

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

**FINANCIAL STATEMENTS**

**JUNE 30, 2017**



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

**INTRODUCTORY SECTION**

**JUNE 30, 2017**

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**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
BOARD OF EDUCATION AND ADMINISTRATION  
JUNE 30, 2017**

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

2015 -2016

Ross Kiehne	Chairperson	12/31/2016
Craig Britton	Vice Chairperson	12/31/2018
Susan Sikkink	Treasurer	12/31/2018
James Love	Clerk	12/31/2016
Michelle Topness	Vice-Clerk	12/31/2018
Deb Ristau	Director	12/31/2016
Emily Ellis-Onsager	Director	12/31/2018

Superintendent

Richard Keith

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

**FINANCIAL SECTION**

**JUNE 30, 2017**

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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, 2017, 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 audits 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, 2017, 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.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 and the required supplemental 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, 2016, from which such partial information was derived.

We have previously audited the District's 2016 financial statements and our report, dated November 10, 2016, 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, 2016, 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 20, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting 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, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2016-2017 fiscal year include the following:

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,662,424 (*net position*).
- Overall revenues for the General Fund were \$7,484,324 while overall expenditures totaled \$6,891,962.
- The General Fund Unassigned Fund Balance is \$1,568,423. This represents an increase of \$456,726 from last fiscal year. This was due to greater than projected General Education, Special Education, and interest revenue. The district also saw under-spending in most areas of the expense budget, and the expenditure for new handicap vehicle (\$44,435) was moved forward to the 2017-2018 school year. The restricted fund balances total \$506,853 as compared to \$368,893 last fiscal year.
- The General Fund total fund balance increased by \$592,362 in 2016-2017.
- The Food Service Fund total fund balance increased by \$45,044 in 2016-2017.
- The Community Service Fund total fund balance increased by \$26,757 in 2016-2017.

**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 and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – 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 \$3,662,424 on June 30, 2017. This was a decrease of \$388,815 from the prior year.

	Total	
	2017	2016
<b>Assets</b>		
Current and other assets	\$ 9,839,915	\$ 8,482,785
Capital assets	9,249,220	9,332,562
Total assets	19,089,135	17,815,347
<b>Deferred Outflows of Resources</b>	8,233,825	463,423
<b>Liabilities</b>		
Current liabilities	856,360	785,049
Long-Term liabilities	21,196,866	11,308,698
Total liabilities	22,053,226	12,093,747
<b>Deferred Inflows of Resources</b>	1,607,310	2,133,784
<b>Net Position</b>		
Net investment in capital assets	3,244,656	2,941,167
Restricted	1,019,635	875,842
Unrestricted	(601,867)	234,230
Total net position	\$ 3,662,424	\$ 4,051,239

**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 \$9,564,885 for the year ended June 30, 2017; compared to \$9,112,537 on June 30, 2016. General revenues from federal and state sources accounted for 58% of total revenue for the year ended June 30, 2017, compared to 58% in the prior year. Local property taxes (levies) accounted for 18% percent (compared to 17% the previous year) of the total revenue, with the remaining revenue coming from other sources.

A condensed version of the Statement of Activities follows:

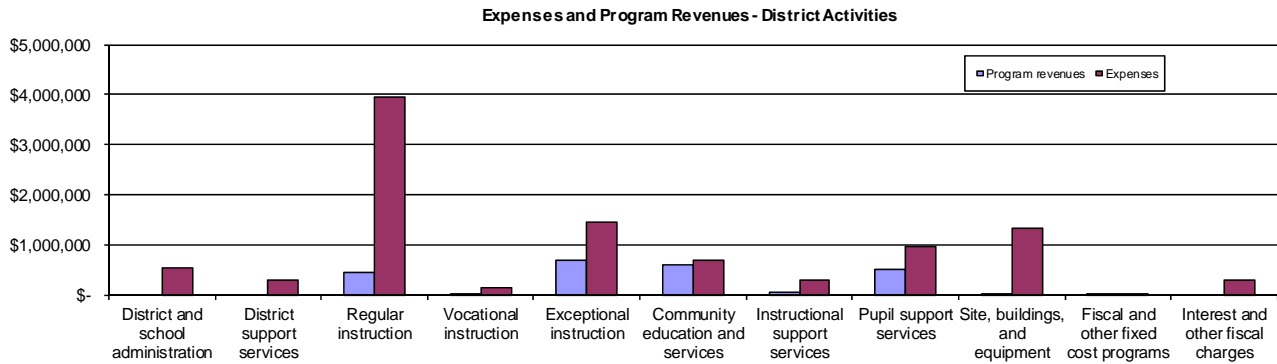
	Total	
	2017	2016
<b>Revenue</b>		
Program revenues:		
Charges for services	\$ 1,026,636	\$ 1,043,580
Operating grants and contributions	1,209,716	1,112,446
Capital grants and contributions	24,704	27,964
General revenues:		
Property taxes	1,694,059	1,573,461
State sources	5,528,647	5,250,686
Other sources	81,123	104,400
Total revenues	<u>9,564,885</u>	<u>9,112,537</u>
<b>Expenses</b>		
District and school administration	540,437	403,798
District support services	296,367	280,945
Regular instruction	3,961,695	3,253,639
Vocational instruction	132,615	91,312
Exceptional instruction	1,447,183	1,124,256
Community education and services	684,922	647,276
Instructional support services	301,758	143,116
Pupil support services	968,411	948,490
Site, buildings, and equipment	1,312,420	1,474,077
Fiscal and other fixed cost programs	27,266	26,027
Interest and other fiscal charges	280,626	261,446
Total expenses	<u>9,953,700</u>	<u>8,654,382</u>
Change in net position	(388,815)	458,155
Net position, beginning of year	<u>4,051,239</u>	<u>3,593,084</u>
Net position, end of year	<u>\$ 3,662,424</u>	<u>\$ 4,051,239</u>



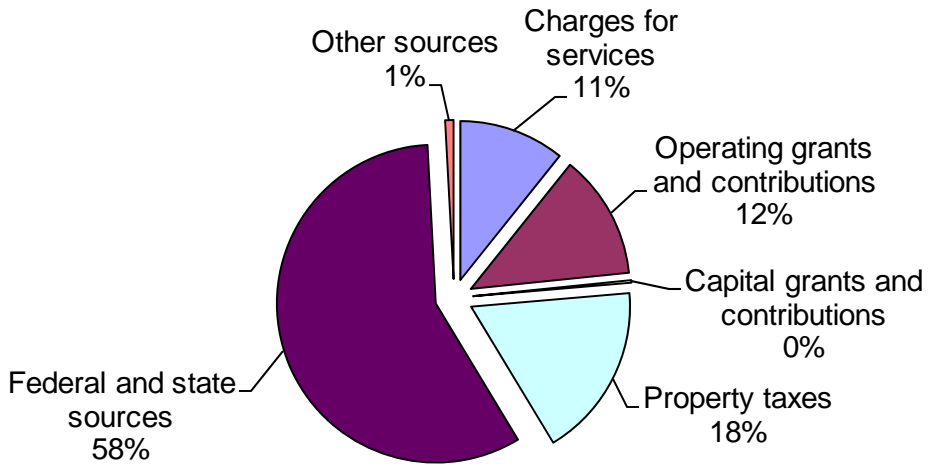
**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**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 \$7,009,150.

Enrollment is projected to remain steady into the 2017-2018 school year, but may begin to decline in the not so distant future.

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

<u>Fiscal Year</u>	<u>ADM</u>	<u>% Change</u>
2008	585.95	
2009	568.63	-3.0%
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%

**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 \$413,234 from the previous year (being \$7,484,324 in FY17, and \$7,071,090 in FY16).

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:

	2017	2016	Increase/ (Decrease)
Local property tax levies	\$ 970,987	\$ 842,512	\$ 128,475
Other local and county sources	300,082	259,131	40,951
Investment income	34,211	11,414	22,797
State sources	5,798,323	5,566,639	231,684
Federal sources	364,873	388,794	(23,921)
Sales and other conversions of assets	15,848	2,600	13,248
<b>Total</b>	<b>\$ 7,484,324</b>	<b>\$ 7,071,090</b>	<b>\$ 413,234</b>

Total General Fund expenditures increased by \$408,322.

General fund expenditures and transfers were as follows:

	2017	2016	Increase/ (Decrease)
District and school administration	\$ 403,796	\$ 374,473	\$ 29,323
District support services	281,327	265,426	15,901
Regular instruction	2,971,868	3,001,212	(29,344)
Vocational instruction	95,043	86,790	8,253
Exceptional instruction	1,175,454	1,064,627	110,827
Instructional support services	261,650	133,065	128,585
Pupil support services	504,169	533,199	(29,030)
Site, buildings, and equipment	1,164,939	992,372	172,567
Fiscal and other fixed cost programs and transfers out	33,716	32,476	1,240
<b>Total</b>	<b>\$ 6,891,962</b>	<b>\$ 6,483,640</b>	<b>\$ 408,322</b>

The total General Fund balance on June 30, 2017, was \$5,601,246 compared to \$5,008,884 on June 30, 2016 (increase of \$592,362). Of the amount, \$506,853 is restricted for specific purposes by state requirements, \$3,525,970 is assigned; leaving an amount of \$1,568,423 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, 2017, was \$131,138 compared to \$86,094 on June 30, 2016.

The Food Service revenue for 2016-2017 totaled \$488,916 compared to \$482,665 the previous year – an increase of \$6,251.

The Food Service expenditures for 2016-2017 totaled \$443,872 compared to \$434,487 the previous year – an increase in expenditures \$9,385.

**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 an increase in fund balance of \$26,757.

Community Service Fund revenues for 2016-2017 totaled \$675,293 compared to \$670,555 in the previous year. This was an increase in revenue of \$4,738 from the previous year. This increase is primarily due to an increase in state funding of our learning readiness program.

Community Service Fund expenditures for 2016-2017 totaled \$648,536 compared to \$616,865 in the previous year. This was an increase in expenditures of \$31,671 from the previous year. This increase was due to increased staff and wages in the daycare program.

**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 \$860,376 in 2016-2017 due to an early refunding of our OPEB bonds. This allowed us to greatly reduce future interest costs.

**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 positive net position of \$562,534 at June 30, 2017.

**Fiduciary Fund.** Private-purpose trust (scholarship trust) fund is the District's fiduciary fund. The net position of the scholarship trust are \$49,041 (compared to \$50,507 in FY16).

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The District provided a Revised General Fund 2016-2017 budget in May of 2017. The Revised FY17 Budget stated revenues were \$279,572 more than the original FY17 Budget reflecting an increase in state special education/MA billing revenue, additional literacy incentive aid, concurrent enrollment aid, Booster Club donations, and general education aid due to greater than projected enrollment.

The Actual FY17 revenues were \$199,768 more than the Revised Budget for revenue.

The Revised FY17 Budget expenditures were \$120,455 more than the Original FY17 Budget. This increase was due to additional special education staff and benefits (para-professionals), additional 403b offering and participation, Action 100 supplies, and Booster Club donated supplies.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2017, the District had invested \$15,708,600 (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)	
	2017	2016
	\$	\$
Land	21,302	21,302
Construction in progress	25,238	2,500,617
Land improvements	1,110,448	900,025
Buildings	7,758,684	5,570,565
Machinery and equipment	333,548	340,053
Total	9,249,220	9,332,562

**Long Term Liabilities.** As of June 30, 2017, the District had \$7,660,000 in bonds and capital improvement loans outstanding. The District also had \$30,519 in severance benefits payable and \$13,426,783 in net pension liability at the end of the year. A summary of outstanding long-term liabilities as of June 30, 2017, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds Payable:					
General Obligation Bonds:					
OPEB Bonds of 2008A	\$ 930,000	\$	\$ 45,000	\$ 885,000	\$ 50,000
Alternative Facilities Bond 2010A	1,220,000		120,000	1,100,000	120,000
Alternative Facilities Bond 2012A	785,000		60,000	725,000	60,000
Alternative & Capital Facilities Bond 2014A	4,295,000		195,000	4,100,000	200,000
OPEB Refunding Bonds 2017A		850,000		850,000	
Bond Discount	(6,561)	(5,381)	(547)	(11,395)	
Bond Premium	97,956		6,997	90,959	
Other Liabilities:					
Net Pension Liability	3,955,465	9,471,318		13,426,783	
Severance Payable	31,838		1,319	30,519	
Governmental Activities					
Long-term Liabilities	\$ 11,308,698	\$ 10,315,937	\$ 427,769	\$ 21,196,866	\$ 430,000

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

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

The Affordable Care Act (healthcare reform) potentially will have a significant financial impact on the district moving forward. That impact will become clearer as further information is available.

The District committed to a 1:1 laptop initiative this year for students in grades 7-12. The district will also have 1:1 iPads for students grades K-6. Funds have been assigned to help with the ongoing cost of this endeavor.

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, 2017**

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**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**STATEMENT OF NET POSITION**  
June 30, 2017  
With Comparative Data as of June 30, 2016

	Governmental Activities	
	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 7,269,664	\$ 6,417,307
Restricted cash held with fiscal agent	825,859	
Taxes receivable	773,509	869,536
Other receivables	27,951	21,462
Due from other governmental units	611,869	821,696
Inventory	7,481	8,109
Restricted cash and cash equivalents	95,395	103,883
Net OPEB asset	174,432	205,471
Prepaid expenses	53,755	35,321
Capital Assets:		
Nondepreciable	46,540	2,521,919
Depreciable, net of accumulated depreciation	9,202,680	6,810,643
<b>TOTAL ASSETS</b>	<b>19,089,135</b>	<b>17,815,347</b>
<b>Deferred Outflows of Resources</b>		
Deferred outflows from pension activities	8,233,825	463,423
<b>Liabilities</b>		
Accounts payable	79,605	51,317
Due to other governmental units	25,679	18,032
Unearned revenue	17,288	48,636
Accrued liabilities	619,859	563,190
Accrued interest payable	113,929	103,874
Long-Term Liabilities:		
Due within one year	430,000	420,000
Due in more than one year	7,340,083	6,933,233
Net pension liability	13,426,783	3,955,465
<b>TOTAL LIABILITIES</b>	<b>22,053,226</b>	<b>12,093,747</b>
<b>Deferred Inflows of Resources</b>		
Deferred inflows from pension activities	110,837	447,122
Property taxes levied for subsequent year	1,496,473	1,686,662
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,607,310</b>	<b>2,133,784</b>
<b>Net Position</b>		
Net investment in capital assets	3,244,656	2,941,167
Restricted:		
Operating capital purposes	515,397	460,255
State-mandated restrictions	73,166	56,316
Food service	131,138	86,094
Community service	299,934	273,177
Unrestricted	(601,867)	234,230
<b>TOTAL NET POSITION</b>	<b>\$ 3,662,424</b>	<b>\$ 4,051,239</b>

**See Notes to Financial Statements**

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2017

With Partial Comparative Data for the Year Ended June 30, 2016

2017

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
District and school administration	\$ 540,437	\$	\$	\$
District support services	296,367			
Regular instruction	3,961,695	196,450	235,830	
Vocational instruction	132,615		1,167	
Special education	1,447,183	13,194	658,731	
Community education and services	684,922	543,878	42,497	
Instruction support services	301,758		40,326	
Pupil support services	968,411	257,170	231,165	
Site, buildings, and equipment	1,312,420			24,704
Fiscal and other fixed cost programs	27,266	15,944		
Interest and other fiscal charges	280,626			
<b>Total governmental activities</b>	<b>\$ 9,953,700</b>	<b>\$ 1,026,636</b>	<b>\$ 1,209,716</b>	<b>\$ 24,704</b>

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

Net Position - Ending

**See Notes to Financial Statements**

2017		2016	
Net (Expense) Revenue and Changes in Net Position Total Governmental Activities	Net (Expense) Revenue and Changes in Net Position Total Governmental Activities	Net (Expense) Revenue and Changes in Net Position Total Governmental Activities	Net (Expense) Revenue and Changes in Net Position Total Governmental Activities
\$ (540,437)	\$ (403,798)	(296,367)	(280,945)
(3,529,415)	(2,841,468)	(131,448)	(89,647)
(775,258)	(495,887)	(98,547)	(67,300)
(261,432)	(102,028)	(480,076)	(465,941)
(1,287,716)	(1,446,113)	(11,322)	(15,819)
(280,626)	(261,446)		
(7,692,644)	(6,470,392)		
1,068,953	956,861	77,018	76,752
548,088	539,848	5,528,647	5,250,686
81,123	104,400	7,303,829	6,928,547
(388,815)	458,155		
4,051,239	3,593,084		
<u>\$ 3,662,424</u>	<u>\$ 4,051,239</u>		

**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2017  
With Partial Comparative Data as of June 30, 2016

	General	Food Service	Community Service
<b>Assets</b>			
Cash and cash equivalents	\$ 6,014,208	\$ 111,885	\$ 412,101
Restricted cash held with fiscal agent			
Current property taxes receivable	366,683		39,631
Delinquent property taxes receivable	15,938		1,424
Accounts receivable	20,282	314	355
Due from other Minnesota school districts	19,233		62
Due from Minnesota Department of Education	515,743	446	5,760
Due from Federal through Minnesota Department of Education	53,521	11,276	
Prepaid expenses			695
Inventory		7,481	
Restricted cash and cash equivalents			
<b>TOTAL ASSETS</b>	<b>\$ 7,005,608</b>	<b>\$ 131,402</b>	<b>\$ 460,028</b>
<b>Liabilities, Deferred Inflows and Fund Balance</b>			
<b>Liabilities</b>			
Accounts payable	\$ 72,580	\$ 264	\$ 6,761
Salaries and accrued liabilities payable	562,363		57,496
Due to other Minnesota school districts	25,660		
Due to other governments	19		
Unearned revenue	4,001		13,287
<b>TOTAL LIABILITIES</b>	<b>664,623</b>	<b>264</b>	<b>77,544</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue:			
Property taxes levied for subsequent year	723,801		81,126
Delinquent property taxes	15,938		1,424
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>739,739</b>		<b>82,550</b>
<b>Fund Balances</b>			
Nonspendable:			
Prepaid expenses			695
Inventory		7,481	
Restricted for:			
Gifted and talented	17,831		
Community education			195,040
Early childhood and family education programs			33,144
School readiness			49,179
Operating capital	515,397		
Health and safety	32,434		
Basic skills	300		
Safe schools crime	21,844		
Teacher development and evaluation	757		
Long term facilities maintenance	(81,710)		
Alternative facility program			
Food Service		123,657	
Community service			21,876
Building construction			
Debt service			
Bond refunding			
OPEB debt service			
Assigned for:			
Early risers			
Student laptop repairs	25,970		
Roof repair	2,000,000		
Technology	500,000		
Transportation	100,000		
Building maintenance and improvement	500,000		
Garage storage space	200,000		
Parking lot	200,000		
Unassigned	1,568,423		
<b>TOTAL FUND BALANCES</b>	<b>5,601,246</b>	<b>131,138</b>	<b>299,934</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 7,005,608</b>	<b>\$ 131,402</b>	<b>\$ 460,028</b>

**See Notes to Financial Statements**

Building Construction	Debt Service	OPEB Debt Service	Total Governmental Funds	
			2017	2016
\$	\$ 314,061	\$ 82,367	\$ 6,934,622	\$ 6,066,316
		825,859	825,859	
	284,525	53,343	744,182	839,337
	10,138	1,827	29,327	30,199
		7,000	27,951	21,213
			19,295	33,122
	4,938	890	527,777	629,738
			64,797	158,836
			695	
			7,481	8,109
95,395			95,395	103,883
<u>\$ 95,395</u>	<u>\$ 613,662</u>	<u>\$ 971,286</u>	<u>\$ 9,277,381</u>	<u>\$ 7,890,753</u>
\$	\$	\$	\$ 79,605	\$ 51,317
			619,859	563,190
			25,660	18,032
			19	
			17,288	48,636
			742,431	681,175
	582,359	109,187	1,496,473	1,686,662
	10,138	1,827	29,327	30,199
	<u>592,497</u>	<u>111,014</u>	<u>1,525,800</u>	<u>1,716,861</u>
			695	
			7,481	8,109
			17,831	15,393
			195,040	205,623
			33,144	21,985
			49,179	21,576
			515,397	460,255
			32,434	(147,978)
			300	300
			21,844	34,446
			757	6,477
83,732			2,022	
				91,838
			123,657	77,985
			21,876	23,993
11,663			11,663	11,663
	21,165		21,165	
		825,859	825,859	
		34,413	34,413	33,268
				11,187
			25,970	17,107
			2,000,000	2,000,000
			500,000	500,000
			100,000	100,000
			500,000	500,000
			200,000	200,000
			200,000	200,000
			1,568,423	1,099,490
95,395	21,165	860,272	7,009,150	5,492,717
<u>\$ 95,395</u>	<u>\$ 613,662</u>	<u>\$ 971,286</u>	<u>\$ 9,277,381</u>	<u>\$ 7,890,753</u>

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2017  
With Partial Comparative Data for the Year Ended June 30, 2016**

	General	Food Service	Community Service
<b>Revenues</b>			
Local sources:			
Property tax levies	\$ 970,987	\$	\$ 77,018
Other local and county sources	300,082	5,585	543,878
Investment income	34,211	581	2,309
State sources	5,798,323	24,712	52,088
Federal sources	364,873	206,453	
Sales and other conversions of assets	15,848	251,585	
<b>TOTAL REVENUES</b>	<b>7,484,324</b>	<b>488,916</b>	<b>675,293</b>
<b>Expenditures</b>			
District and school administration	403,796		
District support services	281,327		
Regular instruction	2,971,868		
Vocational instruction	95,043		
Special education	1,175,454		
Community education and services			648,536
Instructional support services	261,650		
Pupil support services	504,169	443,872	
Site, buildings, and equipment	1,164,939		
Fiscal and other fixed cost programs	33,716		
<b>TOTAL EXPENDITURES</b>	<b>6,891,962</b>	<b>443,872</b>	<b>648,536</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>592,362</b>	<b>45,044</b>	<b>26,757</b>
<b>Other Financing Sources</b>			
Bond proceeds			
<b>NET CHANGE IN FUND BALANCES</b>	<b>592,362</b>	<b>45,044</b>	<b>26,757</b>
<b>FUND BALANCE - BEGINNING</b>	<b>5,008,884</b>	<b>86,094</b>	<b>273,177</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 5,601,246</b>	<b>\$ 131,138</b>	<b>\$ 299,934</b>

**See Notes to Financial Statements**

Building Construction	Debt Service	OPEB Debt Service	Total Governmental Funds	
			2017	2016
\$	\$ 548,088	\$ 98,838	\$ 1,694,931	\$ 1,572,293
			849,545	826,814
847	821	312	39,081	13,575
	49,371	8,898	5,933,392	5,694,601
			571,326	600,419
			267,433	246,169
847	598,280	108,048	9,355,708	8,953,871
			403,796	374,473
			281,327	265,426
			2,971,868	3,001,212
			95,043	86,790
			1,175,454	1,064,627
			648,536	616,865
			261,650	133,065
			948,041	967,686
8,953			1,173,892	2,410,840
	564,908	124,904	723,528	744,725
8,953	564,908	124,904	8,683,135	9,665,709
(8,106)	33,372	(16,856)	672,573	(711,838)
		843,860	843,860	
(8,106)	33,372	827,004	1,516,433	(711,838)
103,501	(12,207)	33,268	5,492,717	6,204,555
\$ 95,395	\$ 21,165	\$ 860,272	\$ 7,009,150	\$ 5,492,717

**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, 2017**

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

Total governmental fund balances (pages 16 and 17)		\$ 7,009,150
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 15,708,600	
Less: Accumulated depreciation	6,459,380	
		9,249,220
Other long-term assets not available to pay for current-period expenditure and, therefore, are deferred in the funds		
Delinquent property taxes		29,327
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		
		562,534
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	\$ (7,660,000)	
Bond premium	(90,959)	
Bond discount	11,395	
Net pension liability	(5,303,795)	
Severance payable	(30,519)	
Accrued interest	(113,929)	
		(13,187,807)
Net position of governmental activities (page 13)		\$ 3,662,424



**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, 2017**

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

Net change in fund balances - total governmental funds (pages 18 and 19)		\$ 1,516,433
<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	\$ 418,182	
Depreciation expense	(497,464)	
Loss on disposal of capital assets	(4,060)	(83,342)
<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		(872)
<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		1,319
<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>		
		(29,498)
<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	\$ 420,000	
Issuance of bonds payable	(850,000)	
Change in bond discount	4,834	
Change in bond premium	6,997	
Net pension liability	(1,364,631)	
Change in accrued interest	(10,055)	(1,792,855)
Change in net position of governmental activities (pages 14 and 15)		\$ (388,815)

**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, 2017  
With Partial Comparative Data for the Year Ended June 30, 2016

	Budgeted Amounts		2017 Actual	Over (Under) Final Budget	2016 Actual
	Original	Final			
<b>Revenues</b>					
Local sources:					
Property tax levies	\$ 843,389	\$ 815,355	\$ 970,987	\$ 155,632	\$ 842,512
Other local and county sources	227,139	280,547	300,082	19,535	259,131
Investment income	4,000	10,000	34,211	24,211	11,414
State sources	5,527,180	5,727,101	5,798,323	71,222	5,566,639
Federal sources	402,551	436,728	364,873	(71,855)	388,794
Sales and other conversions of assets	725	14,825	15,848	1,023	2,600
<b>TOTAL REVENUES</b>	<b>7,004,984</b>	<b>7,284,556</b>	<b>7,484,324</b>	<b>199,768</b>	<b>7,071,090</b>
<b>Expenditures</b>					
District and school administration	407,974	414,965	403,796	(11,169)	374,473
District support services	301,422	305,839	281,327	(24,512)	265,426
Regular instruction	3,051,190	2,959,802	2,971,868	12,066	3,001,212
Vocational instruction	110,197	100,498	95,043	(5,455)	86,790
Special education	1,219,463	1,327,995	1,175,454	(152,541)	1,064,627
Instructional support services	202,162	310,488	261,650	(48,838)	133,065
Pupil support services	540,844	551,706	504,169	(47,537)	533,199
Site, buildings, and equipment	1,214,311	1,197,086	1,164,939	(32,147)	992,372
Fiscal and other fixed cost programs	41,578	41,217	33,716	(7,501)	32,476
<b>TOTAL EXPENDITURES</b>	<b>7,089,141</b>	<b>7,209,596</b>	<b>6,891,962</b>	<b>(317,634)</b>	<b>6,483,640</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(84,157)</b>	<b>74,960</b>	<b>592,362</b>	<b>517,402</b>	<b>587,450</b>
<b>FUND BALANCE - BEGINNING</b>	<b>5,008,884</b>	<b>5,008,884</b>	<b>5,008,884</b>		<b>4,421,434</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 4,924,727</b>	<b>\$ 5,083,844</b>	<b>\$ 5,601,246</b>	<b>\$ 517,402</b>	<b>\$ 5,008,884</b>

**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, 2017  
With Partial Comparative Data for the Year Ended June 30, 2016

	Budgeted Amounts		2017 Actual	Over (Under) Final Budget	2016 Actual
	Original	Final			
<b>Revenues</b>					
Local sources:					
Other local and county sources	\$ 2,000	\$ 2,000	\$ 5,585	\$ 3,585	\$ 2,038
Investment income			581	581	116
State sources	23,586	23,586	24,712	1,126	25,317
Federal sources	165,232	165,232	206,453	41,221	211,625
Sales and other conversions of assets	232,273	232,273	251,585	19,312	243,569
<b>TOTAL REVENUES</b>	423,091	423,091	488,916	65,825	482,665
<b>Expenditures</b>					
Pupil support services	426,887	442,997	443,872	875	434,487
<b>NET CHANGE IN FUND BALANCE</b>	(3,796)	(19,906)	45,044	64,950	48,178
<b>FUND BALANCES - BEGINNING</b>	86,094	86,094	86,094		37,916
<b>FUND BALANCES - ENDING</b>	\$ 82,298	\$ 66,188	\$ 131,138	\$ 64,950	\$ 86,094

**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, 2017  
With Partial Comparative Data for the Year Ended June 30, 2016

	Budgeted Amounts		2017 Actual	Over (Under) Final Budget	2016 Actual
	Original	Final			
<b>Revenues</b>					
Local sources:					
Property tax levies	\$ 84,060	\$ 84,060	\$ 77,018	\$ (7,042)	\$ 76,752
Other local and county sources	478,028	479,828	543,878	64,050	548,668
Investment income			2,309	2,309	747
State sources	42,589	42,092	52,088	9,996	44,388
<b>TOTAL REVENUES</b>	604,677	605,980	675,293	69,313	670,555
<b>Expenditures</b>					
Community education and services	651,680	675,660	648,536	(27,124)	616,865
<b>NET CHANGE IN FUND BALANCES</b>	(47,003)	(69,680)	26,757	96,437	53,690
<b>FUND BALANCES - BEGINNING</b>	273,177	273,177	273,177		219,487
<b>FUND BALANCES - ENDING</b>	\$ 226,174	\$ 203,497	\$ 299,934	\$ 96,437	\$ 273,177

**See Notes to Financial Statements**

**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**June 30, 2017 and 2016**

	<b>Governmental Activities - Internal Service</b>	
	<b>Postemployment Benefits Fund</b>	
	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Cash and investments	\$ 335,042	\$ 350,991
Accounts receivable		249
Net OPEB asset	174,432	205,471
Prepaid expenses	53,060	35,321
<b>TOTAL ASSETS</b>	<b>\$ 562,534</b>	<b>\$ 592,032</b>
<b>Net Position</b>		
Unrestricted	562,534	592,032
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 562,534</b>	<b>\$ 592,032</b>

**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, 2017 and 2016**

	<b>Governmental Activities - Internal Service</b>	
	<b>Postemployment Benefits Fund</b>	
	<b>2017</b>	<b>2016</b>
<b>REVENUES</b>		
Departmental charges	\$ 40,500	\$ 90,478
<b>EXPENDITURES</b>		
Post-retirement benefit expense	71,540	71,143
<b>Operating income (loss)</b>	(31,040)	19,335
<b>Other Financing Sources</b>		
Investment income	1,542	346
<b>Change in Net Position</b>	(29,498)	19,681
<b>Net Position - Beginning</b>	592,032	572,351
<b>Net Position - Ending</b>	\$ 562,534	\$ 592,032

**See Notes to Financial Statements**

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND**  
For the Years Ended June 30, 2017 and 2016

	<b>Governmental Activities - Internal Service</b>	
	<b>Postemployment Benefits Fund</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash Flows From Operating Activities</b>		
Cash payments for benefits	\$ (17,491)	\$ 32,994
<b>Cash Flows From Investing Activities</b>		
Investment income	1,542	346
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(15,949)	33,340
<b>Cash and Cash Equivalents - Beginning</b>	350,991	317,651
<b>Cash and Cash Equivalents - Ending</b>	\$ 335,042	\$ 350,991

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

Operating income (loss)	\$ (31,040)	\$ 19,335
Adjustments to reconcile Operating income (loss) to Net Cash Provided By (Used In) Operating Activities:		
Accounts receivable	249	(249)
Postemployment benefit asset	31,039	21,733
Prepaid expenses	(17,739)	(6,742)
Accounts payable		(1,083)
<b>Net Cash Provided By (Used In) Operating Activities</b>	\$ (17,491)	\$ 32,994

**See Notes to Financial Statements**

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
June 30, 2017**

	Private Purpose Trust
	<u>Scholarship Trust Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 49,041
<b>TOTAL ASSETS</b>	<u>\$ 49,041</u>
<b>Net Position, Unrestricted</b>	<u>49,041</u>
<b>TOTAL NET POSITION</b>	<u>\$ 49,041</u>

**See Notes to Financial Statements**

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**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
For the Year Ended June 30, 2017

	Private Purpose Trust
	Scholarship Trust Fund
<b>Increases</b>	
Other local and county sources	\$ 14,649
<b>Decreases</b>	
Fiscal and other fixed cost programs	16,115
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	(1,466)
<b>NET POSITION - BEGINNING</b>	50,507
<b>NET POSITION - ENDING</b>	\$ 49,041

**See Notes to Financial Statements**

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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

**NOTES TO FINANCIAL STATEMENTS**

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**1. Summary of Significant Accounting Policies**

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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**

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**1. Summary of Significant Accounting Policies (Continued)**

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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.

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

**NOTES TO FINANCIAL STATEMENTS**

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**1. Summary of Significant Accounting Policies (Continued)**

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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**

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**1. Summary of Significant Accounting Policies (Continued)**

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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)**

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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 one type of item which occurs related to revenue recognition. The deferred outflow of resources is pension related.

Deferred Inflows of Resources

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

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, 2017. 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**

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**1. Summary of Significant Accounting Policies (Continued)**

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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 \$82,957 of the property tax levy collectible in 2017 as revenue to the District in fiscal year 2016-2017. The remaining portion of the taxes collectible in 2017 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, 2017, 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 fair market 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**

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**1. Summary of Significant Accounting Policies (Continued)**

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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 effective interest 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, 2016 totals column have been reclassified to conform to the current year presentation.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 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 liabilities 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.

**2. Stewardship and Accountability**

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

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Food Service Fund	\$ 442,997	\$ 443,872	\$ 875

Excess expenditures were the result of planned processes.

**3. Deposits and Investments**

Summary of Cash and Investments

As of June 30, 2017, the District's cash and investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 1,048,434
Money Market Funds	9,363
Non-negotiable certificate of deposits	23,083
U.S. treasury notes	825,859
Minnesota School District Liquid Asset Fund (MSDLAF)	5,986,187
Minnesota State Board of Investments (cash equivalents)	<u>347,033</u>
Total cash and investments	8,239,959
Less: Fiduciary fund cash and cash equivalents	<u>(49,041)</u>
Total Cash and Investments Per Statement of Net Position	<u><u>\$ 8,190,918</u></u>

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

**NOTES TO FINANCIAL STATEMENTS**

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**3. Deposits and Investments (Continued)**

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*Summary of Cash and Investments (continued)*

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

Cash and cash equivalents	\$ 7,269,664
Restricted cash held with fiscal agent	825,859
Restricted cash and cash equivalents	<u>95,395</u>
Total Cash and Investments Per Statement of Net Position	<u>\$ 8,190,918</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.

*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.

**NOTES TO FINANCIAL STATEMENTS**

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**3. Deposits and Investments (Continued)**

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Custodial Credit Risk (continued)

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.

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**3. Deposits and Investments (Continued)**

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

	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>	<u>\$</u>

**4. Due From Other Governmental Units**

Amounts due from other governmental units at June 30, 2017 are as follows:

Fund	Minnesota Department of Education	Federal Government Through MDE	Other School Districts	Total
General	\$ 515,743	\$ 53,521	\$ 19,233	\$ 588,497
Community Service	5,760		62	5,822
Food Service	446	11,276		11,722
Debt Service	4,938			4,938
OPEB Debt Service	890			890
	<u>\$ 527,777</u>	<u>\$ 64,797</u>	<u>\$ 19,295</u>	<u>\$ 611,869</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**5. Capital Assets**

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

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 21,302	\$	\$	\$ 21,302
Construction in progress	2,500,617		2,475,379	25,238
Total capital assets, not being depreciated	<u>2,521,919</u>		<u>2,475,379</u>	<u>46,540</u>
Capital assets, being depreciated:				
Buildings	10,566,729	2,563,430		13,130,159
Land improvements	1,165,855	275,438		1,441,293
Equipment	1,048,945	54,693	13,030	1,090,608
Total capital assets, being depreciated	<u>12,781,529</u>	<u>2,893,561</u>	<u>13,030</u>	<u>15,662,060</u>
Less accumulated depreciation for:				
Buildings	4,996,164	375,311		5,371,475
Land improvements	265,830	65,015		330,845
Equipment	708,892	57,138	8,970	757,060
Total accumulated depreciation	<u>5,970,886</u>	<u>497,464</u>	<u>8,970</u>	<u>6,459,380</u>
Total capital assets, being depreciated, net	<u>6,810,643</u>	<u>2,396,097</u>	<u>4,060</u>	<u>9,202,680</u>
Governmental activities capital assets, net	<u>\$ 9,332,562</u>	<u>\$ 2,396,097</u>	<u>\$ 2,479,439</u>	<u>\$ 9,249,220</u>

Depreciation expense was charged to functions/programs as follows:

<b>Governmental Activities:</b>		
District and school administration		\$ 524
Regular instruction		27,514
Special education		1,956
Pupil support services		18,768
Site, buildings and equipment		448,702
Total depreciation expense - governmental activities		<u>\$ 497,464</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, 2017 balances is as follows:

	Original Amount of Debt	Range of Interest Rates	Final Maturity	Balance June 30, 2017
General Obligation Bonds:				
OPEB Bonds 2008A	\$ 1,180,000	4.75 - 7.00%	2029	\$ 885,000
Alternative Facilities Bonds 2010A	1,890,000	2.00 - 4.00%	2025	1,100,000
Alternative Facilities Bonds 2012A	965,000	0.50 - 2.10%	2028	725,000
Alternative Facilities Bonds 2014A	4,420,000	3.00 - 3.50%	2030	4,100,000
OPEB Refunding Bonds 2017A	850,000	2.85%	2029	850,000
Net Pension Liability				13,426,783
Bond discount				(11,395)
Bond premium				90,959
Severance payable				30,519
				<u>30,519</u>
Total				<u>\$ 21,196,866</u>

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds Payable:					
General Obligation Bonds:					
OPEB Bonds of 2008A	\$ 930,000	\$	\$ 45,000	\$ 885,000	\$ 50,000
Alternative Facilities Bond 2010A	1,220,000		120,000	1,100,000	120,000
Alternative Facilities Bond 2012A	785,000		60,000	725,000	60,000
Alternative & Capital Facilities Bond 2014A	4,295,000		195,000	4,100,000	200,000
OPEB Refunding Bonds 2017A		850,000		850,000	
Bond Discount	(6,561)	(5,381)	(547)	(11,395)	
Bond Premium	97,956		6,997	90,959	
Other Liabilities:					
Net Pension Liability	3,955,465	9,471,318		13,426,783	
Severance Payable	31,838		1,319	30,519	
Governmental Activities					
Long-term Liabilities	<u>\$ 11,308,698</u>	<u>\$ 10,315,937</u>	<u>\$ 427,769</u>	<u>\$ 21,196,866</u>	<u>\$ 430,000</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, 2017, over the life of the debt, are summarized below:

Years	General Obligation Bonds		
	Principal	Interest	Total
<u>Governmental Activities</u>			
2018	\$ 430,000	\$ 267,103	\$ 697,103
2019	450,000	247,573	697,573
2020	530,000	232,326	762,326
2021	550,000	215,820	765,820
2022	570,000	197,895	767,895
2023-2027	3,165,000	683,588	3,848,588
2028-2030	1,965,000	133,503	2,098,503
Totals	\$ 7,660,000	\$ 1,977,807	\$ 9,637,807

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**

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**7. Fund Equity (Continued)**

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

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 Gifted and Talented - Represents available resources within the General Fund to provide for gifted and talented 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 Basic Skills - Represents available resources within the General Fund to provide for basic skills programs.

Restricted for Alternative Facility Program - Represents resources available for approved expenditures based on the ten-year plan for capital projects.

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**

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**8. Commitments and Contingencies**

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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.

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**9. Defined Benefit Pension Plans – Statewide**

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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 Plan (General Employees Plan (accounted for in the General Employees 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.

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

1. General Employees Plan Benefits

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

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 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 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 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

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:	<u>Step Rate Formula</u>	<u>Coordinated</u>	<u>Step Rate Formula</u>	<u>Basic</u>
	1st ten years if service years prior to 7-1-06	1.2 percent per year	1st ten years	2.2 percent per year
	1st ten years if service years after 7-1-06	1.4 percent per year	All years after	2.7 percent per year
	All other years if service years prior to 7-1-06	1.7 percent per year		
	All years after 7-1-06	1.9 percent per year		

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

**NOTES TO FINANCIAL STATEMENTS**

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**9. Defined Benefit Pension Plans – Statewide (Continued)**

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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 2017; 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, 2017 was \$81,932. 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, 2016	
	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.5%
Coordinated	7.5%	7.5%	7.5%	7.5%

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

Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	\$ 354,961,140
Add employer contributions not related to future contribution effort	26,356
Deduct TRA's contributions not included in allocation	<u>(442,978)</u>
Total employer contributions	\$ 354,544,518
Total non-employer contributions	<u>35,587,410</u>
Total Contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u><u>\$ 390,131,928</u></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, 2017, the District reported a liability of \$1,429,033 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 \$18,632. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.0176 percent which was an increase of 0.0006 percent from its proportion measured as of June 20, 2015.

**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, 2017, the District recognized pension expense of \$205,843 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$5,556 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, 2017, 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	\$	\$ 110,837
Changes in actuarial assumptions	308,046	
Difference between projected and actual investment earnings	157,968	
Changes in proportion	11,577	
Contributions paid to PERA subsequent to the measurement date	<u>93,192</u>	
Total	<u>\$ 570,783</u>	<u>\$ 110,837</u>

\$93,192 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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	<u>Pension Expense Amount</u>
2018	\$ 101,274
2019	68,826
2020	145,034
2021	51,620

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

**NOTES TO FINANCIAL STATEMENTS**

**9. Defined Benefit Pension Plans – Statewide (Continued)**

2. TRA Pension Costs

At June 30, 2017, the District reported a liability of \$11,997,750 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.0503% at the end of the measurement period and 0.0497% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the district as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the district were as follows:

District's proportionate share of net pension liability	\$	11,997,750
State's proportionate share of the net pension liability associated with the district	\$	1,203,199

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

For the year ended June 30, 2017, the District recognized pension expense of \$1,784,035. It also recognized \$168,007 as an increase to pension expense for the support provided by direct aid.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 125,293	\$
Changes in actuarial assumptions	6,830,204	
Difference between projected and actual investment earnings	490,194	
Changes in proportion	8,778	
Contributions paid to TRA subsequent to the measurement date	<u>208,573</u>	
Total	<u>\$ 7,663,042</u>	<u>\$</u>



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

**NOTES TO FINANCIAL STATEMENTS**

**9. Defined Benefit Pension Plans – Statewide (Continued)**

Pension Costs (continued)

Deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2018	\$ 1,477,380
2019	1,477,382
2020	1,663,298
2021	1,499,701
2022	1,336,708

Aggregate Pension Costs

Pension expense recognized by the District for the year ended June 30, 2017 is as follows:

GERF	\$211,399
TRA	1,952,042
Total	<u>\$2,163,441</u>

Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

1. GERF Actuarial Assumptions

Assumptions	GERF
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 General Employees Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan.

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

The following changes in actuarial assumptions occurred in 2016:

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

**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, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

<b>Key Methods and Assumptions Used in Valuation of Total Pension Liability</b>	
<b>Actuarial Information</b>	
Valuation Date	July 1, 2016
Experience Study	June 5, 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	4.66%, from the Single Equivalent Interest Rate Calculation
Price Inflation	2.75%
Cost of Living Adjustment	3.50%
Projected Salary Increases	3.5 - 9.5%
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	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Unallocated Cash	2%	0.50%
Total	100%	

The TRA actuary as determined the average of the expected remaining service lives of all members for the fiscal year 2016 is 6 years. The “Difference Between Expected and Actual Experience”, “Changes of Assumptions,” and “Changes in Proportion” uses the amortization period of 6 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 5 years as required by GASB 68.

Discount Rate

GERF: The discount rate used to measure the total pension liability in 2016 was 7.50 percent, a reduction from the 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at 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.

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

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

**NOTES TO FINANCIAL STATEMENTS**

**9. Defined Benefit Pension Plans – Statewide (Continued)**

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	\$ 2,029,650	\$ 1,429,033	\$ 934,288
TRA Discount Rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	\$ 15,456,101	\$ 11,997,750	\$ 9,181,036

Pension Plan Fiduciary Net Position

Detailed information about GERF'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](http://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](http://www.MinnesotaTRA.org); by writing to TRA at 60 Empire Drive 400, St. Paul, Minnesota, 55103-4000; or by calling (651) 296-2409 or 1-800-657-3669.

**10. Other Postemployment Benefit Plan**

Plan Description

The District provides health insurance benefits for certain retired employees under a single-employer plan. The District provides benefits for retirees as required by state statute to active employees when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and if they do not participate in any other health benefits program providing similar coverage. 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, 2017 there were approximately 10 retirees participating in the District's group health plan.

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

**NOTES TO FINANCIAL STATEMENTS**

**10. Other Postemployment Benefit Plan (Continued)**

Funding Policy

The District makes all contributions shown below, 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.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB standards. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for 2017, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution (ARC)	\$ 66,651
Interest on net OPEB obligations	(11,705)
Adjustment to ARC	<u>16,594</u>
Annual OPEB cost	71,540
Contributions during the year	<u>(88,824)</u>
Decrease in net OPEB obligation	(17,284)
Net OPEB asset beginning of year	<u>(292,634)</u>
Net OPEB asset end of year	<u><u>\$ (309,918)</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017, 2016, and 2015 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2015	\$ 70,770	\$ 51,435	72.68%	\$ (268,870)
6/30/2016	71,143	94,907	133.40%	(292,634)
6/30/2017	71,540	88,824	124.16%	(309,918)

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

**NOTES TO FINANCIAL STATEMENTS**

**10. Other Postemployment Benefit Plan (Continued)**

Funding Status and Funding Progress

The required schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded Actuarial Accrued Liability ( b - a )	Funded Ratio ( a / b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ( ( b - a ) / c )
7/1/2014	\$	\$ 690,681	\$ 690,681	0.00%	\$ 2,463,513	28.04%
7/1/2011	\$	\$ 837,734	\$ 837,734	0.00%	\$ 2,200,362	38.07%

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.

In the July 1, 2014 actuarial valuation, projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate, which is based on the estimated long-term investment yield on the general assets of the District using underlying long-term inflation assumption of 2.5%. The annual healthcare cost trend rate is 7.5% initially, reduced incrementally to an ultimate rate of 5.0% after ten years. The unfunded actuarial accrued liability will be amortized as level dollar amount on a closed basis.

**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 20<sup>th</sup> in the year of retirement and half on July 20<sup>th</sup> of the following year.

An estimate of the potential obligation to be paid in future years is \$30,519. This amount is included in the financial statements as part of long-term liabilities.

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

**NOTES TO FINANCIAL STATEMENTS**

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**12. Flexible Benefit Plan**

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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.

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**13. Risk Management**

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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 2017.

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**14. Restricted Cash and Cash Equivalents**

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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 SUPPLEMENTAL INFORMATION**

**JUNE 30, 2017**

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

Schedule of Funding Progress – Other Postemployment Benefits  
June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded Actuarial Accrued Liability ( b - a )	Funded Ratio ( a / b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ( ( b - a ) / c )
7/1/2014	\$	\$ 690,681	\$ 690,681	0.00%	\$ 2,463,513	28.04%
7/1/2011	\$	\$ 837,734	\$ 837,734	0.00%	\$ 2,200,362	38.07%

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

Schedule of Employer Contributions  
Year Ended June 30, 2017

Fiscal Year Ended	Annual Required Contribution	Percentage of Annual Required Contributions Recognized
6/30/2015	\$ 66,651	77%
6/30/2016	66,651	142%
6/30/2017	66,651	133%

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

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

Fiscal Year Ending June 30	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District Covered Employee Payroll	Contributions as a Percentage of Covered Employee 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						
2019						
2020						
2021						
2022						
2023						
2024						

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

Fiscal Year Ending June 30	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District Covered Employee Payroll	Contributions as a Percentage of Covered Employee 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						
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 Ending June 30	District's Portion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0175%	\$ 822,062	\$ 813,680	101%	78.7%
2015	0.0170%	881,028	981,773	90%	78.2%
2016	0.0176%	1,429,033	1,092,427	131%	68.9%
2017					
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 Ending June 30	District's Portion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	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	108%	81.5%
2015	0.0497%	3,074,437	377,135	3,451,572	2,523,813	122%	76.8%
2016	0.0503%	11,997,750	1,203,199	13,200,949	2,617,187	458%	44.9%
2017							
2018							
2019							
2020							
2021							
2022							
2023							

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

**SUPPLEMENTAL INFORMATION**

**JUNE 30, 2017**

**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**COMPARATIVE BALANCE SHEET**  
**GENERAL FUND**  
June 30, 2017 and 2016

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 6,014,208	\$ 5,260,565
Current property taxes receivable	366,683	446,290
Delinquent property taxes receivable	15,938	16,183
Accounts receivable	20,282	15,994
Due from other Minnesota school districts	19,233	33,122
Due from Minnesota Department of Education	515,743	614,394
Due from Federal through Minnesota Department of Education	53,521	127,093
<b>TOTAL ASSETS</b>	<b>\$ 7,005,608</b>	<b>\$ 6,513,641</b>
<b>Liabilities</b>		
Accounts payable	\$ 72,580	\$ 28,939
Salaries and accrued liabilities payable	562,363	509,789
Due to other Minnesota school districts	25,660	18,032
Due to other governments	19	
Unearned revenue	4,001	35,380
<b>TOTAL LIABILITIES</b>	<b>664,623</b>	<b>592,140</b>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue:		
Property taxes levied for subsequent year	723,801	896,434
Delinquent property taxes	15,938	16,183
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>739,739</b>	<b>912,617</b>
<b>Fund Balances</b>		
Restricted for:		
Gifted and talented	17,831	15,393
Operating capital	515,397	460,255
Health and safety	32,434	(147,978)
Basic skills	300	300
Safe schools crime	21,844	34,446
Teacher development and evaluation	757	6,477
Long term facilities maintenance	(81,710)	
Assigned for:		
Designated for early risers		11,187
Student laptop repairs	25,970	17,107
Roof repair	2,000,000	2,000,000
Technology	500,000	500,000
Transportation	100,000	100,000
Building maintenance and improvement	500,000	500,000
Garage storage space	200,000	200,000
Parking lot	200,000	200,000
Unassigned	1,568,423	1,111,697
<b>TOTAL FUND BALANCES</b>	<b>5,601,246</b>	<b>5,008,884</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 7,005,608</b>	<b>\$ 6,513,641</b>

**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, 2017  
With Partial Comparative Data for the Year Ended June 30, 2016

	Budgeted Amounts		2017 Actual	Over (Under) Final Budget	2016 Actual
	Original	Final			
<b>Revenues</b>					
Local sources:					
Other local and county sources	\$	\$	\$	\$	\$ 16,977
Investment income		675	847	172	1,067
<b>TOTAL REVENUES</b>		675	847	172	18,044
<b>Expenditures</b>					
Site, buildings, and equipment		9,500	8,953	(547)	1,418,468
<b>NET CHANGE IN FUND BALANCE</b>		(8,825)	(8,106)	719	(1,400,424)
<b>FUND BALANCES - BEGINNING</b>	103,501	103,501	103,501		1,503,925
<b>FUND BALANCES - ENDING</b>	\$ 103,501	\$ 94,676	\$ 95,395	\$ 719	\$ 103,501

**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, 2017  
With Partial Comparative Data for the Year Ended June 30, 2016

	Budgeted Amounts		2017 Actual	Over (Under) Final Budget	2016 Actual
	Original	Final			
<b>Revenues</b>					
Local sources:					
Property tax levies	\$ 598,359	\$ 598,359	\$ 548,088	\$ (50,271)	\$ 539,848
Investment income	500	500	821	321	157
State sources			49,371	49,371	49,010
<b>TOTAL REVENUES</b>	598,859	598,859	598,280	(579)	589,015
<b>Expenditures</b>					
Fiscal and Other Fixed Cost Programs	565,283	565,283	564,908	(375)	601,858
<b>NET CHANGE IN FUND BALANCES</b>	33,576	33,576	33,372	(204)	(12,843)
<b>FUND BALANCE - BEGINNING</b>	(12,207)	(12,207)	(12,207)		636
<b>FUND BALANCE - ENDING</b>	<u>\$ 21,369</u>	<u>\$ 21,369</u>	<u>\$ 21,165</u>	<u>\$ (204)</u>	<u>\$ (12,207)</u>



**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**SUPPLEMENTAL COST SCHEDULES**  
For the Years Ended June 30, 2017 and 2016  
(Unaudited)

	Cost Per Adjusted Average Daily Membership (All Funds)	
	2016 - 2017 Expenditures	2016 - 2017 Membership (All Funds)
<b>Fiscal Year Ended June 30, 2017</b>		
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
<b>TOTALS</b>	<b>\$ 8,683,135</b>	<b>\$ 13,885</b>

2016 - 2017 Adjusted Average Daily Membership - 625.37

\* Includes Root River program expenditures

	Cost Per Adjusted Average Daily Membership (All Funds)	
	2015 - 2016 Expenditures	2015 - 2016 Membership (All Funds)
<b>Fiscal Year Ended June 30, 2016</b>		
District and school administration	\$ 374,473	\$ 597
District support services	265,426	423
Regular instruction	3,001,212	4,785
Vocational instruction	86,790	138
Special education	* 1,064,627	1,697
Community education and services	616,865	983
Instructional support services	133,065	212
Pupil support services	967,686	1,543
Site, buildings, and equipment	2,410,840	3,843
Fiscal and other fixed cost programs	744,725	1,187
<b>TOTALS</b>	<b>\$ 9,665,709</b>	<b>\$ 15,409</b>

2015 - 2016 Adjusted Average Daily Membership - 627.26

\* Includes Root River program expenditures

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

TAX LEVY HISTORY

	16 Pay 17 Fiscal 18	15 Pay 16 Fiscal 17	14 Pay 15 Fiscal 16	13 Pay 14 Fiscal 15	12 Pay 13 Fiscal 14
<b>Tax Levy*</b>					
General	\$ 806,758	\$ 940,633	\$ 904,802	\$ 1,146,400	\$ 732,150
Community Service	81,126	84,060	83,692	80,873	75,866
Debt Redemption (Net)	691,545	706,167	699,987	594,006	656,977
<b>TOTAL TAX LEVY</b>	<b>\$ 1,579,429</b>	<b>\$ 1,730,860</b>	<b>\$ 1,688,481</b>	<b>\$ 1,821,279</b>	<b>\$ 1,464,993</b>

\* 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, 2017**

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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, 2017, and the related notes to financial statements, which collectively comprises the District's basic financial statements and have issued our report thereon dated November 20, 2017. 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 2011-1 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*.

## **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.

## **Other Matter**

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

## **Purpose of this Report**

The 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 20, 2017

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

**SCHEDULE OF FINDINGS**

**JUNE 30, 2017**

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**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**SCHEDULE OF PRIOR YEAR FINDINGS**  
Year Ended June 30, 2017

**B. FINDING - FINANCIAL STATEMENTS AUDIT**

**FINDINGS – 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.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings:**

There is no disagreement with the audit findings.

**Actions Planned in Response to Findings:**

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 2017.

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

**STUDENT ACTIVITY FUNDS**

**JUNE 30, 2017**

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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, 2017. 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, 2017, 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, Schafn and Associates, Ltd.*

Rochester, Minnesota  
November 20, 2017

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
HIGH SCHOOL STUDENT ACTIVITY FUNDS  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS  
For the Year Ended June 30, 2017**

<b>Funds</b>	<u>Balance</u>				<u>Balance</u>
	06/30/16	Receipts	Disbursements	06/30/17	
Class of 2016	\$ 15,459	\$	\$ 15,459	\$	
Class of 2017	11,789	106,927	106,119		12,597
Class of 2018	6,555	9,119	3,827		11,847
Class of 2019	2,552	2,337	426		4,463
Class of 2020	991	1,173			2,164
Class of 2021	681	772			1,453
Class of 2022		509			509
Spanish Club	360	1	361		
Annual	14,613	6,843	7,847		13,609
Band	10,283	34,603	29,879		15,007
Cheerleading	318	46	18		346
HS Choir	9,115	8,412	4,431		13,096
Dance		1,041	847		194
FFA	17,067	35,866	37,662		15,271
Jazz Account	1,894	3,976	5,189		681
National Honor Society	421	350	349		422
SADD	1,568	218	376		1,410
Student Council	3,711	5,075	4,158		4,628
Tapestry	5,731	4,490	5,932		4,289
TNT	473	344	267		550
Video Club	393	1	3		391
<b>TOTAL</b>	<b>\$ 103,974</b>	<b>\$ 222,103</b>	<b>\$ 223,150</b>	<b>\$</b>	<b>102,927</b>

**NOTES TO STUDENT ACTIVITY FUNDS FINANCIAL STATEMENTS**

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**1. Summary of Significant Accounting Policies**

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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, 2017, and have issued our report thereon dated November 20, 2017.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Manual of Instruction for 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 20, 2017

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

**COMPLIANCE TABLE**

**JUNE 30, 2017**

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**Fiscal Compliance Report - 6/30/2017**  
**District: FILLMORE CENTRAL (2198-1)**

	Audit	UFARS	Audit - UFARS
<b>01 GENERAL FUND</b>			
Total Revenue	\$7,484,324	<u>\$7,484,327</u>	(\$3)
Total Expenditures	\$6,891,962	<u>\$6,891,965</u>	(\$3)
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$0	<u>\$0</u>	<u>\$0</u>
4.06 Health and Safety	\$32,434	<u>\$32,435</u>	(\$1)
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.08 Cooperative Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.14 Operating Debt	\$0	<u>\$0</u>	<u>\$0</u>
4.16 Levy Reduction	\$0	<u>\$0</u>	<u>\$0</u>
4.17 Taconite Building Maint	\$0	<u>\$0</u>	<u>\$0</u>
4.24 Operating Capital	\$515,397	<u>\$515,397</u>	<u>\$0</u>
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
4.27 Disabled Accessibility	\$0	<u>\$0</u>	<u>\$0</u>
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>
4.38 Gifted & Talented	\$17,831	<u>\$17,831</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$757	<u>\$757</u>	<u>\$0</u>
4.41 Basic Skills Programs	\$300	<u>\$300</u>	<u>\$0</u>
4.45 Career Tech Programs	\$0	<u>\$0</u>	<u>\$0</u>
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>
4.49 Safe School Crime - Crime Levy	\$21,844	<u>\$21,844</u>	<u>\$0</u>
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	<u>\$0</u>
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	(\$81,710)	<u>(\$81,710)</u>	<u>\$0</u>
4.72 Medical Assistance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Committed:</i>			
4.18 Committed for Separation	\$0	<u>\$0</u>	<u>\$0</u>
4.61 Committed Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Assigned:</i>			
4.62 Assigned Fund Balance	\$3,525,970	<u>\$3,525,970</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.22 Unassigned Fund Balance	\$1,568,423	<u>\$1,568,424</u>	(\$1)

<b>02 FOOD SERVICES</b>			
Total Revenue	\$488,916	<u>\$488,915</u>	\$1
Total Expenditures	\$443,872	<u>\$443,872</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$7,481	<u>\$7,481</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$123,657	<u>\$123,658</u>	(\$1)
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

<b>04 COMMUNITY SERVICE</b>			
Total Revenue	\$675,293	<u>\$675,292</u>	\$1
Total Expenditures	\$648,536	<u>\$648,535</u>	\$1
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$695	<u>\$695</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
4.31 Community Education	\$195,040	<u>\$195,040</u>	<u>\$0</u>
4.32 E.C.F.E	\$33,144	<u>\$33,144</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>
4.44 School Readiness	\$49,179	<u>\$49,179</u>	<u>\$0</u>
4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$21,876	<u>\$21,875</u>	\$1
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$847	<u>\$847</u>	<u>\$0</u>
Total Expenditures	\$8,953	<u>\$8,953</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	\$83,732	<u>\$83,732</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$11,663	<u>\$11,663</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

<b>07 DEBT SERVICE</b>			
Total Revenue	\$598,280	<u>\$598,277</u>	\$3
Total Expenditures	\$564,908	<u>\$564,908</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$21,165	<u>\$21,163</u>	\$2
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

<b>08 TRUST</b>			
Total Revenue	\$14,649	<u>\$14,649</u>	<u>\$0</u>
Total Expenditures	\$16,115	<u>\$16,116</u>	(\$1)
4.22 Unassigned Fund Balance (Net Assets)	\$49,041	<u>\$49,041</u>	<u>\$0</u>

<b>20 INTERNAL SERVICE</b>			
Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>

<b>25 OPEB REVOCABLE TRUST</b>			
Total Revenue	\$42,042	<u>\$42,042</u>	<u>\$0</u>
Total Expenditures	\$7,1540	<u>\$7,1540</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$562,534	<u>\$562,534</u>	<u>\$0</u>

<b>45 OPEB IRREVOCABLE TRUST</b>			
Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>

<b>47 OPEB DEBT SERVICE</b>			
Total Revenue	\$108,048	<u>\$108,048</u>	<u>\$0</u>
Total Expenditures	\$124,904	<u>\$124,904</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.25 Bond Refundings	\$825,859	<u>\$825,859</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$34,413	<u>\$34,413</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>