

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

FINANCIAL STATEMENTS

JUNE 30, 2018

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PRESTON, MINNESOTA
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**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

INTRODUCTORY SECTION

JUNE 30, 2018

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**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2018**

2017 - 2018

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

2016 - 2017

Ross Kiehne	Chairperson	12/31/2020
Craig Britton	Vice Chairperson	12/31/2018
Susan Sikkink	Treasurer	12/31/2018
James Love	Clerk	12/31/2020
Deb Ristau	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, 2018

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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, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District #2198, Preston, Minnesota as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof, and budgetary comparison for the General Fund and each major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplementary information, and Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and Uniform Financial Accounting and Reporting Standards Compliance Table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain 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, 2017, from which such partial information was derived.

We have previously audited the District's 2017 financial statements and our report, dated November 20, 2017, 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, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District's internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Smith, Schafn and Associates, Ltd.

**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, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,327,352 (*net position*).
- Overall revenues for the General Fund were \$7,515,190 while overall expenditures totaled \$6,972,954.
- The General Fund Unassigned Fund Balance is \$1,492,191. This represents an increase of \$5,478 from last fiscal year. The restricted fund balances total \$618,900 as compared to \$588,563 last fiscal year. The assigned fund balances total \$4,031,714 as compared to \$3,525,970 last fiscal year.
- The General Fund total fund balance increased by \$542,236 in 2017-2018.
- The Food Service Fund total fund balance decreased by \$5,179 in 2017-2018.
- The Community Service Fund total fund balance decreased by \$17,295 in 2017-2018.

**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).

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

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 \$2,327,352 on June 30, 2018. This was a decrease of \$1,335,072 from the prior year.

	Total	
	2018	2017
Assets		
Current and other assets	\$ 10,185,050	\$ 9,839,915
Capital assets	9,256,983	9,249,220
Total assets	19,442,033	19,089,135
Deferred Outflows of Resources	4,791,406	8,233,825
Liabilities		
Current liabilities	848,427	856,360
Long-Term liabilities	19,316,728	21,196,866
Total liabilities	20,165,155	22,053,226
Deferred Inflows of Resources	1,740,932	1,607,310
Net Position		
Net investment in capital assets	3,638,421	3,244,656
Restricted	1,876,354	1,799,108
Unrestricted	(3,187,423)	(1,381,340)
Total net position	\$ 2,327,352	\$ 3,662,424

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

District's Revenue. The District's total revenues were \$9,568,078 for the year ended June 30, 2018; compared to \$9,564,885 on June 30, 2017. General revenues from federal and state sources accounted for 55% of total revenue for the year ended June 30, 2018, compared to 58% in the prior year. Local property taxes (levies) accounted for 16% percent (compared to 18% the previous year) of the total revenue, with the remaining revenue coming from other sources.

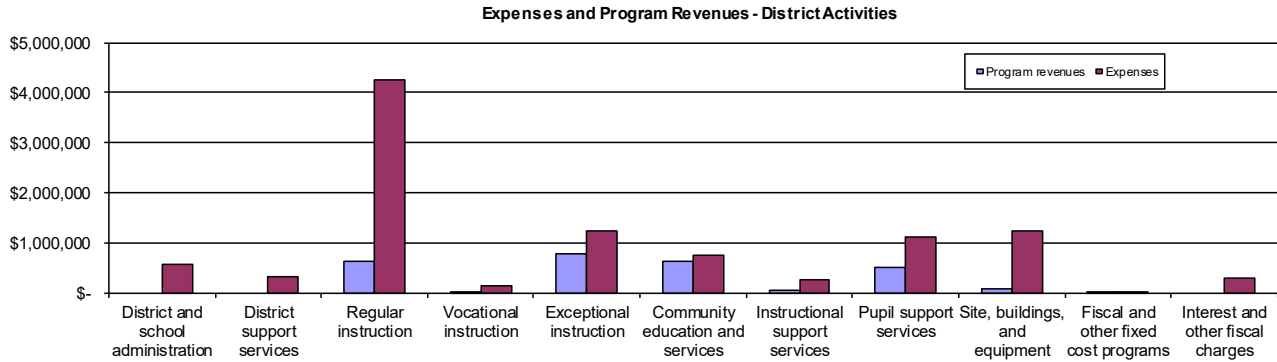
A condensed version of the Statement of Activities follows:

	Total	
	2018	2017
Revenue		
Program revenues:		
Charges for services	\$ 1,180,023	\$ 1,026,636
Operating grants and contributions	1,406,924	1,209,716
Capital grants and contributions	67,226	24,704
General revenues:		
Property taxes	1,516,298	1,694,059
State sources	5,303,261	5,528,647
Other sources	94,346	81,123
Total revenues	<u>9,568,078</u>	<u>9,564,885</u>
Expenses		
District and school administration	561,230	540,437
District support services	319,920	296,367
Regular instruction	4,254,087	4,050,886
Vocational instruction	142,750	132,615
Exceptional instruction	1,224,447	1,447,183
Community education and services	759,845	684,922
Instructional support services	256,872	301,758
Pupil support services	1,106,782	968,411
Site, buildings, and equipment	1,225,962	1,223,229
Fiscal and other fixed cost programs	23,944	27,266
Interest and other fiscal charges	274,534	280,626
Total expenses	<u>10,150,373</u>	<u>9,953,700</u>
Change in net position	(582,295)	(388,815)
Net position, beginning of year as restated (Note 1)	<u>2,909,647</u>	<u>4,051,239</u>
Net position, end of year	<u>\$ 2,327,352</u>	<u>\$ 3,662,424</u>

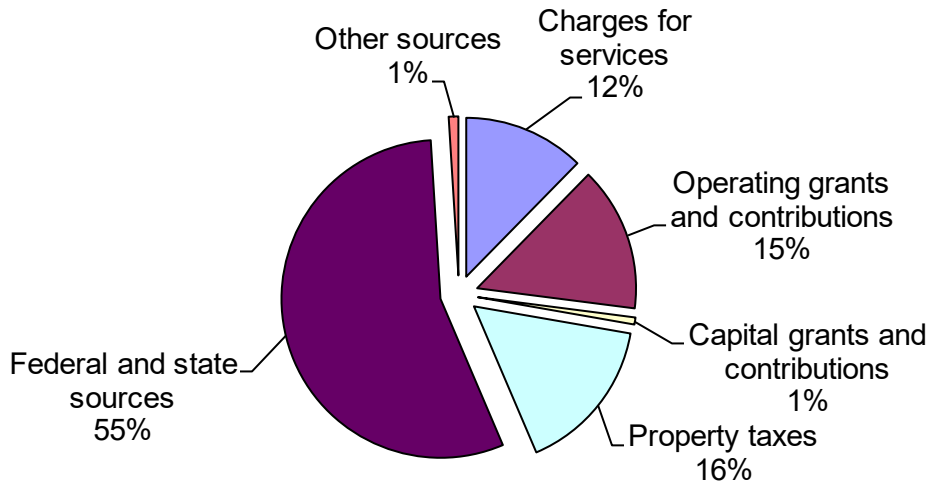
**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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.



Revenues by Source - District Activities



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

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 \$7,500,174.

Enrollment is projected to decline slightly into the 2018-2019 school year, but with construction for the veteran's home in Preston to begin in the near future we are optimistic that enrollment will stabilize and potentially increase over time.

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

<u>Fiscal Year</u>	<u>ADM</u>	<u>% Change</u>
2009	568.63	
2010	553.73	-2.6%
2011	540.87	-2.3%
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%

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 \$30,866 from the previous year (being \$7,515,190 in FY18, and \$7,484,324 in FY17).

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.

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

FUND BASIS FINANCIAL ANALYSIS (Continued)

General fund revenues and other financing sources were as follows:

	2018	2017	Increase/ (Decrease)
Local property tax levies	\$ 826,946	\$ 970,987	\$ (144,041)
Other local and county sources	307,725	300,082	7,643
Investment income	66,568	34,211	32,357
State sources	5,874,981	5,798,323	76,658
Federal sources	428,016	364,873	63,143
Sales and other conversions of assets	10,954	15,848	(4,894)
Total	\$ 7,515,190	\$ 7,484,324	\$ 30,866

Total General Fund expenditures increased by \$80,992.

General fund expenditures and transfers were as follows:

	2018	2017	Increase/ (Decrease)
District and school administration	\$ 418,930	\$ 403,796	\$ 15,134
District support services	306,762	281,327	25,435
Regular instruction	3,138,762	2,971,868	166,894
Vocational instruction	101,354	95,043	6,311
Exceptional instruction	1,040,879	1,175,454	(134,575)
Instructional support services	212,237	261,650	(49,413)
Pupil support services	659,973	504,169	155,804
Site, buildings, and equipment	1,064,111	1,164,939	(100,828)
Fiscal and other fixed cost programs and transfers out	29,946	33,716	(3,770)
Total	\$ 6,972,954	\$ 6,891,962	\$ 80,992

The total General Fund balance on June 30, 2018, was \$6,143,482 compared to \$5,601,246 on June 30, 2017 (increase of \$542,236). Of the amount, \$618,900 is restricted for specific purposes by state requirements, \$4,031,714 is assigned; and \$1,492,191 in 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, 2018, was \$125,959 compared to \$131,138 on June 30, 2017.

The Food Service revenue for 2017-2018 totaled \$491,004 compared to \$488,916 the previous year – an increase of \$2,088.

The Food Service expenditures for 2017-2018 totaled \$496,183 compared to \$443,872 the previous year – an increase in expenditures \$52,311.

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

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 it 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 \$17,295.

Community Service Fund revenues for 2017-2018 totaled \$701,706 compared to \$675,293 in the previous year. This was an increase in revenue of \$26,413 from the previous year. This increase is primarily due to increased tuition received for the daycare and preschool programs.

Community Service Fund expenditures for 2017-2018 totaled \$719,001 compared to \$648,536 in the previous year. This was an increase in expenditures of \$70,465 from the previous year. This increase is primarily due to increased tuition received for the daycare and preschool programs.

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 \$66,657 in 2017-2018 due to the close out of our construction fund to the debt service fund.

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 \$73,490 at June 30, 2018.

Fiduciary Fund. Private-purpose trust (scholarship trust) fund is the District's fiduciary fund. The net position of the scholarship trust are \$45,965 (compared to \$49,041 in FY17).

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The District provided a Revised General Fund 2017-2018 budget in May of 2018. The Revised FY18 Budget stated revenues were \$316,609 more than the original FY18 Budget reflecting an increase in state aids due to increased enrollment, increased interest earnings, additional donations received from the community and Booster Club toward upcoming projects (playground/football field upgrades).

The Actual FY18 revenues were \$315,103 more than the Revised Budget for revenue.

The Revised FY18 Budget expenditures were \$221,088 more than the Original FY18 Budget. This increase was due to construction projects added during the year (football/baseball field upgrades) and the purchase of a district pickup.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2018, the District had invested \$16,075,718 (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)	
	2018	2017
Land	\$ 21,302	\$ 21,302
Construction in progress		25,238
Land improvements	1,038,547	1,110,448
Buildings	7,643,034	7,758,684
Machinery and equipment	554,100	333,548
Total	\$ 9,256,983	\$ 9,249,220

Long Term Liabilities. As of June 30, 2018, the District had \$7,230,000 in bonds and capital improvement loans outstanding. The District also had \$20,213 in severance benefits payable at the end of the year. A summary of outstanding long-term liabilities as of June 30, 2018, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable:					
General Obligation Bonds:					
OPEB Bonds of 2008A	\$ 885,000	\$	\$ 50,000	\$ 835,000	\$ 55,000
Alternative Facilities Bond 2010A	1,100,000		120,000	980,000	125,000
Alternative Facilities Bond 2012A	725,000		60,000	665,000	60,000
Alternative & Capital Facilities Bond 2014A	4,100,000		200,000	3,900,000	210,000
OPEB Refunding Bonds 2017A	850,000			850,000	
Bond Discount	(11,395)		(995)	(10,400)	
Bond Premium	90,959		6,997	83,962	
Other Liabilities:					
Severance Payable	30,519		10,306	20,213	
Governmental Activities				\$ 7,323,775	\$ 450,000
Long-term Liabilities	\$ 7,770,083	\$	\$ 446,308	\$ 7,323,775	\$ 450,000

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

The construction of a veteran's home in Preston was recently approved through the State of Minnesota. 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, 2018

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INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2018
With Comparative Data as of June 30, 2017

	Governmental Activities	
	2018	2017
Assets		
Cash and cash equivalents	\$ 7,495,434	\$ 7,269,664
Restricted cash held with fiscal agent	795,199	825,859
Taxes receivable	843,978	773,509
Other receivables	36,238	27,951
Due from other governmental units	966,486	611,869
Inventory	5,119	7,481
Restricted cash and cash equivalents		95,395
Net OPEB asset		174,432
Prepaid expenses	42,596	53,755
Capital Assets:		
Nondepreciable	21,302	46,540
Depreciable, net of accumulated depreciation	9,235,681	9,202,680
TOTAL ASSETS	19,442,033	19,089,135
Deferred Outflows of Resources		
Deferred outflows from pension activities	4,730,536	8,233,825
Deferred outflows from OPEB activity	60,870	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	4,791,406	8,233,825
Liabilities		
Accounts payable	103,298	79,605
Due to other governmental units	24,990	25,679
Unearned revenue	19,168	17,288
Accrued liabilities	597,815	619,859
Accrued interest payable	103,156	113,929
Long-Term Liabilities:		
Due within one year	450,000	430,000
Due in more than one year	6,873,775	7,340,083
Net pension liability	11,466,126	13,426,783
Other postemployment benefits payable	526,827	
TOTAL LIABILITIES	20,165,155	22,053,226
Deferred Inflows of Resources		
Deferred inflows from pension activities	202,742	110,837
Property taxes levied for subsequent year	1,538,190	1,496,473
TOTAL DEFERRED INFLOWS OF RESOURCES	1,740,932	1,607,310
Net Position		
Net investment in capital assets	3,638,421	3,244,656
Restricted:		
Operating capital purposes	563,869	515,397
State-mandated restrictions	55,031	73,166
Food service	125,959	131,138
Community service	282,639	299,934
Debt service	848,856	779,473
Unrestricted	(3,187,423)	(1,381,340)
TOTAL NET POSITION	\$ 2,327,352	\$ 3,662,424

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018
With Partial Comparative Data for the Year Ended June 30, 2017

	2018			
	Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
District and school administration	\$ 561,230	\$	\$	\$
District support services	319,920			
Regular instruction	4,254,087	318,369	321,447	
Vocational instruction	142,750		2,055	
Special education	1,224,447	17,979	768,844	
Community education and services	759,845	570,504	42,975	
Instruction support services	256,872		32,439	
Pupil support services	1,106,782	250,458	239,164	
Site, buildings, and equipment	1,225,962			67,226
Fiscal and other fixed cost programs	23,944	22,713		
Interest and other fiscal charges	274,534			
Total governmental activities	\$ 10,150,373	\$ 1,180,023	\$ 1,406,924	\$ 67,226

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 principle (Note 1)

Net Position - Beginning, as restated

Net Position - Ending

See Notes to Financial Statements

	2018		2017
	Net (Expense) Revenue and Changes in Net Position Total Governmental Activities		Net (Expense) Revenue and Changes in Net Position Total Governmental Activities
\$	(561,230)	\$	(540,437)
	(319,920)		(296,367)
	(3,614,271)		(3,618,606)
	(140,695)		(131,448)
	(437,624)		(775,258)
	(146,366)		(98,547)
	(224,433)		(261,432)
	(617,160)		(480,076)
	(1,158,736)		(1,198,525)
	(1,231)		(11,322)
	(274,534)		(280,626)
	(7,496,200)		(7,692,644)
	906,898		1,068,953
	74,576		77,018
	534,824		548,088
	5,303,261		5,528,647
	94,346		81,123
	6,913,905		7,303,829
	(582,295)		(388,815)
	3,662,424		4,051,239
	(752,777)		
	2,909,647		4,051,239
\$	2,327,352	\$	3,662,424

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018
With Partial Comparative Data as of June 30, 2017

	General	Food Service	Community Service
Assets			
Cash and cash equivalents	\$ 6,188,434	\$ 118,589	\$ 389,137
Restricted cash held with fiscal agent			
Current property taxes receivable	400,430		38,292
Delinquent property taxes receivable	4,570		460
Accounts receivable	24,123	355	11,760
Due from other Minnesota school districts	10,691		312
Due from Minnesota Department of Education	740,325		5,741
Due from Federal through Minnesota Department of Education	191,037	11,020	
Prepaid expenses	677		
Inventory		5,119	
Restricted cash and cash equivalents			
TOTAL ASSETS	\$ 7,560,287	\$ 135,083	\$ 445,702
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 48,803	\$ 9,124	\$ 7,241
Salaries and accrued liabilities payable	537,172		60,643
Due to other Minnesota school districts	24,730		155
Due to other governments	105		
Unearned revenue	3,850		15,318
TOTAL LIABILITIES	614,660	9,124	83,357
Deferred Inflows of Resources			
Unavailable revenue:			
Property taxes levied for subsequent year	797,575		79,246
Delinquent property taxes	4,570		460
TOTAL DEFERRED INFLOWS OF RESOURCES	802,145		79,706
Fund Balances			
Nonspendable	677	5,119	
Restricted	618,900	120,840	282,639
Assigned	4,031,714		
Unassigned	1,492,191		
TOTAL FUND BALANCES	6,143,482	125,959	282,639
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 7,560,287	\$ 135,083	\$ 445,702

See Notes to Financial Statements

Building Construction	Debt Service	OPEB Debt Service	Total Governmental Funds	
			2018	2017
\$	\$ 362,779	\$ 85,947	\$ 7,144,886	\$ 6,934,622
		795,199	795,199	825,859
	347,627	48,681	835,030	744,182
	3,299	619	8,948	29,327
			36,238	27,951
			11,003	19,295
	6,359	1,001	753,426	527,777
			202,057	64,797
			677	695
			5,119	7,481
				95,395
\$	\$ 720,064	\$ 931,447	\$ 9,792,583	\$ 9,277,381

\$	\$ 38,130	\$	\$ 103,298	\$ 79,605
			597,815	619,859
			24,885	25,660
			105	19
			19,168	17,288
	38,130		745,271	742,431

	560,565	100,804	1,538,190	1,496,473
	3,299	619	8,948	29,327
	563,864	101,423	1,547,138	1,525,800

			5,796	8,176
	118,070	830,024	1,970,473	1,906,581
			4,031,714	3,525,970
			1,492,191	1,568,423
	118,070	830,024	7,500,174	7,009,150

\$	\$ 720,064	\$ 931,447	\$ 9,792,583	\$ 9,277,381
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INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018
With Partial Comparative Data for the Year Ended June 30, 2017

	General	Food Service	Community Service
Revenues			
Local sources:			
Property tax levies	\$ 826,946	\$	\$ 74,576
Other local and county sources	307,725	4,969	570,504
Investment income	66,568	1,382	4,291
State sources	5,874,981	24,019	52,335
Federal sources	428,016	215,145	
Sales and other conversions of assets	10,954	245,489	
TOTAL REVENUES	7,515,190	491,004	701,706
Expenditures			
District and school administration	418,930		
District support services	306,762		
Regular instruction	3,138,762		
Vocational instruction	101,354		
Special education	1,040,879		
Community education and services			719,001
Instructional support services	212,237		
Pupil support services	659,973	496,183	
Site, buildings, and equipment	1,064,111		
Fiscal and other fixed cost programs	29,946		
TOTAL EXPENDITURES	6,972,954	496,183	719,001
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	542,236	(5,179)	(17,295)
Other Financing Sources (Uses)			
Bond proceeds			
Operating transfer in			
Operating transfer out			
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	542,236	(5,179)	(17,295)
FUND BALANCE - BEGINNING	5,601,246	131,138	299,934
FUND BALANCE - ENDING	\$ 6,143,482	\$ 125,959	\$ 282,639

See Notes to Financial Statements

Building Construction	Debt Service	OPEB Debt Service	Total Governmental Funds	
			2018	2017
\$	\$ 534,824	\$ 100,331	\$ 1,536,677	\$ 1,694,931
			883,198	849,545
840	2,363	14,537	89,981	39,081
	63,591	10,012	6,024,938	5,933,392
			643,161	571,326
			256,443	267,433
840	600,778	124,880	9,434,398	9,355,708
			418,930	403,796
			306,762	281,327
			3,138,762	2,971,868
			101,354	95,043
			1,040,879	1,175,454
			719,001	648,536
			212,237	261,650
			1,156,156	948,041
39,929			1,104,040	1,173,892
	560,179	155,128	745,253	723,528
39,929	560,179	155,128	8,943,374	8,683,135
(39,089)	40,599	(30,248)	491,024	672,573
				843,860
	56,306		56,306	
(56,306)			(56,306)	
(56,306)	56,306			843,860
(95,395)	96,905	(30,248)	491,024	1,516,433
95,395	21,165	860,272	7,009,150	5,492,717
\$	\$ 118,070	\$ 830,024	\$ 7,500,174	\$ 7,009,150

**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, 2018**

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

Total governmental fund balances (pages 16 and 17)		\$ 7,500,174
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental funds - capital assets		\$ 16,075,718
Less: Accumulated depreciation		6,818,735
		9,256,983

Other long-term assets not available to pay for current-period expenditure and, therefore, are deferred in the funds

Delinquent property taxes		8,948
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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

(73,490)

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		\$ (7,230,000)
Bond premium		(83,962)
Bond discount		10,400
Net pension liability		(6,938,332)
Severance payable		(20,213)
Accrued interest		(103,156)
		(14,365,263)

Net position of governmental activities (page 13)		\$ <u>2,327,352</u>
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**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, 2018**

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)		\$ 491,024
<p>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.</p>		
Capital outlays	\$ 576,472	
Depreciation expense	(566,654)	
Loss on disposal of capital assets	<u>(2,055)</u>	
		7,763
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:</p>		
Delinquent property taxes		(20,379)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Severance payable		10,306
<p>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</p>		
		116,753
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal retirement on long-term debt	\$ 430,000	
Change in bond discount	(995)	
Change in bond premium	6,997	
Net pension liability	(1,634,537)	
Change in accrued interest	<u>10,773</u>	
		<u>(1,187,762)</u>
Change in net position of governmental activities (pages 14 and 15)		<u>\$ (582,295)</u>

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, 2018
With Partial Comparative Data for the Year Ended June 30, 2017

	Budgeted Amounts		2018 Actual	Over (Under) Final Budget	2017 Actual
	Original	Final			
Revenues					
Local sources:					
Property tax levies	\$ 822,174	\$ 812,018	\$ 826,946	\$ 14,928	\$ 970,987
Other local and county sources	198,433	271,393	307,725	36,332	300,082
Investment income	10,000	36,000	66,568	30,568	34,211
State sources	5,408,710	5,632,592	5,874,981	242,389	5,798,323
Federal sources	442,336	436,944	428,016	(8,928)	364,873
Sales and other conversions of assets	1,825	11,140	10,954	(186)	15,848
TOTAL REVENUES	6,883,478	7,200,087	7,515,190	315,103	7,484,324
Expenditures					
District and school administration	438,028	413,570	418,930	5,360	403,796
District support services	312,834	307,551	306,762	(789)	281,327
Regular instruction	3,316,225	3,250,079	3,138,762	(111,317)	2,971,868
Vocational instruction	106,366	106,803	101,354	(5,449)	95,043
Special education	1,139,417	1,163,516	1,040,879	(122,637)	1,175,454
Instructional support services	268,415	258,478	212,237	(46,241)	261,650
Pupil support services	598,063	691,607	659,973	(31,634)	504,169
Site, buildings, and equipment	1,106,415	1,299,250	1,064,111	(235,139)	1,164,939
Fiscal and other fixed cost programs	37,439	53,436	29,946	(23,490)	33,716
TOTAL EXPENDITURES	7,323,202	7,544,290	6,972,954	(571,336)	6,891,962
NET CHANGE IN FUND BALANCE	(439,724)	(344,203)	542,236	886,439	592,362
FUND BALANCE - BEGINNING	5,601,246	5,601,246	5,601,246		5,008,884
FUND BALANCE - ENDING	\$ 5,161,522	\$ 5,257,043	\$ 6,143,482	\$ 886,439	\$ 5,601,246

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, 2018
With Partial Comparative Data for the Year Ended June 30, 2017

	Budgeted Amounts		2018 Actual	Over (Under) Final Budget	2017 Actual
	Original	Final			
Revenues					
Local sources:					
Other local and county sources	\$ 2,000	\$ 4,900	\$ 4,969	\$ 69	\$ 5,585
Investment income			1,382	1,382	581
State sources	23,736	23,736	24,019	283	24,712
Federal sources	154,928	154,928	215,145	60,217	206,453
Sales and other conversions of assets	234,194	236,794	245,489	8,695	251,585
TOTAL REVENUES	414,858	420,358	491,004	70,646	488,916
Expenditures					
Pupil support services	425,614	462,642	496,183	33,541	443,872
NET CHANGE IN FUND BALANCE	(10,756)	(42,284)	(5,179)	37,105	45,044
FUND BALANCES - BEGINNING	131,138	131,138	131,138		86,094
FUND BALANCES - ENDING	\$ 120,382	\$ 88,854	\$ 125,959	\$ 37,105	\$ 131,138

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, 2018
With Partial Comparative Data for the Year Ended June 30, 2017

	Budgeted Amounts		2018 Actual	Over (Under) Final Budget	2017 Actual
	Original	Final			
Revenues					
Local sources:					
Property tax levies	\$ 81,124	\$ 81,124	\$ 74,576	\$ (6,548)	\$ 77,018
Other local and county sources	488,928	540,720	570,504	29,784	543,878
Investment income			4,291	4,291	2,309
State sources	42,092	44,775	52,335	7,560	52,088
TOTAL REVENUES	612,144	666,619	701,706	35,087	675,293
Expenditures					
Community education and services	690,784	757,618	719,001	(38,617)	648,536
NET CHANGE IN FUND BALANCES	(78,640)	(90,999)	(17,295)	73,704	26,757
FUND BALANCES - BEGINNING	299,934	299,934	299,934		273,177
FUND BALANCES - ENDING	\$ 221,294	\$ 208,935	\$ 282,639	\$ 73,704	\$ 299,934

See Notes to Financial Statements

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2018 and 2017**

	Governmental Activities - Internal Service	
	Fund	
	2018	2017
Assets		
Cash and investments	\$ 350,548	\$ 335,042
Net OPEB asset		174,432
Prepaid expenses	41,919	53,060
TOTAL ASSETS	\$ 392,467	\$ 562,534
Deferred Outflows of Resources		
Deferred outflows from OPEB activity	\$ 60,870	\$
Liabilities		
Postemployment benefits payable	\$ 526,827	\$
Net Position		
Unrestricted	(73,490)	562,534
TOTAL LIABILITIES AND NET POSITION	\$ 453,337	\$ 562,534

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, 2018 and 2017**

	Governmental Activities - Internal Service	
	Postemployment Benefits	
	2018	2017
REVENUES		
Departmental charges	\$ 149,694	\$ 40,500
EXPENSES		
Post-retirement benefit expense	37,306	71,540
Operating income (loss)	112,388	(31,040)
Other Financing Sources		
Investment income	4,365	1,542
Change in Net Position	116,753	(29,498)
Net Position - Beginning, as originally stated	562,534	592,032
Change in accounting principle (Note 1)	(752,777)	
Net Position - Ending	\$ (73,490)	\$ 562,534

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Years Ended June 30, 2018 and 2017

	Governmental Activities - Internal Service	
	Postemployment Benefits	
	2018	2017
Cash Flows From Operating Activities		
Cash payments for benefits	\$ 11,141	\$ (17,491)
Cash Flows From Investing Activities		
Investment income	4,365	1,542
Increase (Decrease) in Cash and Cash Equivalents	15,506	(15,949)
Cash and Cash Equivalents - Beginning	335,042	350,991
Cash and Cash Equivalents - Ending	\$ 350,548	\$ 335,042

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

Operating income (loss)	\$ 112,388	\$ (31,040)
Adjustments to reconcile Operating income (loss) to Net Cash Provided By (Used In) Operating Activities:		
Accounts receivable		249
Deferred outflows from OPEB activity	(60,870)	
Postemployment benefits asset	174,432	31,039
Prepaid expenses	11,141	(17,739)
Postemployment benefits payable	(225,950)	
Net Cash Provided By (Used In) Operating Activities	\$ 11,141	\$ (17,491)

See Notes to Financial Statements

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2018**

	<u>Private Purpose Trust</u> <u>Scholarship Trust Fund</u>
Assets	
Cash and cash equivalents	\$ 45,965
TOTAL ASSETS	<u>\$ 45,965</u>
Net Position, Unrestricted	<u>\$ 45,965</u>
TOTAL NET POSITION	<u>\$ 45,965</u>

See Notes to Financial Statements

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2018**

	Private Purpose Trust
	Scholarship Trust Fund
Additions	
Other local and county sources	\$ 19,225
Deductions	
Fiscal and other fixed cost programs	22,301
CHANGE IN NET POSITION	(3,076)
NET POSITION - BEGINNING	49,041
NET POSITION - ENDING	\$ 45,965

See Notes to Financial Statements

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**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

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.

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

Basic Financial Statement Presentation

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

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.

NOTES TO FINANCIAL STATEMENTS

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 *building construction fund* accounts for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

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.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Description of Funds (Continued)

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.

The District reports the following fiduciary fund:

The *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.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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.

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 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, 2018. 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 Expenses

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

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Property Taxes

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred 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 \$87,268 of the property tax levy collectible in 2018 as revenue to the District in fiscal year 2017-2018. The remaining portion of the taxes collectible in 2018 is recorded as deferred inflows of resources.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred 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, 2018, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Capital Assets

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

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. Depreciation 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 land improvements are considered to be part of the cost of buildings or other improvable property.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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.

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, 2017 totals column have been reclassified to conform to the current year presentation.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 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.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Pensions

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

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

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

Activities/Fund	Net Position June 30, 2017 as Previously Reported	Restatement for Change in Accounting Principle	Net Position June 30, 2017 as Restated
Governmental Activities	\$ 3,662,424	\$ (752,777)	\$ 2,909,647

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

2. Stewardship and Accountability

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

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Food Service Fund	\$ 462,642	\$ 496,183	\$ 33,541

Excess expenditures were the result of planned processes.

3. Deposits and Investments

Summary of Cash and Investments

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

Deposits	\$ 1,113,352
Money Market Funds	8,866
Non-negotiable certificate of deposits	22,164
U.S. treasury notes	795,199
Minnesota School District Liquid Asset Fund (MSDLAF)	6,045,619
Minnesota State Board of Investments (cash equivalents)	<u>351,398</u>
Total cash and investments	8,336,598
Less: Fiduciary fund cash and cash equivalents	<u>(45,965)</u>
Total Cash and Investments Per Statement of Net Position	<u>\$ 8,290,633</u>

A reconciliation of cash and investments as shown on the Statement of Net Position:

Cash and cash equivalents	\$ 7,495,434
Restricted cash held with fiscal agent	<u>795,199</u>
Total Cash and Investments Per Statement of Net Position	<u>\$ 8,290,633</u>

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.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

3. Deposits and Investments (Continued)

Investments Authorized by Minnesota Statutes

The District is authorized by Minnesota Statutes 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.

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 Statutes 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 Statutes 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.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

3. Deposits and Investments (Continued)

Fair Value Measurement

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

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

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

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

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

The District's investments within the fair value hierarchy at June 30, 2018 and 2017 is as follows:

June 30, 2018			
Assets Measured at Fair Value	Fair Value Hierarchy Level		
	Level 1	Level 2	Level 3
U.S. treasury notes	\$ 795,199	\$ 795,199	\$
	<u>\$ 795,199</u>	<u>\$ 795,199</u>	<u>\$</u>

June 30, 2017			
Assets Measured at Fair Value	Fair Value Hierarchy Level		
	Level 1	Level 2	Level 3
U.S. treasury notes	\$ 825,859	\$ 825,859	\$
	<u>\$ 825,859</u>	<u>\$ 825,859</u>	<u>\$</u>

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

4. Due From Other Governmental Units

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

<u>Fund</u>	<u>Minnesota Department of Education</u>	<u>Federal Government Through MDE</u>	<u>Other School Districts</u>	<u>Total</u>
General	\$ 740,325	\$ 191,037	\$ 10,691	\$ 942,053
Community Service	5,741		312	6,053
Food Service		11,020		11,020
Debt Service	6,359			6,359
OPEB Debt Service	1,001			1,001
	<u>\$ 753,426</u>	<u>\$ 202,057</u>	<u>\$ 11,003</u>	<u>\$ 966,486</u>

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

5. Capital Assets

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

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 21,302	\$	\$	\$ 21,302
Construction in progress	25,238		25,238	
Total capital assets, not being depreciated	<u>46,540</u>		<u>25,238</u>	<u>21,302</u>
Capital assets, being depreciated:				
Buildings	13,130,159	317,665	6,038	13,441,786
Land improvements	1,441,293			1,441,293
Equipment	1,090,608	284,045	203,316	1,171,337
Total capital assets, being depreciated	<u>15,662,060</u>	<u>601,710</u>	<u>209,354</u>	<u>16,054,416</u>
Less accumulated depreciation for:				
Buildings	5,371,475	431,260	3,983	5,798,752
Land improvements	330,845	71,901		402,746
Equipment	757,060	63,493	203,316	617,237
Total accumulated depreciation	<u>6,459,380</u>	<u>566,654</u>	<u>207,299</u>	<u>6,818,735</u>
Total capital assets, being depreciated, net	<u>9,202,680</u>	<u>35,056</u>	<u>2,055</u>	<u>9,235,681</u>
Governmental activities capital assets, net	<u>\$ 9,249,220</u>	<u>\$ 35,056</u>	<u>\$ 27,293</u>	<u>\$ 9,256,983</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
District and school administration	\$ 358
Regular instruction	115,728
Special education	4,844
Pupil support services	23,078
Site, buildings and equipment	<u>422,646</u>
Total depreciation expense - governmental activities	<u>\$ 566,654</u>

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

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, 2018 balances is as follows:

	Original Amount of Debt	Range of Interest Rates	Final Maturity	Balance June 30, 2018
General Obligation Bonds:				
OPEB Bonds 2008A	\$ 1,180,000	4.75 - 7.00%	2029	\$ 835,000
Alternative Facilities Bonds 2010A	1,890,000	2.00 - 4.00%	2025	980,000
Alternative Facilities Bonds 2012A	965,000	0.50 - 2.10%	2028	665,000
Alternative Facilities Bonds 2014A	4,420,000	3.00 - 3.50%	2030	3,900,000
OPEB Refunding Bonds 2017A	850,000	2.85%	2029	850,000
Bond discount				(10,400)
Bond premium				83,962
Severance payable				20,213
				<u>20,213</u>
Total				<u>\$ 7,323,775</u>

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable:					
General Obligation Bonds:					
OPEB Bonds of 2008A	\$ 885,000	\$	\$ 50,000	\$ 835,000	\$ 55,000
Alternative Facilities Bond 2010A	1,100,000		120,000	980,000	125,000
Alternative Facilities Bond 2012A	725,000		60,000	665,000	60,000
Alternative & Capital Facilities Bond 2014A	4,100,000		200,000	3,900,000	210,000
OPEB Refunding Bonds 2017A	850,000			850,000	
Bond Discount	(11,395)		(995)	(10,400)	
Bond Premium	90,959		6,997	83,962	
Other Liabilities:					
Severance Payable	30,519		10,306	20,213	
Governmental Activities					
Long-term Liabilities	<u>\$ 7,770,083</u>	<u>\$</u>	<u>\$ 446,308</u>	<u>\$ 7,323,775</u>	<u>\$ 450,000</u>

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

6. Long-Term Liabilities (Continued)

The annual requirements to amortize all long-term debt outstanding as of June 30, 2018, over the life of the debt, are summarized below:

Years	General Obligation Bonds		
	Principal	Interest	Total
<u>Governmental Activities</u>			
2019	\$ 450,000	\$ 247,573	\$ 697,573
2020	530,000	232,325	762,325
2021	550,000	215,821	765,821
2022	570,000	197,895	767,895
2023	590,000	178,915	768,915
2024-2028	3,270,000	574,538	3,844,538
2029-2030	1,270,000	63,637	1,333,637
Totals	\$ 7,230,000	\$ 1,710,704	\$ 8,940,704

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.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

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 Health and Safety - Represents available resources within the General Fund reserved for expenditures pertaining to fire code compliance, life safety repairs, asbestos removal, or PCP, fuels or other hazardous materials.

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

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.

Restricted for Bond Refunding - Represents resources set aside from the proceeds of refunded obligations that have not met the criteria of defeasance (crossover bonds). These resources will be used to pay off future bonded obligations.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

7. Fund Equity (Continued)

The following is a summary of fund balances as of June 30, 2018 with comparative totals as of June 30, 2017:

	General	Food Service	Community Service	Debt Service	OPEB Debt Service	2018 Totals	2017 Totals
Nonspendable							
Inventory	\$	\$ 5,119	\$	\$	\$	\$ 5,119	\$ 7,481
Prepaid Items	677					677	695
Total nonspendable	<u>677</u>	<u>5,119</u>				<u>5,796</u>	<u>8,176</u>
Restricted							
Gifted and talented	18,196					18,196	17,831
Community education			168,547			168,547	195,040
Early childhood and family education			42,672			42,672	33,144
School readiness			50,605			50,605	49,179
Operating capital	563,869					563,869	515,397
Health and safety							32,434
Staff development	3,485					3,485	
Basic skills	300					300	300
Basic skills extended time	1,544					1,544	
Safe schools crime	26,735					26,735	21,844
Teacher development and evaluation							757
Long-term facilities maintenance							2,022
Medical assistance	4,771					4,771	
Food service		120,840				120,840	123,657
Community service			20,815			20,815	21,876
Building construction							11,663
Debt service				118,070		118,070	21,165
Bond refunding					795,199	795,199	825,859
OPEB debt service					34,825	34,825	34,413
Total restricted	<u>618,900</u>	<u>120,840</u>	<u>282,639</u>	<u>118,070</u>	<u>830,024</u>	<u>1,970,473</u>	<u>1,906,581</u>
Assigned							
Student laptop repairs	31,714					31,714	25,970
Roof repair	2,500,000					2,500,000	2,000,000
Technology	500,000					500,000	500,000
Transportation	100,000					100,000	100,000
Building maintenance and improvement	700,000					700,000	500,000
Garage storage space							200,000
Parking lot	200,000					200,000	200,000
Total assigned	<u>4,031,714</u>					<u>4,031,714</u>	<u>3,525,970</u>
Unassigned							
	<u>1,492,191</u>					<u>1,492,191</u>	<u>1,568,423</u>
Total Fund Balance	<u>\$ 6,143,482</u>	<u>\$ 125,959</u>	<u>\$ 282,639</u>	<u>\$ 118,070</u>	<u>\$ 830,024</u>	<u>\$ 7,500,174</u>	<u>\$ 7,009,150</u>

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

7. Fund Equity (Continued)

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

	GASB Balance	Reconciling Balance	UFARS Balance June 30, 2018	UFARS Balance June 30, 2017
Nonspendable				
Inventory	\$ 5,119	\$	\$ 5,119	\$ 7,481
Prepaid Items	677		677	695
Total nonspendable	<u>5,796</u>		<u>5,796</u>	<u>8,176</u>
Restricted				
Gifted and talented	18,196		18,196	17,831
Community education	168,547		168,547	195,040
Early childhood and family education	42,672		42,672	33,144
School readiness	50,605		50,605	49,179
Operating capital	563,869		563,869	515,397
Health and safety				32,435
Staff development	3,485		3,485	
Basic skills	300		300	300
Basic skills extended time	1,544		1,544	
Safe schools crime	26,735		26,735	21,844
Teacher development and evaluation				757
Long-term facilities maintenance		(49,642)	(49,642)	2,022
Medical assistance	4,771		4,771	
Food service	120,840		120,840	123,658
Community service	20,815		20,815	21,875
Building construction				11,663
Debt service	118,070		118,070	21,163
Bond refunding	795,199		795,199	825,859
OPEB debt service	34,825		34,825	34,413
Total restricted	<u>1,970,473</u>	<u>(49,642)</u>	<u>1,920,831</u>	<u>1,906,580</u>
Assigned				
Student laptop repairs	31,714		31,714	25,970
Roof repair	2,500,000		2,500,000	2,000,000
Technology	500,000		500,000	500,000
Transportation	100,000		100,000	100,000
Building maintenance and improvement	700,000		700,000	500,000
Garage storage space				200,000
Parking lot	200,000		200,000	200,000
Total assigned	<u>4,031,714</u>		<u>4,031,714</u>	<u>3,525,970</u>
Unassigned				
	<u>1,492,191</u>	<u>49,642</u>	<u>1,541,833</u>	<u>1,568,424</u>
Total Fund Balance	<u>\$ 7,500,174</u>	<u>\$</u>	<u>\$ 7,500,174</u>	<u>\$ 7,009,150</u>

NOTES TO FINANCIAL STATEMENTS

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

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

Plan Description

1. General Employees Retirement Fund

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

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

2. Teachers Retirement Association (TRA)

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

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

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

9. Defined Benefit Pension Plans – Statewide (Continued)

Benefits Provided

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

1. General Employees Plan Benefits

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

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate of a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

2. TRA Benefits

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

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

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

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

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

9. Defined Benefit Pension Plans – Statewide (Continued)

Benefits Provided (Continued)

With these provisions:

- a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b) 3 percent per year early retirement reduction factors for all years under normal retirement age.
- c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of five plans, which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is also eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

Contributions

1. General Employees Fund Contributions

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018. The District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2018 were \$92,822. The District's contributions were equal to the required contributions as set by the state statute.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

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

The District's contributions for the year ended June 30, 2018 were \$206,969, equal to the required contributions as set by the state statute.

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

Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	\$ 367,791,000
Add employer contributions not related to future contribution effort	810,000
Deduct TRA's contributions not included in allocation	<u>(456,000)</u>
Total employer contributions	\$ 368,145,000
Total non-employer contributions	<u>35,588,000</u>
Total Contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u>\$ 403,733,000</u>

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

Pension Costs

1. General Employees Fund Pension Costs

At June 30, 2018, the District reported a liability of \$1,225,715 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$15,421. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 0.0192 percent which was an increase of 0.0016 percent from its proportion measured as of June 30, 2016.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

9. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (Continued)

For the year ended June 30, 2018, the District recognized pension expense of \$184,028 for its proportionate share of the General Employees Plan’s pension expense. In addition, the District recognized an additional \$445 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$6 million to the General Employees Fund.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$	\$ 31,364
Changes in actuarial assumptions	63,659	
Difference between projected and actual investment earnings		67,089
Changes in proportion	107,109	
Contributions paid to PERA subsequent to the measurement date	<u>103,050</u>	
Total	<u>\$ 273,818</u>	<u>\$ 98,453</u>

\$103,050 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	<u>Pension Expense Amount</u>
2019	\$ 21,781
2020	97,989
2021	4,575
2022	(52,030)

2. TRA Pension Costs

At June 30, 2018, the District reported a liability of \$10,240,411 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District’s proportionate share was 0.0513% at the end of the measurement period and 0.0503% for the beginning of the year.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

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	\$ 10,240,411
State's proportionate share of the net pension liability associated with the district	\$ 990,629

For the year ended June 30, 2018, the District recognized pension expense of \$1,784,612. It also recognized \$19,000 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 14,616	\$
Changes in actuarial assumptions	4,029,644	
Difference between projected and actual investment earnings		104,289
Changes in proportion	200,097	
Contributions paid to TRA subsequent to the measurement date	212,361	
Total	\$ 4,456,718	\$ 104,289

\$212,361 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2019	\$ 1,068,786
2020	1,263,995
2021	1,131,155
2022	937,611
2023	(261,479)

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

9. Defined Benefit Pension Plans – Statewide (Continued)

Aggregate Pension Costs

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

General Employees Retirement Fund	\$184,473
TRA	1,803,612
Total	<u>\$2,163,441</u>

Actuarial Assumptions

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

1. General Employees Fund Actuarial Assumptions

Assumptions	General Employees Retirement Fund
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent per year for the General Employees Plan through 2044 and 2.5 percent thereafter..

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

The following changes in actuarial assumptions occurred in 2017

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

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

9. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Assumptions (Continued)

2. TRA Actuarial Assumptions

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

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

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

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

9. Defined Benefit Pension Plans – Statewide (Continued)

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

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

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

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

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

Discount Rate

1. General Employees Fund Discount Rate

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

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

9. Defined Benefit Pension Plans – Statewide (Continued)

Discount Rate (Continued)

2. TRA Discount Rate

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

Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
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	\$ 1,901,176	\$ 1,225,715	\$ 672,728
TRA Discount Rate	4.12%	5.12%	6.12%
District's proportionate share of the TRA net pension liability	\$ 13,515,369	\$ 10,240,411	\$ 7,479,222

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.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Other Postemployment Benefit Plan

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

Plan Description

The District 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, 2018 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, 2018 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	\$ 526,827
Valuation salary	\$ 2,784,345
Total OPEB liability as % of payroll	<u>19%</u>

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

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, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.40%
20-year Municipal Bond Yield	3.40%
Inflation rate	2.50%
Mortality	Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.
Medical trend rate	6.50% as of July 1, 2017 grading to 5.00% over 6 years. The medical trend rates have been chosen based on a review of historical health care increase rates, projected health care increase rates, and projected health care expenditures as a percentage of GDP. The components of health care costs were considered when developing the aggregate set of trend rates.

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

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality table was updated from the RP 2000 Combined Healthy Mortality Table projected to 2014 with Scale BB to the RP-2014 adjusted to 2006 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.
- The discount rate was changed from 4.00% to 3.40%.
- The withdrawal table for all employees and retirement table for only employees eligible to retire with Rule of 90 also were updated.
- The percentage of future retirees who are assumed to remain on one of the District's medical plans post-employment was reduced from 50% to 30% for retirees who are not eligible for a District paid subsidy.
- The percentage of future spouses of retirees who are assumed to remain on one of the District's medical plans post-employment was reduced from 100% for those with a subsidy and 50% for those without a subsidy to 15% for all.

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

10. Other Postemployment Benefit Plan (Continued)

Changes in Net OPEB Liability

	<u>Total OPEB Liability</u>
Beginning Balance 6/30/2017	\$ 578,345
Changes for the year:	
Service cost	18,510
Interest	18,796
Benefit payments	(88,824)
Net Changes	<u>(51,518)</u>
Balance End of Year 6/30/2018	<u>\$ 526,827</u>

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:

	<u>Net OPEB Liability</u>
1% decrease in Discount Rate (2.40%)	\$ 555,517
Current Discount Rate (3.40%)	526,827
1% increase in Discount Rate (4.40%)	498,787

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 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:

	<u>Net OPEB Liability</u>
1% decrease in Trend Rates	\$ 495,609
Current Trend Rates	526,827
1% increase in Trend Rates	562,991

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

As of the year ended June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>
Contributions paid to OPEB subsequent to the measurement date	\$ 60,870
Total	<u>\$ 60,870</u>

NOTES TO FINANCIAL STATEMENTS

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 \$20,213. 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 2018.

14. Restricted Cash and Cash Equivalents

Under the provisions of the Alternative Facilities Bonds 2012A, the bond proceeds are to be placed in the Building and Construction Fund until all expenditures connected with the Project financed by the bonds are paid. After payment of all construction costs, any remaining proceeds shall be transferred to the Debt Service Fund.

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**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

Schedule of Changes in District's Net OPEB Liability and Related Ratios
Year Ended June 30, 2018

	Total OPEB Liability
Service cost	\$ 18,510
Interest	18,796
Benefit payments	(88,824)
Net changes in total OPEB liability	(51,518)
Total OPEB liability - beginning of year	578,345
Total OPEB liability - end of year	\$ 526,827
Total OPEB liability	\$ 526,827
Valuation salary	\$ 2,784,345
Total OPEB liability as % of payroll	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**

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						
2020						
2021						
2022						
2023						
2024						

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

Fiscal Year Ended June 30	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	TRA	\$ 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						
2020						
2021						
2022						
2023						
2024						

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

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

Fiscal Year Ended June 30	District's Proportionate (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the District (a+b)	District's Covered Payroll (c)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0175%	\$ 822,062	\$	\$ 822,062	\$ 813,680	101%	78.7%
2015	0.0170%	881,028		881,028	981,773	90%	78.2%
2016	0.0176%	1,429,033	18,632	1,447,665	1,092,427	133%	68.9%
2017	0.0192%	1,225,715	15,421	1,241,136	1,237,627	100%	75.9%
2018							
2019							
2020							
2021							
2022							
2023							

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

Fiscal Year Ended June 30	District's Proportionate (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) (b)	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%	81.5%
2015	0.0497%	3,074,437	377,135	3,451,572	2,523,813	137%	76.8%
2016	0.0503%	11,997,750	1,203,199	13,200,949	2,617,187	504%	44.9%
2017	0.0513%	10,240,411	990,629	11,231,040	2,759,587	407%	51.6%
2018							
2019							
2020							
2021							
2022							
2023							

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

SUPPLEMENTARY INFORMATION

JUNE 30, 2018

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
COMPARATIVE BALANCE SHEET
GENERAL FUND
June 30, 2018 and 2017**

	2018	2017
Assets		
Cash and cash equivalents	\$ 6,188,434	\$ 6,014,208
Current property taxes receivable	400,430	366,683
Delinquent property taxes receivable	4,570	15,938
Accounts receivable	24,123	20,282
Due from other Minnesota school districts	10,691	19,233
Due from Minnesota Department of Education	740,325	515,743
Due from Federal through Minnesota Department of Education	191,037	53,521
Prepaid expenses	677	
TOTAL ASSETS	\$ 7,560,287	\$ 7,005,608
Liabilities		
Accounts payable	\$ 48,803	\$ 72,580
Salaries and accrued liabilities payable	537,172	562,363
Due to other Minnesota school districts	24,730	25,660
Due to other governments	105	19
Unearned revenue	3,850	4,001
TOTAL LIABILITIES	614,660	664,623
Deferred Inflows of Resources		
Unavailable revenue:		
Property taxes levied for subsequent year	797,575	723,801
Delinquent property taxes	4,570	15,938
TOTAL DEFERRED INFLOWS OF RESOURCES	802,145	739,739
Fund Balances		
Nonspendable	677	
Restricted	618,900	588,563
Assigned	4,031,714	3,525,970
Unassigned	1,492,191	1,486,713
TOTAL FUND BALANCES	6,143,482	5,601,246
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 7,560,287	\$ 7,005,608

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
BUILDING CONSTRUCTION**

For the Year Ended June 30, 2018
With Partial Comparative Data for the Year Ended June 30, 2017

	Budgeted Amounts		2018 Actual	Over (Under) Final Budget	2017 Actual
	Original	Final			
Revenues					
Local sources:					
Investment income	\$	\$ 700	\$ 840	\$ 140	\$ 847
Expenditures					
Site, buildings, and equipment		41,800	39,929	(1,871)	8,953
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES					
		(41,100)	(39,089)	2,011	(8,106)
Other Financing Uses					
Operating transfer out			(56,306)	(56,306)	
NET CHANGE IN FUND BALANCE					
		(41,100)	(95,395)	(54,295)	(8,106)
FUND BALANCES - BEGINNING					
	95,395	95,395	95,395		103,501
FUND BALANCES - ENDING					
	\$ 95,395	\$ 54,295	\$	\$ (54,295)	\$ 95,395

**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, 2018
With Partial Comparative Data for the Year Ended June 30, 2017

	Budgeted Amounts		2018 Actual	Over (Under) Final Budget	2017 Actual
	Original	Final			
Revenues					
Local sources:					
Property tax levies	\$ 582,359	\$ 582,359	\$ 534,824	\$ (47,535)	\$ 548,088
Investment income	500	500	2,363	1,863	821
State sources			63,591	63,591	49,371
TOTAL REVENUES	582,859	582,859	600,778	17,919	598,280
Expenditures					
Fiscal and Other Fixed Cost Programs	558,653	560,178	560,179	1	564,908
EXCESS OF REVENUES OVER EXPENDITURES	24,206	22,681	40,599	17,918	33,372
Other Financing Sources					
Operating transfer in			56,306	56,306	
NET CHANGE IN FUND BALANCES	24,206	22,681	96,905	74,224	33,372
FUND BALANCE - BEGINNING	21,165	21,165	21,165		(12,207)
FUND BALANCE - ENDING	\$ 45,371	\$ 43,846	\$ 118,070	\$ 74,224	\$ 21,165

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
SUPPLEMENTAL COST SCHEDULES**
For the Years Ended June 30, 2018 and 2017
(Unaudited)

Fiscal Year Ended June 30, 2018	2017 - 2018 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	\$ 418,930	\$ 660
District support services	306,762	483
Regular instruction	3,138,762	4,947
Vocational instruction	101,354	160
Special education	1,040,879	1,640
Community education and services	719,001	1,133
Instructional support services	212,237	334
Pupil support services	1,156,156	1,822
Site, buildings, and equipment	1,104,040	1,740
Fiscal and other fixed cost programs	745,253	1,175
TOTALS	\$ 8,943,374	\$ 14,095

2017 - 2018 Adjusted Average Daily Membership - 634.51

Fiscal Year Ended June 30, 2017	2016 - 2017 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	\$ 403,796	\$ 646
District support services	281,327	450
Regular instruction	2,971,868	4,752
Vocational instruction	95,043	152
Special education	* 1,175,454	1,880
Community education and services	648,536	1,037
Instructional support services	261,650	418
Pupil support services	948,041	1,516
Site, buildings, and equipment	1,173,892	1,877
Fiscal and other fixed cost programs	723,528	1,157
TOTALS	\$ 8,683,135	\$ 13,885

2016 - 2017 Adjusted Average Daily Membership - 625.37

* Includes Root River program expenditures

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

TAX LEVY HISTORY

	17 Pay 18 Fiscal 19	16 Pay 17 Fiscal 18	15 Pay 16 Fiscal 17	14 Pay 15 Fiscal 16	13 Pay 14 Fiscal 15
Tax Levy*					
General	\$ 884,843	\$ 806,540	\$ 940,633	\$ 904,802	\$ 1,146,400
Community Service	79,246	81,126	84,060	83,692	80,873
Debt Redemption (Net)	661,369	691,393	706,167	699,987	594,006
TOTAL TAX LEVY	\$ 1,625,458	\$ 1,579,059	\$ 1,730,860	\$ 1,688,481	\$ 1,821,279

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

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

COMPLIANCE AND INTERNAL CONTROL REPORTS

JUNE 30, 2018

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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, 2018, and the related notes to financial statements, which collectively comprises the District's basic financial statements and have issued our report thereon dated November 14, 2018. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Section 6.65.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2011-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Education
Independent School District #2198
Page Two

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

District's Response to Finding

District's response to 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, Schafn and Associates, Ltd.

Rochester, Minnesota
November 14, 2018

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

SCHEDULE OF FINDINGS

JUNE 30, 2018

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended June 30, 2018

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

- Condition: The District does have a control in place for the review of the drafted financial statements. However, the District does not have the expertise to ensure all disclosures required by generally accepted accounting principles are included in the annual financial statements. The potential exists that a material disclosure could be omitted from the financial statements and not be prevented or detected by the District's internal controls.
- Criteria: The District should have controls in place to prevent or detect the omission of a material disclosure in the annual financial statements.
- 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, 2018: Audit period: July 1, 2017 - June 30, 2018.

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 2018.

Superintendent
Mr. Richard Keith
507.765.3845

K-12 Principal
Mr. Heath Olstad
507.886.6464 or 507.765.3809

K-6 Dean of Students
Mr. Chris Mensink
507.765.3809

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**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

STUDENT ACTIVITY FUNDS

JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Independent School District #2198
Preston, Minnesota

We have audited the statements of cash receipts and disbursements of the student activity accounts of Independent School District #2198, Preston, Minnesota for the year ended June 30, 2018. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with accounting standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

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

Smith, Schafner and Associates, Ltd.

Rochester, Minnesota
November 14, 2018

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
HIGH SCHOOL STUDENT ACTIVITY FUNDS
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
For the Year Ended June 30, 2018**

Funds	<u>Balance</u>				<u>Balance</u>
	06/30/17	Receipts	Disbursements		06/30/18
Class of 2017	\$ 12,597	\$	\$ 12,597	\$	
Class of 2018	11,847	100,011	108,894		2,964
Class of 2019	4,463	11,516	5,300		10,679
Class of 2020	2,164	2,589	421		4,332
Class of 2021	1,453	1,479			2,932
Class of 2022	509	572			1,081
Class of 2023		601			601
Annual	13,609	7,556	7,734		13,431
Band	15,007	49,539	58,265		6,281
Cheerleading	346	1,109	715		740
HS Choir	13,096	35,452	31,999		16,549
Dance	194	1,301	711		784
FFA	15,271	32,637	39,496		8,412
Jazz Account	681	5,043	3,000		2,724
National Honor Society	422	560	559		423
SADD	1,410	635	1,167		878
Student Council	4,628	6,632	6,169		5,091
Tapestry	4,289	4,589	4,555		4,323
TNT	550	468	335		683
Video Club	391	1	4		388
TOTAL	\$ 102,927	\$ 262,290	\$ 281,921	\$	83,296

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

NOTES TO STUDENT ACTIVITY FUNDS FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

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

The accounts of the Student Activity Funds are maintained, and the accompanying financial statements have been prepared, on the cash basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Education
Independent School District #2198
Preston, Minnesota

We have audited the statements of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District #2198, Preston, Minnesota for the year ended June 30, 2018, and have issued our report thereon dated November 14, 2018.

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

The *Manual for Activity Fund Accounting for Minnesota School Districts* provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual. However, our objective was not to provide an opinion on overall compliance with such provisions.

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

This report is intended for the information of the School Board, management, and students of Independent School District #2198, Preston, Minnesota and the Minnesota Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Smith, Schafner and Associates, Ltd.

Rochester, Minnesota
November 14, 2018

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**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA**

COMPLIANCE TABLE

JUNE 30, 2018

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Fiscal Compliance Report - 6/30/2018
District: FILLMORE CENTRAL (2198-1)

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$7,515,190	<u>\$7,515,190</u>	\$0	Total Revenue	\$840	<u>\$840</u>	\$0
Total Expenditures	\$6,972,954	<u>\$6,972,956</u>	(\$2)	Total Expenditures	\$39,929	<u>\$39,930</u>	(\$1)
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$677	<u>\$677</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$3,485	<u>\$3,485</u>	\$0	4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0
4.06 Health and Safety	\$0	<u>\$0</u>	\$0	4.13 Project Funded by COP	\$0	<u>\$0</u>	\$0
4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0	4.67 LTFM	\$0	<u>\$0</u>	\$0
4.08 Cooperative Revenue	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.13 Project Funded by COP	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0
4.14 Operating Debt	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.16 Levy Reduction	\$0	<u>\$0</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.17 Taconite Building Maint	\$0	<u>\$0</u>	\$0	07 DEBT SERVICE			
4.24 Operating Capital	\$563,869	<u>\$563,869</u>	\$0	Total Revenue	\$600,778	<u>\$600,778</u>	\$0
4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0	Total Expenditures	\$560,179	<u>\$560,178</u>	\$1
4.27 Disabled Accessibility	\$0	<u>\$0</u>	\$0	<i>Non Spendable:</i>			
4.28 Learning & Development	\$0	<u>\$0</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
4.34 Area Learning Center	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	\$0	4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	\$0	4.33 Maximum Effort Loan Aid	\$0	<u>\$0</u>	\$0
4.38 Gifted & Talented	\$18,196	<u>\$18,196</u>	\$0	4.51 QZAB Payments	\$0	<u>\$0</u>	\$0
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	4.67 LTFM	\$0	<u>\$0</u>	\$0
4.41 Basic Skills Programs	\$300	<u>\$300</u>	\$0	<i>Restricted:</i>			
4.45 Career Tech Programs	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$118,070	<u>\$118,070</u>	\$0
4.48 Achievement and Integration	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.49 Safe School Crime - Crime Levy	\$26,735	<u>\$26,735</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	\$0	08 TRUST			
4.51 QZAB Payments	\$0	<u>\$0</u>	\$0	Total Revenue	\$19,225	<u>\$19,225</u>	\$0
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	Total Expenditures	\$22,301	<u>\$22,302</u>	(\$1)
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$45,965	<u>\$45,964</u>	\$1
4.59 Basic Skills Extended Time	\$1,544	<u>\$1,544</u>	\$0	20 INTERNAL SERVICE			
4.67 LTFM	(\$49,642)	<u>(\$49,642)</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
4.72 Medical Assistance	\$4,771	<u>\$4,771</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
<i>Restricted:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0	25 OPEB REVOCABLE TRUST			
4.75 Title VII Impact Aid	\$0	<u>\$0</u>	\$0	Total Revenue	\$154,059	<u>\$154,059</u>	\$0
4.76 Payments in Lieu of Taxes	\$0	<u>\$0</u>	\$0	Total Expenditures	\$37,306	<u>\$37,306</u>	\$0
<i>Committed:</i>				4.22 Unassigned Fund Balance (Net Assets)	(\$73,490)	<u>(\$73,490)</u>	\$0
4.18 Committed for Separation	\$0	<u>\$0</u>	\$0	45 OPEB IRREVOCABLE TRUST			
4.61 Committed Fund Balance	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
<i>Assigned:</i>				Total Expenditures	\$0	<u>\$0</u>	\$0
4.62 Assigned Fund Balance	\$4,031,714	<u>\$4,031,714</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
<i>Unassigned:</i>				47 OPEB DEBT SERVICE			
4.22 Unassigned Fund Balance	\$1,541,833	<u>\$1,541,832</u>	\$1	Total Revenue	\$124,880	<u>\$124,880</u>	\$0
02 FOOD SERVICES				Total Expenditures	\$155,128	<u>\$155,128</u>	\$0
Total Revenue	\$491,004	<u>\$491,002</u>	\$2	<i>Non Spendable:</i>			
Total Expenditures	\$496,183	<u>\$496,182</u>	\$1	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
<i>Non Spendable:</i>				<i>Restricted / Reserved:</i>			
4.60 Non Spendable Fund Balance	\$5,119	<u>\$5,119</u>	\$0	4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>				<i>Restricted:</i>			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$120,840	<u>\$120,841</u>	(\$1)
<i>Restricted:</i>				<i>Unassigned:</i>			
4.64 Restricted Fund Balance	\$120,840	<u>\$120,841</u>	(\$1)	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
<i>Unassigned:</i>				04 COMMUNITY SERVICE			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0	Total Revenue	\$701,706	<u>\$701,707</u>	(\$1)
04 COMMUNITY SERVICE				Total Expenditures	\$719,001	<u>\$719,002</u>	(\$1)
Total Revenue	\$701,706	<u>\$701,707</u>	(\$1)	<i>Non Spendable:</i>			
Total Expenditures	\$719,001	<u>\$719,002</u>	(\$1)	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
<i>Non Spendable:</i>				<i>Restricted / Reserved:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0	4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>				4.31 Community Education	\$168,547	<u>\$168,547</u>	\$0
4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0	4.32 E.C.F.E	\$42,672	<u>\$42,672</u>	\$0
4.31 Community Education	\$168,547	<u>\$168,547</u>	\$0	4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0
4.32 E.C.F.E	\$42,672	<u>\$42,672</u>	\$0	4.44 School Readiness	\$50,605	<u>\$50,605</u>	\$0
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	4.47 Adult Basic Education	\$0	<u>\$0</u>	\$0
4.44 School Readiness	\$50,605	<u>\$50,605</u>	\$0	4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0
4.47 Adult Basic Education	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$20,815	<u>\$20,815</u>	\$0
<i>Restricted:</i>				<i>Unassigned:</i>			
4.64 Restricted Fund Balance	\$20,815	<u>\$20,815</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0				