Accountability

Excess of expenditures over budgeted appropriations at the individual fund level during 2020 is as follows:

	Budget	Expenditures	Excess
Food Service Fund	$ 441,855	$ 446,402	$ 4,547

Excess expenditures were the result of planned processes.

3. Deposits and Investments

Summary of Cash and Investments

As of June 30, 2020, the District's cash and investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	$	528,363
Minnesota School District Liquid Asset Fund (MSDLAF)		4,295,226
Minnesota State Board of Investments (cash equivalents)		341,717
Total cash and investments		5,165,306
Less: Fiduciary fund cash and cash equivalents		(55,219)
Total Cash and Investments Per Statement of Net Position	$	5,110,087

The MSDLAF is an external investment pool and its investments are valued at amortized cost, which approximates fair in accordance with Rule 2a-7 of the Investment Company Act of 1940. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuation interest rates on the market value of instruments. The MSDLAF pool is rated AAA by Standard & Poor's.

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 receiving 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.

3. Deposits and Investments (Continued)

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 deposit 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.

Credit Risk

The District has no investment policy that would limit its investment choices.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

3. Deposits and Investments (Continued)

Fair Value Measurement (Continued)

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.

The District had no investments within the fair value hierarchy at June 30, 2020.

4. Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2020 are as follows:

Fund	Minnesota Department of Education	Federal Government Through MDE	Other School Districts	Total
General	$ 502,340	$ 182,638	$ 10,168	$ 695,146
Community Service	4,968	2,785		7,753
Food Service		22,660		22,660
Debt Service	22,836			22,836
OPEB Debt Service	805			805
	$ 530,949	$ 208,083	$ 10,168	$ 749,200

5. Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 44,373	$	$	$ 44,373
Construction in progress	1,081,593		1,081,593	
Total capital assets, not being depreciated	1,125,966		1,081,593	44,373
Capital assets, being depreciated:				
Buildings	13,447,663	780,890		14,228,553
Site improvements	1,437,454	2,759,430		4,196,884
Equipment	1,524,318	204,598	56,274	1,672,642
Total capital assets, being depreciated	16,409,435	3,744,918	56,274	20,098,079
Less accumulated depreciation for:				
Buildings	6,223,274	433,744		6,657,018
Site improvements	471,480	139,830		611,310
Equipment	640,742	121,963	56,274	706,431
Total accumulated depreciation	7,335,496	695,537	56,274	7,974,759
Total capital assets, being depreciated, net	9,073,939	3,049,381		12,123,320
Governmental activities capital assets, net	$ 10,199,905	$ 3,049,381	$ 1,081,593	$ 12,167,693

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Regular instruction	$ 220,744
Special education	6,174
Instructional support	800
Pupil support services	38,505
Site, buildings and equipment	429,314
Total depreciation expense - governmental activities	$ 695,537

6. Long-Term Liabilities

The long-term debt obligations outstanding and related maturities and interest rates are summarized in the following schedules. General Obligation Bonds are serviced by the Debt Service Fund. They are backed by the full faith and credit of the District.

A summary of interest rates, maturities and June 30, 2020 balances is as follows:

	Original Amount of Debt	Range of Interest Rates	Final Maturity	Balance June 30, 2020
General Obligation Bonds:				
Alternative Facilities Bonds 2010A	$ 1,890,000	2.00 - 4.00%	2025	$ 725,000
Alternative Facilities Bonds 2012A	965,000	0.50 - 2.10%	2028	540,000
Alternative Facilities Bonds 2014A	4,420,000	3.00 - 3.50%	2030	3,485,000
OPEB Refunding Bonds 2017A	850,000	2.85%	2029	775,000
Bond discount				(8,408)
Bond premium				69,968
Severance payable				20,959
Total				$ 5,607,519

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable:					
General Obligation Bonds:					
Alternative Facilities Bond 2010A	$ 855,000	$	$ 130,000	$ 725,000	$ 135,000
Alternative Facilities Bond 2012A	605,000		65,000	540,000	65,000
Alternative & Capital Facilities Bond 2014A	3,690,000		205,000	3,485,000	215,000
OPEB Refunding Bonds 2017A	850,000		75,000	775,000	75,000
Bond Discount	(9,404)		(996)	(8,408)	
Bond Premium	76,965		6,997	69,968	
Other Liabilities:					
Severance Payable	18,917		(2,042)	20,959	
Governmental Activities Long-term Liabilities	$ 6,086,478	$	$ 478,959	$ 5,607,519	$ 490,000

6. Long-Term Liabilities (Continued)

The annual requirements to amortize all long-term debt outstanding as of June 30, 2020, over the life of the debt, are summarized below:

	General Obligation Bonds		
Years	Principal	Interest	Total
Governmental Activities			
2021	$ 490,000	$ 166,258	$ 656,258
2022	505,000	152,233	657,233
2023	520,000	137,477	657,477
2024	535,000	122,047	657,047
2025	555,000	106,218	661,218
2026 - 2030	2,920,000	273,648	3,193,648
Totals	$ 5,525,000	$ 957,881	$ 6,482,881

Payments on the general obligation bonds payable that pertain to the School District's governmental activities are made by the debt service funds. The severance payable liability attributable to the governmental activities will be liquidated by other School District governmental funds.

7. Fund Equity

In accordance with Government Account 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. The School Board designates that the Board Chair, Superintendent, and Business Manager shall agree to assign general fund balance for specific purpose. The School Board will be informed when funds are assigned, purpose of the assignment, and amount.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in the other governmental funds.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of the unrestricted fund balance when expenditures are made.

7. Fund Equity (Continued)

The District has a formal minimum fund balance policy for the General Fund Unassigned Fund Balance to be at least eight percent of the prior fiscal year's general fund expenditures and a maximum of twenty-five percent of the prior fiscal year's general fund 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 reserved fund balances for the governmental funds:

Restricted for Gifted and Talented - Represents available resources within the General Fund to provide for gifted and talented programs.

Restricted for Community Education - Represents available resources within the Community Service Fund for enrichment programs for any age level that are not part of the K-12 education program which are not taken for credit or required for graduation.

Restricted for Early Childhood/Family Education - Represents available resources within the Community Service Fund whose focus is to improve parenting skills of new and expectant parents, and/or to provide learning experiences for parents and children.

Restricted for School Readiness - Represents the resources available to provide for services for school readiness programs.

Restricted for Operating Capital - Represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted for Staff Development - Represents available resources in the General Fund reserved for staff development.

Restricted for Basic Skills - Represents available resources within the General Fund to provide for basic skills programs.

Restricted for Basic Skills Extended Time - Represents available resources within the General Fund to provide for basic skills extended time programs.

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

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

Restricted for Medical Assistance - Represents resources available for Medical Assistance expenditures.

7. Fund Equity (Continued)

The following is a summary of fund balances as of June 30, 2020 with comparative totals as of June 30, 2019:

	General	Food Service	Community Service	Debt Service	OPEB Debt Service	2020 Totals	2019 Totals
Nonspendable							
Inventory	$	$ 5,119	$	$	$	$ 5,119	$ 4,277
Prepaid Items	42,990					42,990	26,914
Total nonspendable	42,990	5,119				48,109	31,191
Restricted							
Gifted and talented	20,355					20,355	18,256
Community education			127,188			127,188	155,923
Early childhood and family education			68,560			68,560	57,073
Scholarships	8,999					8,999	
School readiness			53,201			53,201	49,664
Operating capital	807,480					807,480	675,415
Staff development	18,915					18,915	10,550
Basic skills extended time	10,775					10,775	4,970
LTFM	63,108					63,108	
Student activities	123,447					123,447	
Food service		127,313				127,313	109,410
Community service			15,160			15,160	19,065
Debt service				199,555		199,555	158,037
OPEB debt service					20,835	20,835	23,516
Total restricted	1,053,079	127,313	264,109	199,555	20,835	1,664,891	1,281,879
Assigned							
Student laptop repairs	49,056					49,056	37,192
Milk break assistance	15,434					15,434	13,411
Roof repair	1,000,000					1,000,000	500,000
Technology	500,000					500,000	500,000
Athletic fine arts	14,809					14,809	
Building/site maintenance and improvement							3,000,000
Total assigned	1,579,299					1,579,299	4,050,603
Unassigned	1,016,838					1,016,838	776,040
Total Fund Balance	$ 3,692,206	$ 132,432	$ 264,109	$ 199,555	$ 20,835	$ 4,309,137	$ 6,139,713

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, 2020	UFARS Balance June 30, 2019
Nonspendable				
Inventory	$ 5,119	$	$ 5,119	$ 4,277
Prepaid Items	42,990		42,990	26,914
Total nonspendable	48,109		48,109	31,191
Restricted				
Gifted and talented	20,355		20,355	18,256
Community education	127,188		127,188	155,923
Early childhood and family education	68,560		68,560	57,073
Scholarships	8,999		8,999	
School readiness	53,201		53,201	49,664
Operating capital	807,480		807,480	675,415
Staff development	18,915		18,915	10,550
Basic skills extended time	10,775		10,775	4,970
LTFM	63,108		63,108	
Student activities	123,447		123,447	
Safe schools crime		(17,175)	(17,175)	
Medical assistance		(803)	(803)	
Food service	127,313		127,313	109,410
Community service	15,160		15,160	19,065
Debt service	199,555		199,555	158,037
OPEB debt service	20,835		20,835	23,516
Total restricted	1,664,891	(17,978)	1,646,913	1,281,879
Assigned				
Student laptop repairs	49,056		49,056	37,192
Milk break assistance	15,434		15,434	13,411
Roof repair	1,000,000		1,000,000	500,000
Technology	500,000		500,000	500,000
Athletic fine arts	14,809		14,809	
Building/site maintenance and improvement				3,000,000
Total assigned	1,579,299		1,579,299	4,050,603
Unassigned	1,016,838	17,978	1,034,816	776,040
Total Fund Balance	$ 4,309,137	$	$ 4,309,137	$ 6,139,713

8. Commitments and Contingencies

The District participates in a number of federal and state agency assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District does not anticipate any audit adjustments or disallowed program expenditures that would be material in relation to the general purpose financial statements taken as a whole.

9. Defined Benefit Pension Plans – Statewide

Plan Description

1. General Employees Retirement Fund

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code. 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.

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.

Educators employed in Minnesota's public elementary and secondary school, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect TRA coverage or coverage through Minnesota State's Individual Retirement Account Plan (IRAP) within one year of eligible employment.

Benefits Provided

1. General Employees Plan Benefits

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

9. 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate of Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years 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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

2. TRA Benefits

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 per year
	First ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are up to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

With these provisions:

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

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

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

or

9. Defined Benefit Pension Plans – Statewide (Continued)

<u>Benefits Provided (Continued)</u>

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 benefit 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.

<u>Contributions</u>

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 2020 and 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, 2020 were $109,364. 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, 2019		Ended June 30, 2020	
	Employee	Employer	Employee	Employer
Basic	11.00%	11.71%	11.0%	11.92%
Coordinated	7.50%	7.71%	7.5%	7.92%

The District's contributions to the TRA fund for the year ended June 30, 2020 were $232,942. The District’s contributions were equal to the required contributions as set by the state statute.

9. 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	$ 403,300,000
Add employer contributions not related to future contribution efforts	(688,000)
Deduct TRA's contributions not included in allocation	(486,000)
Total employer contributions	$ 402,126,000
Total non-employer contributions	35,588,000
Total contributions reported in *Schedule of Employer and Non-Employer Allocations*	$ 437,714,000

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, 2020, the District reported a liability of $1,138,928 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 $16 million. 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 $35,332. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportion was 0.0206 percent which was an increase of 0.0001 percent from its proportion measured as of June 30, 2018.

District's proportionate share of net pension liability	$ 1,138,928
State's proportionate share of the net pension liability associated with the district	$ 35,332

9. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (Continued)

For the year ended June 30, 2020, the District recognized pension expense of $76,303 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $2,646 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

At June 30, 2020, 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	$ 30,578	$
Changes in actuarial assumptions		86,404
Difference between projected and actual investment earnings		116,307
Changes in proportion	78,134	
Contributions paid to PERA subsequent to the measurement date	107,231	
Total	$ 215,943	$ 202,711

The $107,231 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, 2021. 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
2021	$ (8,965)
2022	(65,572)
2023	(21,298)
2024	1,836

2. TRA Pension Costs

At June 30, 2020, the District reported a liability of $3,390,979 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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 0.0532% at the end of the measurement period and 0.0510% for the beginning of the period.

9. 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	$	3,390,979
State's proportionate share of the net pension liability associated with the district	$	300,050

For the year ended June 30, 2020, the District recognized pension expense of $386,293. It also recognized $18,932 as an increase to pension expense for the support provided by direct aid.

At June 30, 2020, 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	$ 582	$ 80,486
Changes in actuarial assumptions	2,708,448	4,318,438
Difference between projected and actual investment earnings		272,276
Changes in proportion	246,785	57,222
Contributions paid to TRA subsequent to the measurement date	254,041	
Total	$ 3,209,856	$ 4,728,422

The $254,041 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, 2021. 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
2021	$ 216,572
2022	23,028
2023	(1,176,062)
2024	(852,888)
2025	16,743

9. Defined Benefit Pension Plans – Statewide (Continued)

Aggregate Pension Costs

Pension expense recognized by the District for the year ended June 30, 2020 is as follows:

General Employees Retirement Fund	$78,949
TRA	405,225
Total	$484,174

Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and following the 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 or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in PERA actuarial assumptions and plan provisions occurred in 2019:

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from $31.0 million to $21.0 million per year. The State's special funding contribution was changed prospectively, requiring $16.0 million due per year through 2031.

9. Defined Benefit Pension Plans – Statewide (Continued)

2. TRA Actuarial Assumptions

The total pension liability in the June 30, 2019, 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, 2019
Experience Study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Price Inflation	2.50%
Wage growth rate	2.85% before July 1, 2028 and
	3.28% after June 30, 2028
Projected Salary Increases	2.85 to 8.85% before July 1, 2028 and
	3.25 to 9.25% after June 30, 2028
Cost of Living Adjustment	1% for January 2019 through January 2023, then
	increasing by 0.1% each year up to 1.5% annually.
Mortality Assumptions:	
Pre-Retirement:	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-Retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-Disability:	RP-2014 disabled retiree morality table, without adjustment.

9. Defined Benefit Pension Plans – Statewide (Continued)

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

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

Asset Class	Target Allocation	Long-Term Expectec Real Rate of Return
Domestic Stocks	35.5%	5.10%
International Stocks	17.5%	5.30%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
Unallocated cash	2.0%	0.00%
Total	100%	

The TRA actuary has 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 2017 valuation:

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

9. Defined Benefit Pension Plans – Statewide (Continued)

Discount Rate

1. General Employees Fund Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. 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.

2. TRA Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. This is an increase from the discount rate at the prior measurement date of 5.12 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2018 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 not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

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	$ 1,872,336	$ 1,138,928	$ 533,354
TRA Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the TRA net pension liability	$ 5,406,050	$ 3,390,979	$ 1,729,583

Pension Plan Fiduciary Net Position

Detailed information about the 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.

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, 2019.

Plan Description

The District operates single-employer retiree benefit plan ("the Plan") that provides health insurance to eligible employees and their spouses through the District's health insurance plan. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated at various times. The Plan does not issue a publicly available financial report.

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. In addition, for retirees hired on or before September 2, 1997, the District contributes $405 per month for retirees and $180 per month for a retiree spouse for health benefits until Medicare eligibility. As of June 30, 2019, there were approximately 56 active participants and 6 retired participants in the District's group health plan.

Funding Policy

The District makes all required contributions, and for the year ended June 30, 2009, the District transferred $1,145,132 from bonds issued to fund the unfunded actuarial accrued liability as discussed below. The bond proceeds were transferred to a revocable trust but are not considered contributed assets since the trust is revocable.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the District at year-end were as follows:

Total OPEB liability	$ 418,323
Valuation salary	$ 2,991,238
Total OPEB liability as % of payroll	14%

10. Other Postemployment Benefit Plan (Continued)

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, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.10%
20-year Municipal Bond Yield	3.10%
Inflation rate	2.50%
Mortality	Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale
Medical trend rate	6.50% as of July 1, 2019 grading to 5.00% over 6 years

There were no changes in OPEB actuarial assumptions during fiscal year 2019.

Changes in Net OPEB Liability

	Total OPEB Liability
Beginning Balance 6/30/2019	$ 505,129
Changes for the year:	
Service cost	17,977
Interest	16,822
Difference between expected and actual	(64,442)
Benefit payments	(57,163)
Net Changes	(86,806)
Balance End of Year 6/30/2020	$ 418,323

10. Other Postemployment Benefit Plan (Continued)

Net OPEB Liability Sensitivity to Discount and Health-Care 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:

	Net OPEB Liability
1% decrease in Discount Rate (2.40%)	$ 439,708
Current Discount Rate (3.40%)	418,323
1% increase in Discount Rate (4.40%)	397,128

The following represents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it would be calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates:

	Net OPEB Liability
1% decrease in Trend Rates	$ 392,854
Current Trend Rates	418,323
1% increase in Trend Rates	447,907

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

As of the year ended June 30, 2020, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions paid to OPEB subsequent to the measurement date	$ 37,194	$
Liability gains		54,577
Assumption changes		1,809
Total	$ 37,194	$ 56,386

Year ending June 30:	OPEB Amount
2021	$ (8,056)
2022	(8,056)
2023	(8,056)
2024	(8,056)
2025	(8,056)
Thereafter	(16,106)

11. Severance Pay and Early Retirement Incentive Pay

In accordance to the current contracts, any teacher with 15 years teaching experience in the Harmony, Preston-Fountain, and Fillmore Central Districts and who are at least 55 years of age shall be eligible for the severance plan. Eligible teachers shall receive payment for accumulated and unused sick leave at the rate of $125 per day, not to exceed 100 days. The severance shall be paid in two equal installments, half on July 20th in the year of retirement and half on July 20th of the following year.

An estimate of the potential obligation to be paid in future years is $20,959. This amount is included in the financial statements as part of long-term liabilities.

12. Flexible Benefit Plan

The District has a flexible benefit plan which is classified as a “cafeteria plan” under Section 125 of the Internal Revenue Code. All employees of the District are eligible to participate in the plan. Employees can elect to contribute pre-tax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

Before the beginning of the plan year, which is from January 1 to December 31, each participant designates a total amount of pre-tax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants’ annual contributions to the medical reimbursement portion of the plan, whether or not such contributions have been made.

Payments of insurance premiums (health, life, and disability) are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the appropriate fund.

All plan property and income attributable to that property is solely the property of the District, subject to the claims of the District’s general creditors. Participants’ rights under the plan are equal to those of general creditors of the District in an amount equal to eligible health care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

13. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries insurance for employee health, liability, property, and automotive insurance. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There was no reduction in insurance coverage during 2020.

14. Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 14, 2020, the date the financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to impact future operations, however, the potential impact is unknown at this time.

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2020

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA

Schedule of Changes in District's Net OPEB Liability and Related Ratios

	Total OPEB Liability		
	2020	2019	2018
Service cost	$ 17,977	$ 19,065	$ 18,510
Interest	16,822	17,577	18,796
Differences between expected and actual	(64,442)		
Benefit payments	(57,163)	(58,340)	(88,824)
Net changes in total OPEB liability	(86,806)	(21,698)	(51,518)
Total OPEB liability - beginning of year	505,129	526,827	578,345
Total OPEB liability - end of year	$ 418,323	$ 505,129	$ 526,827
Total OPEB liability	$ 418,323	$ 505,129	$ 526,827
Valuation salary	$ 2,991,238	$ 2,867,875	$ 2,784,345
Total OPEB liability as % of payroll	14%	18%	19%

See Note 10, Other Postemployment Benefit Plan, for more information.

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA

Schedule of District's Contributions
General Employees Retirement Funds
Last Ten Years (presented prospectively)

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	$ 61,026	$ 61,026	$	$ 813,680	7.50%
2016	PERA	73,633	73,633		981,773	7.50%
2017	PERA	81,932	81,932		1,092,427	7.50%
2018	PERA	92,822	92,822		1,237,627	7.50%
2019	PERA	103,288	103,288		1,377,173	7.50%
2020	PERA	109,364	109,364		1,458,187	7.50%
2021						
2022						
2023						
2024						

Schedule of District's Contributions
TRA Retirement Funds
Last Ten Years (presented prospectively)

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	$ 172,344	$ 172,344	$	$ 2,297,920	7.50%
2016	TRA	189,286	189,286		2,523,813	7.50%
2017	TRA	196,289	196,289		2,617,187	7.50%
2018	TRA	206,969	206,969		2,759,587	7.50%
2019	TRA	211,380	211,380		2,818,400	7.50%
2020	TRA	232,942	232,942		3,021,297	7.71%
2021						
2022						
2023						
2024						

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
PERA General Employees Retirement Fund
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 Associated with the District (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	0.0175%	$ 822,062	$	$ 822,062	$ 813,680	101%	78.70%
2015	0.0170%	881,028		881,028	981,773	90%	78.20%
2016	0.0176%	1,429,033	18,632	1,447,665	1,092,427	133%	68.90%
2017	0.0192%	1,225,715	15,421	1,241,136	1,237,627	100%	75.90%
2018	0.0205%	1,137,256	37,353	1,174,609	1,377,173	85%	79.53%
2019	0.0206%	1,138,928	35,332	1,174,260	1,458,187	81%	78.07%
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 Associated with the District (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	0.0539%	$ 2,483,673	$ 174,748	$ 2,658,421	$ 2,297,920	116%	81.50%
2015	0.0497%	3,074,437	377,135	3,451,572	2,523,813	137%	76.80%
2016	0.0503%	11,997,750	1,203,199	13,200,949	2,617,187	504%	44.90%
2017	0.0513%	10,240,411	990,629	11,231,040	2,759,587	407%	51.57%
2018	0.0510%	3,204,076	301,002	3,505,078	2,818,400	124%	78.07%
2019	0.0532%	3,390,979	300,050	3,691,029	3,021,297	122%	78.07%
2020							
2021							
2022							
2023							

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA

SUPPLEMENTARY INFORMATION

JUNE 30, 2020

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
COMPARATIVE BALANCE SHEET
GENERAL FUND
June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 3,908,010	$ 5,750,305
Current property taxes receivable	378,848	437,079
Delinquent property taxes receivable	8,242	4,768
Accounts receivable	99,801	25,564
Due from other school districts	10,168	12,433
Due from Minnesota Department of Education	502,340	559,679
Due from Federal through Minnesota Department of Education	182,638	290,600
Prepaid items	42,990	26,914
TOTAL ASSETS	$ 5,133,037	$ 7,107,342
Liabilities		
Accounts payable	$ 36,838	$ 65,278
Salaries and accrued liabilities payable	622,091	592,623
Due to other school districts	28,305	19,320
Due to other governments	255	393
TOTAL LIABILITIES	687,489	677,614
Deferred Inflows of Resources		
Unavailable revenue:		
Property taxes levied for subsequent year	745,100	862,212
Delinquent property taxes	8,242	4,768
TOTAL DEFERRED INFLOWS OF RESOURCES	753,342	866,980
Fund Balances		
Nonspendable	42,990	26,914
Restricted	1,053,079	709,191
Assigned	1,579,299	4,050,603
Unassigned	1,016,838	776,040
TOTAL FUND BALANCES	3,692,206	5,562,748
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 5,133,037	$ 7,107,342

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended June 30, 2020
With Partial Comparative Data for the Year Ended June 30, 2019

	Budgeted Amounts		2020	Over (Under)	2019
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$ 369,906	$ 369,906	$ 364,330	$ (5,576)	$ 373,767
Investment income	500	500	4,639	4,139	5,853
State sources	228,402	228,402	230,082	1,680	224,610
TOTAL REVENUES	598,808	598,808	599,051	243	604,230
Expenditures					
Fiscal and Other Fixed Cost Programs	560,333	559,033	557,533	(1,500)	564,263
NET CHANGE IN FUND BALANCES	38,475	39,775	41,518	1,743	39,967
FUND BALANCE - BEGINNING	158,037	158,037	158,037		118,070
FUND BALANCE - ENDING	$ 196,512	$ 197,812	$ 199,555	$ 1,743	$ 158,037

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
SUPPLEMENTAL COST SCHEDULES
For the Years Ended June 30, 2020 and 2019
(Unaudited)

Fiscal Year Ended June 30, 2020	2019 - 2020 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	$ 405,101	$ 662
District support services	303,131	495
Regular instruction	3,563,019	5,820
Vocational instruction	104,864	171
Special education	1,170,116	1,911
Community education and services	682,614	1,115
Instructional support services	197,315	322
Pupil support services	1,051,458	1,717
Site, buildings, and equipment	3,509,970	5,733
Fiscal and other fixed cost programs	706,032	1,153
TOTALS	$ 11,693,620	$ 19,099

2019 - 2020 Adjusted Average Daily Membership - 612.25

Fiscal Year Ended June 30, 2019	2018 - 2019 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	$ 395,557	$ 642
District support services	341,495	554
Regular instruction	3,375,467	5,480
Vocational instruction	96,264	156
Special education	1,162,860	1,888
Community education and services	718,246	1,166
Instructional support services	187,314	304
Pupil support services	1,132,802	1,839
Site, buildings, and equipment	2,058,593	3,342
Fiscal and other fixed cost programs	738,993	1,200
TOTALS	$ 10,207,591	$ 16,573

2018 - 2019 Adjusted Average Daily Membership - 615.93

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA

TAX LEVY HISTORY

	19 Pay 20 Fiscal 21	18 Pay 19 Fiscal 20	17 Pay 18 Fiscal 19	16 Pay 17 Fiscal 18	15 Pay 16 Fiscal 17	14 Pay 15 Fiscal 16
Tax Levy*						
General	$ 826,558	$ 943,431	$ 884,843	$ 806,540	$ 940,633	$ 904,802
Community Service	78,310	77,601	79,246	81,126	84,060	83,692
Debt Redemption (Net)	548,311	647,354	661,369	691,393	706,167	699,987
TOTAL TAX LEVY	$ 1,453,179	$ 1,668,386	$ 1,625,458	$ 1,579,059	$ 1,730,860	$ 1,688,481

* The tax levy includes property tax apportionment from Fillmore 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 #2198
Preston, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Independent School District #2198, Preston, Minnesota, as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprises the District's basic financial statements and have issued our report thereon dated December 14, 2020. 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards other then as described in the accompanying schedule of findings and responses as Finding 2011-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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.

Minnesota Legal Compliance

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts sections of the Minnesota Legal Compliance Audit Guide for School Districts, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

District's Response to Finding

District's response to 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.

Rochester, Minnesota
December 14, 2020

SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2020

FINDING – 2011-01 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.

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.

FILLMORE CENTRAL SCHOOL DISTRICT #2198

Home of the Falcons

700 Chatfield Street, PO BOX 50

Preston, MN 55965

telephone (507) 765-3845 ~ fax (507) 765-3636

www.fillmorecentral.k12.mn.us

CORRECTIVE ACTION PLAN (CAP):

The Independent School District #2198 respectfully submits the following corrective action plan for the year ended June 30, 2020: Audit period: July 1, 2019 - June 30, 2020.

The finding from the schedule of findings and response is discussed below. The finding is numbered consistently with the numbers assigned in the schedule.

RESPONSE: FINDING 2011-001

Explanation of Disagreement with Audit Finding:
There is no disagreement with the audit finding.

Actions Planned in Response to Finding:
The management and accounting personnel review the drafted financial statements and notes. The District does not have the expertise to ensure all disclosures required by GAAP are included in the financial statements. Accordingly, the District will rely upon the auditors for completeness of the disclosures. However, the management and accounting personnel will review the notes for accuracy and compare the balances to UFARS and other District reports prior to issuance of the statements.

Official Responsible for Ensuring CAP:
Darla Ebner, Bookkeeper, is the official responsible for ensuring the planned responses.

Planned Completion Date for CAP:
Not applicable as the District is willing to accept this risk at this time and will continue to evaluate the recommendation.

Plan to Monitor Completion of CAP:
Richard Keith, Superintendent, will ensure the review by the Bookkeeper has been completed. She will do this through discussion with the Bookkeeper and reviewing the draft of the financial statements.

CURRENT STATUS: The finding recurred in 2020.

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA

COMPLIANCE TABLE

JUNE 30, 2020

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Fiscal Compliance Report - 6/30/2020
District: FILLMORE CENTRAL (2198-1)

01 GENERAL FUND

	Audit	UFARS	Audit - UFARS
Total Revenue	$7,923,472	$7,923,475	($3)
Total Expenditures	$9,903,923	$9,903,923	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$42,990	$42,990	$0
Restricted / Reserved:			
4.01 Student Activities	$123,447	$123,447	$0
4.02 Scholarships	$8,999	$8,999	$0
4.03 Staff Development	$18,915	$18,915	$0
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	$807,480	$807,480	$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	$20,355	$20,355	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.41 Basic Skills Programs	$0	$0	$0
4.48 Achievement and Integration	$0	$0	$0
4.49 Safe School Crime - Crime Levy	($17,175)	($17,175)	$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	$10,775	$10,775	$0
4.67 LTFM	$63,108	$63,108	$0
4.72 Medical Assistance	($803)	($803)	$0
4.73 PPP Loan	$0	$0	$0
4.74 EIDL Loan	$0	$0	$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	$1,579,299	$1,579,299	$0
Unassigned:			
4.22 Unassigned Fund Balance	$1,034,816	$1,034,816	$0

02 FOOD SERVICES

	Audit	UFARS	Audit - UFARS
Total Revenue	$461,674	$461,672	$2
Total Expenditures	$446,402	$446,402	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$5,119	$5,119	$0
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.74 EIDL Loan	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$127,313	$127,314	($1)
Unassigned:			
4.63 Unassigned Fund Balancee	$0	$0	$0

04 COMMUNITY SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$664,998	$665,001	($3)
Total Expenditures	$682,614	$682,616	($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	$127,191	$127,190	$1
4.32 E.C.F.E	$68,560	$68,560	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.44 School Readiness	$53,201	$53,201	$0
4.47 Adult Basic Education	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.73 PPP Loan	$0	$0	$0
4.74 EIDL Loan	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$15,160	$15,160	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

06 BUILDING CONSTRUCTION

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

07 DEBT SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$599,051	$599,052	($1)
Total Expenditures	$557,533	$557,533	$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	$199,555	$199,556	($1)
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

08 TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Restricted / Reserved:			
4.01 Student Activities	$0	$0	$0
4.02 Scholarships	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

18 CUSTODIAL

	Audit	UFARS	Audit - UFARS
Total Revenue	$58,140	$58,140	$0
Total Expenditures	$24,908	$24,908	$0
Restricted / Reserved:			
4.01 Student Activities	$0	$0	$0
4.02 Scholarships	$55,219	$55,219	$0
4.48 Achievement and Integration	$0	$0	$0
4.64 Restricted Fund Balance	$0	$0	$0

20 INTERNAL SERVICE

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

25 OPEB REVOCABLE TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$23,594	$23,594	$0
Total Expenditures	$26,743	$26,743	$0
4.22 Unassigned Fund Balance (Net Assets)	($106,503)	($106,502)	($1)

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	$96,994	$96,993	$1
Total Expenditures	$99,675	$99,675	$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	$20,835	$20,834	$1
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0