

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

**FINANCIAL STATEMENTS**

**JUNE 30, 2013**



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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, 2013**

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**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
BOARD OF EDUCATION AND ADMINISTRATION  
JUNE 30, 2013**

2012 - 2013

|                  |                  |            |
|------------------|------------------|------------|
| Ross Kiehne      | Chairperson      | 12/31/2016 |
| Craig Britton    | Vice Chairperson | 12/31/2014 |
| Susan Sikkink    | Treasurer        | 12/31/2014 |
| Deb Ristau       | Clerk            | 12/31/2016 |
| Michelle Topness | Vice-Clerk       | 12/31/2014 |
| James Love       | Director         | 12/31/2016 |
| Emily Ellis      | Director         | 12/31/2014 |

2011 - 2012

|                  |                  |            |
|------------------|------------------|------------|
| Ross Kiehne      | Chairperson      | 12/31/2012 |
| Craig Britton    | Vice Chairperson | 12/31/2014 |
| Susan Sikkink    | Treasurer        | 12/31/2014 |
| Deb Ristau       | Clerk            | 12/31/2012 |
| Michelle Topness | Vice-Clerk       | 12/31/2014 |
| James Love       | Director         | 12/31/2012 |
| John Torgrimson  | Director         | 12/31/2014 |

Superintendent

Richard Keith

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

**FINANCIAL SECTION**

**JUNE 30, 2013**

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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, as of and for the year ended June 30, 2013, which collectively comprise the Independent School District #2198's basic financial statements as listed in the table of contents and the related notes to the financial statements.

### 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 as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**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 Schedule of Funding Progress – Other Post- Employment Benefits on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplementary information, and Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information and Uniform Financial Accounting and Reporting Standards Compliance Table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain addition procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and Uniform Financial Accounting and Reporting Standards Compliance Table are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Report on Summarized Comparative Information*

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statement for the year ended June 30, 2012, from which such partial information was derived.

We have previously audited the District's 2012 financial statements and our report, dated November 15, 2012, expressed unmodified opinions on the respective financial statements of the governmental activities and each major fund. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, 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 18, 2013, 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, Schafu 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, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**New Accounting Pronouncement.** The District implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in fiscal year 2013. This standard provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The reader will notice a change in terminology from "net assets" to "net position."

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2012-2013 fiscal year include the following:

- The assets of Independent School District #2198, Preston, Minnesota exceeded its liabilities at the close of the most recent fiscal year by \$5,365,966 (*net position*).
- Overall revenues for the General Fund were \$6,059,863 while overall expenditures and transfers out totaled \$5,418,539.
- The General Fund Unassigned Fund Balance is \$2,823,546. This represents an increase of \$503,166 from last fiscal year. This was due to greater than projected revenues for special education services, and unbudgeted savings in the areas of fuel for buildings, building repairs/maintenance, and legal fees as well as overall conservative spending by the district. The Restricted General Fund balance includes State required restrictions for operating capital, approved health and safety projects, and other items. These balances total \$349,341 as compared to \$195,112 last fiscal year.
- The General Fund total fund balance increased by \$651,824 in 2012-2013.
- The Food Service Fund total fund balance increased by \$14,336 in 2012-2013.
- The Community Service Fund total fund balance increased by \$43,079 in 2012-2013.

**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 \$5,365,966 on June 30, 2013. This was an increase of \$904,815 from the prior year.

|                                  | Total        |              |
|----------------------------------|--------------|--------------|
|                                  | 2013         | 2012         |
| <b>Assets</b>                    |              |              |
| Current and other assets         | \$ 7,210,981 | \$ 6,678,046 |
| Capital assets                   | 5,007,981    | 4,921,903    |
| Total assets                     | 12,218,962   | 11,599,949   |
| <b>Liabilities</b>               |              |              |
| Current liabilities              | 2,467,942    | 3,214,635    |
| Long-Term liabilities            | 4,396,136    | 3,934,862    |
| Total liabilities                | 6,864,078    | 7,149,497    |
| <b>Net Position</b>              |              |              |
| Net investment in capital assets | 2,672,981    | 2,166,903    |
| Restricted                       | 511,964      | 426,921      |
| Unrestricted                     | 2,181,021    | 1,867,327    |
| Total net position               | \$ 5,365,966 | \$ 4,461,151 |

**District's Revenue.** The District's total revenues were \$7,589,373 for the year ended June 30, 2013; compared to \$7,579,857 on June 30, 2012. General revenues from state sources accounted for 56% of total revenue for the year ended June 30, 2013, compared to 53% in the prior year. Local property taxes (levies) accounted for 20% percent (compared to 20% the previous year) of the total revenue, with the remaining revenue coming from other sources.

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

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

A condensed version of the Statement of Activities follows:

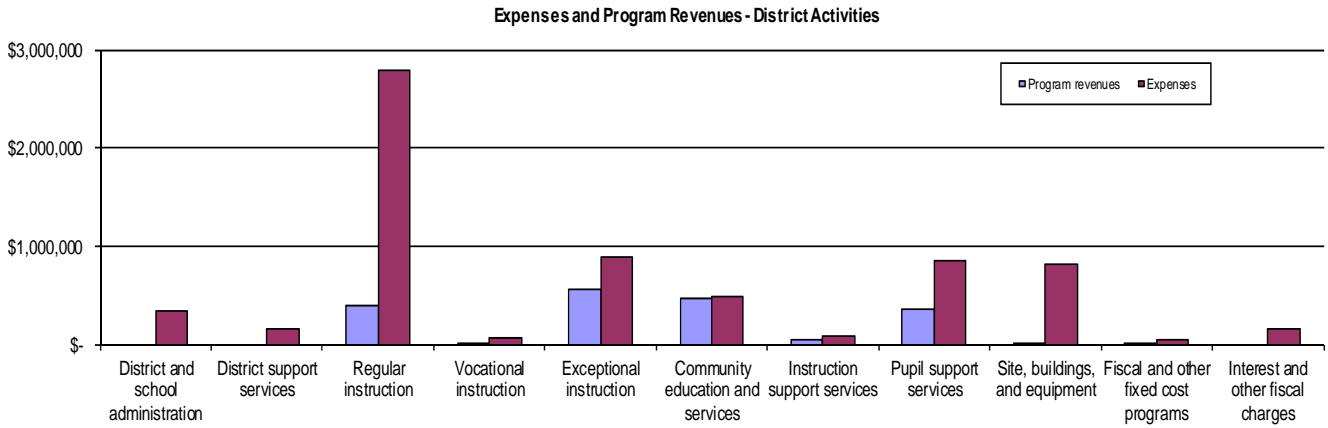
|                                      | Total        |              |
|--------------------------------------|--------------|--------------|
|                                      | 2013         | 2012         |
| <b>Revenue</b>                       |              |              |
| Program revenues:                    |              |              |
| Charges for services                 | \$ 860,693   | \$ 921,943   |
| Operating grants and contributions   | 974,539      | 1,075,008    |
| Capital grants and contributions     | 17,801       | 18,421       |
| General revenues:                    |              |              |
| Property taxes                       | 1,483,151    | 1,482,793    |
| State sources                        | 4,238,341    | 4,052,520    |
| Other sources                        | 14,848       | 29,172       |
| Total revenues                       | 7,589,373    | 7,579,857    |
| <b>Expenses</b>                      |              |              |
| District and school administration   | 344,674      | 338,652      |
| District support services            | 154,847      | 150,831      |
| Regular instruction                  | 2,790,823    | 2,568,290    |
| Vocational instruction               | 64,006       | 65,338       |
| Exceptional instruction              | 889,110      | 925,350      |
| Community education and services     | 491,136      | 506,423      |
| Instruction support services         | 84,049       | 74,704       |
| Pupil support services               | 848,644      | 865,097      |
| Site, buildings, and equipment       | 814,635      | 781,093      |
| Fiscal and other fixed cost programs | 43,783       | 60,953       |
| Interest and other fiscal charges    | 158,851      | 165,663      |
| Total expenses                       | 6,684,558    | 6,502,394    |
| Change in net position               | 904,815      | 1,077,463    |
| Net position, beginning of year      | 4,461,151    | 3,383,688    |
| Net position, end of year            | \$ 5,365,966 | \$ 4,461,151 |



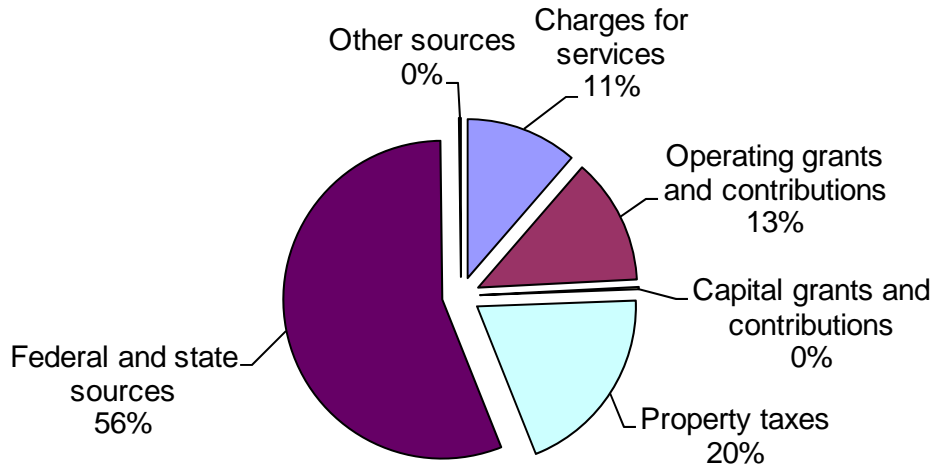
**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**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 expenditures. 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 \$4,050,039.

The District's enrollment stabilized from FY 12 to FY 13. The projection is that this will continue for the next couple years. Enrollment may begin to decline, however, in the not so distant future.

History of enrollment measured by adjusted marginal cost pupil units (AMCPU):

| <u>Fiscal Year</u> | <u>AMCPU</u> | <u>% Change</u> |
|--------------------|--------------|-----------------|
| 2004               | 800.12       |                 |
| 2005               | 757.72       | -5.3%           |
| 2006               | 747.64       | -1.3%           |
| 2007               | 723.23       | -3.3%           |
| 2008               | 691.12       | -4.4%           |
| 2009               | 665.97       | -3.6%           |
| 2010               | 649.21       | -2.5%           |
| 2011               | 629.57       | -3.0%           |
| 2012               | 633.94       | 0.7%            |
| 2013               | 636.96       | 0.5%            |

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

Total General Fund revenues and other financing sources increased by \$15,792 from the previous year (being \$6,059,863 in FY13, and \$6,044,071 in FY12).

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:

|                                       | 2013                | 2012                | Increase/<br>(Decrease) |
|---------------------------------------|---------------------|---------------------|-------------------------|
| Local property tax levies             | \$ 834,884          | \$ 883,366          | \$ (48,482)             |
| Other local and county sources        | 237,486             | 234,391             | 3,095                   |
| Investment income                     | 11,167              | 25,090              | (13,923)                |
| State sources                         | 4,591,802           | 4,443,330           | 148,472                 |
| Federal sources                       | 378,744             | 447,380             | (68,636)                |
| Sales and other conversions of assets | 5,780               | 10,514              | (4,734)                 |
| <b>Total</b>                          | <b>\$ 6,059,863</b> | <b>\$ 6,044,071</b> | <b>\$ 15,792</b>        |

Total General Fund expenditures increased by \$134,017.

General fund expenditures and transfers were as follows:

|  | 2013                | 2012                | Increase/<br>(Decrease) |
|--|---------------------|---------------------|-------------------------|
| District and school administration                     | \$ 331,153          | \$ 326,866          | \$ 4,287                |
| District support services                              | 150,697             | 147,668             | 3,029                   |
| Regular instruction                                    | 2,797,096           | 2,511,498           | 285,598                 |
| Vocational instruction                                 | 63,275              | 64,025              | (750)                   |
| Exceptional instruction                                | 878,830             | 914,905             | (36,075)                |
| Instructional support services                         | 82,583              | 73,122              | 9,461                   |
| Pupil support services                                 | 485,848             | 490,390             | (4,542)                 |
| Site, buildings, and equipment                         | 585,274             | 690,518             | (105,244)               |
| Fiscal and other fixed cost programs and transfers out | 43,783              | 65,530              | (21,747)                |
| <b>Total</b>   | <b>\$ 5,418,539</b> | <b>\$ 5,284,522</b> | <b>\$ 134,017</b>       |

The total General Fund balance on June 30, 2013, was \$3,190,080 compared to \$2,538,256 on June 30, 2012 (increase of \$651,824). Of the amount, \$349,341 is restricted for specific purposes by state requirements, \$17,193 is nonspendable and assigned, – leaving an amount of \$2,823,546 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, 2013, was \$14,336 compared to \$0 on June 30, 2012.

The Food Service revenue for 2012-2013 totaled \$357,147 compared to \$351,121 the previous year – a increase of \$6,026.

The Food Service expenditures for 2012-2013 totaled \$342,811 compared to \$355,695 the previous year – a decrease in expenditures of \$12,884.

**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 \$43,079.

Community Service Fund revenues for 2012-2013 totaled \$534,216 compared to \$540,316 in FY12. This was a decrease of revenue of \$6,100 from the previous year. This decrease is primarily due to the elimination of federal ARRA revenue.

Community Service Fund expenditures for 2012-2013 totaled \$491,137 compared to \$506,423 in FY12. This was a decrease of expenditures of \$15,286 from the previous year. This decrease was due to decreased staffing in Learning Readiness based on enrollment.

**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 \$3,147 in 2012-2013. As debt is retired, these fund balances should become smaller on a year-to-year basis because less levy is necessary to service remaining debt.

The restricted fund balances totaled \$155,014 as of June 30, 2013, and with the 2013-2014 levy and state aid are sufficient to make pending principal and interest payments on the various bond issues outstanding.

**Short-Term Liabilities.** The District issued aid anticipation certificates of \$611,199 (compared to \$1,438,299 in FY12) to cover cash flow needs. The proceeds are reinvested until needed. The proceeds net of issuance costs were \$617,363 (compared to \$1,454,359 in FY12).

**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 \$717,221 at June 30, 2013.

**Fiduciary Funds.** Private-purpose trust (scholarship trust) fund and an agency fund (family service collaborative) are ISD #2198's fiduciary funds. The net position of the scholarship trust are \$63,560 (compared to \$54,028 in FY12). The total assets of the agency fund are \$170,988 in FY13 (compared to \$142,179 in FY12).

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The District provided a Revised General Fund 2012-2013 Budget in February of 2013. The Revised FY13 Budget stated revenue and other financing sources were \$113,441 more than the Original FY13 Budget reflecting an increase in state special education revenue, the sale of a district vehicle, and the addition of literacy incentive aid.

The Actual FY13 revenues were \$69,702 more than the Revised Budget for revenue. This was due to state special education revenue being greater than anticipated.

The Revised FY13 Budget expenditures were \$5,065 less than the Original FY13 Budget. This decrease was primarily due to small adjustments throughout the budget. The Actual expenditures were \$405,638 less than projected. This budget savings was primarily due to under spending in areas such as Early Risers reimbursements to other districts, fuel for buildings, building repairs, legal fees, business contracts, and capital outlay projects.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2013, the District had invested \$9,966,058 in a broad range of capital assets including school buildings, athletic facilities, technology equipment, and other types of equipment.

|                          | Total<br>(Net of Depreciation) |              |
|--------------------------|--------------------------------|--------------|
|                          | 2013                           | 2012         |
| Land                     | \$ 21,302                      | \$ 21,302    |
| Construction in progress | 326,518                        |              |
| Land improvements        | 161,391                        | 173,969      |
| Buildings                | 4,299,578                      | 4,492,859    |
| Machinery and equipment  | 199,192                        | 233,773      |
| Total                    | \$ 5,007,981                   | \$ 4,921,903 |

**Long Term Liabilities.** As of June 30, 2013, the District had \$4,355,000 in bonds and capital improvement loans outstanding. The District also had \$49,338 in severance benefits payable at the end of the year. A summary of outstanding long-term liabilities as of June 30, 2013, is as follows:

|                                      | Total        |              |
|--------------------------------------|--------------|--------------|
|                                      | 2013         | 2012         |
| School Building Refunding Bonds 2009 | \$ 490,000   | \$ 715,000   |
| OPEB Bonds 2008A                     | 1,055,000    | 1,090,000    |
| Capital Facilities of 2006           | 285,000      | 370,000      |
| GO Alternative Facilities Bond 2010A | 1,560,000    | 1,670,000    |
| GO Alternative Facilities Bond 2012A | 965,000      |              |
| Bond Discount                        | (8,202)      |              |
| Severance Payable                    | 49,338       | 89,862       |
| Total                                | \$ 4,396,136 | \$ 3,934,862 |

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

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

The 2013 legislative session brought about significant changes to school funding. The per-pupil funding will increase approximately 1.5% in FY14 and another 1.5% in FY15. Beginning with the 2014-15 school year the state will fully fund all-day, every day kindergarten. This option has been offered at Fillmore Central for several years and will now be funded.

The Affordable Care Act (healthcare reform) potentially will have a significant financial impact on the district beginning in FY15. That impact will become clearer as further information is available.

The District committed to a 1:1 laptop initiative, beginning with the 2013-14 school year, for grades 9-12 with plans to broaden the initiative to grades 7-8 in the 2014-15 school year.

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, 2013**

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**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**STATEMENT OF NET POSITION**  
June 30, 2013  
With Comparative Data as of June 30, 2012

|   | Governmental Activities |                     |
|---|-------------------------|---------------------|
|   | 2013                    | 2012                |
| <b>Assets</b>   |                         |                     |
| Cash and cash equivalents   | \$ 4,496,036            | \$ 3,729,601        |
| Taxes receivable  | 768,009                 | 829,845             |
| Other receivables   | 61,898                  | 61,853              |
| Due from other governmental units                                   | 953,393                 | 1,902,214           |
| Inventory   | 4,711                   | 5,298               |
| Restricted cash and cash equivalents                                | 724,417                 |                     |
| Net OPEB asset  | 202,517                 | 149,235             |
| Prepaid expenses  | 11,082                  | 10,699              |
| Capital Assets:   |                         |                     |
| Nondepreciable  | 347,820                 | 21,302              |
| Depreciable, net of accumulated depreciation                        | 4,660,161               | 4,900,601           |
| <b>TOTAL ASSETS</b>   | <b>12,230,044</b>       | <b>11,610,648</b>   |
| <b>Liabilities</b>  |                         |                     |
| Accounts payable  | 113,777                 | 40,903              |
| Due to other governmental units                                     | 45,975                  | 33,913              |
| Unearned revenue  | 74,558                  | 71,552              |
| Accrued liabilities   | 467,851                 | 410,851             |
| Accrued interest payable  | 69,869                  | 83,475              |
| General obligation tax/aid anticipation certificate of indebtedness | 611,199                 | 1,438,299           |
| Taxes levied for subsequent year                                    | 1,084,713               | 1,135,642           |
| Long-Term Liabilities:  |                         |                     |
| Due within one year   | 535,000                 | 455,000             |
| Due in more than one year   | 3,861,136               | 3,479,862           |
| <b>TOTAL LIABILITIES</b>  | <b>6,864,078</b>        | <b>7,149,497</b>    |
| <b>Net Position</b>   |                         |                     |
| Net investment in capital assets                                    | 2,672,981               | 2,166,903           |
| Restricted:   |                         |                     |
| Operating capital purposes  | 345,395                 | 311,681             |
| State-mandated restrictions   | 56,907                  | 22,417              |
| Food service  | 14,336                  |                     |
| Debt service  | 95,326                  | 92,823              |
| Unrestricted  | 2,181,021               | 1,867,327           |
| <b>TOTAL NET POSITION</b>   | <b>\$ 5,365,966</b>     | <b>\$ 4,461,151</b> |

**See Notes to Financial Statements**

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

For the Year Ended June 30, 2013  
With Partial Comparative Data for the Year Ended June 30, 2012

2013

| <u>Functions/Programs</u>            | Program Revenues |                         |                                       |                                     |
|--------------------------------------|------------------|-------------------------|---------------------------------------|-------------------------------------|
|                                      | Expenses         | Charges for<br>Services | Operating Grants<br>and Contributions | Capital Grants and<br>Contributions |
| District and school administration   | \$ 344,674       | \$                      | \$                                    | \$                                  |
| District support services            | 154,847          |                         |                                       |                                     |
| Regular instruction                  | 2,790,823        | 167,391                 | 227,742                               |                                     |
| Vocational instruction               | 64,006           |                         | 2,067                                 |                                     |
| Special education                    | 889,110          | 49,094                  | 513,945                               |                                     |
| Community education and services     | 491,136          | 429,941                 | 29,171                                |                                     |
| Instruction support services         | 84,049           |                         | 43,882                                |                                     |
| Pupil support services               | 848,644          | 199,415                 | 157,732                               |                                     |
| Site, buildings, and equipment       | 814,635          |                         |                                       | 17,801                              |
| Fiscal and other fixed cost programs | 43,783           | 14,852                  |                                       |                                     |
| Interest and other fiscal charges    | 158,851          |                         |                                       |                                     |
| Total governmental activities        | \$ 6,684,558     | \$ 860,693              | \$ 974,539                            | \$ 17,801                           |

General Revenues:

Property taxes levied for:

General purposes

Community Service

Debt Service

State aid not restricted to specific purposes

Investment income

Total general revenues

Change in nets position

Net Position - Beginning

Net Position - Ending

**See Notes to Financial Statements**

| 2013  | 2012  |
|---|---|
| Net (Expense)<br>Revenue and<br>Changes in Net<br>Position<br>Total<br>Governmental<br>Activities | Net (Expense)<br>Revenue and<br>Changes in Net<br>Position<br>Total<br>Governmental<br>Activities |
| \$ (344,674)  | \$ (338,652)  |
| (154,847)   | (150,831)   |
| (2,395,690)   | (1,979,249)   |
| (61,939)  | (64,966)  |
| (326,071)   | (382,557)   |
| (32,024)  | (45,612)  |
| (40,167)  | (31,691)  |
| (491,497)   | (513,976)   |
| (796,834)   | (762,672)   |
| (28,931)  | (51,153)  |
| (158,851)   | (165,663)   |
| <hr/>   | <hr/>   |
| (4,831,525)   | (4,487,022)   |
| <br>  | <br>  |
| 946,264   | 983,735   |
| 69,397  | 64,764  |
| 467,490   | 434,294   |
| 4,238,341   | 4,052,520   |
| 14,848  | 29,172  |
| <hr/>   | <hr/>   |
| 5,736,340   | 5,564,485   |
| <br>  | <br>  |
| 904,815   | 1,077,463   |
| <br>  | <br>  |
| 4,461,151   | 3,383,688   |
| <hr/>   | <hr/>   |
| \$ 5,365,966  | \$ 4,461,151  |
| <hr/>   | <hr/>   |

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS**

June 30, 2013

With Partial Comparative Data as of June 30, 2012

|   | General             | Food Service     | Community<br>Service |
|---|---------------------|------------------|----------------------|
| <b>Assets</b>   |                     |                  |                      |
| Cash and cash equivalents   | \$ 3,420,723        | \$               | \$ 100,320           |
| Current property taxes receivable                                       | 348,862             |                  | 38,562               |
| Delinquent property taxes receivable                                    | 26,669              |                  | 2,139                |
| Accounts receivable   | 26,065              | 32,558           | 2,848                |
| Due from other Minnesota school districts                               | 25,377              |                  |                      |
| Due from Minnesota Department of Education                              | 690,865             | 99               | 4,413                |
| Due from Federal through Minnesota Department<br>of Education           | 218,408             |                  | 8,075                |
| Due from other funds  | 23,032              |                  |                      |
| Inventory   |                     | 4,711            |                      |
| Restricted cash and cash equivalents                                    |                     |                  |                      |
| <b>TOTAL ASSETS</b>   | <b>\$ 4,780,001</b> | <b>\$ 37,368</b> | <b>\$ 156,357</b>    |
| <b>Liabilities and Fund Balance</b>                                     |                     |                  |                      |
| <b>Liabilities</b>  |                     |                  |                      |
| Accounts payable  | \$ 12,372           | \$               | \$ 8,706             |
| Salaries and accrued liabilities payable                                | 431,334             |                  | 36,517               |
| Due to other Minnesota school districts                                 | 45,975              |                  |                      |
| Due to other funds  |                     | 23,032           |                      |
| Interest payable  | 10,181              |                  |                      |
| General obligation tax/aid anticipation-<br>certificate of indebtedness | 611,199             |                  |                      |
| Deferred revenue  | 90,119              |                  | 13,247               |
| Taxes levied for subsequent year  | 388,741             |                  | 38,995               |
| <b>TOTAL LIABILITIES</b>  | <b>1,589,921</b>    | <b>23,032</b>    | <b>97,465</b>        |
| <b>Fund Balances</b>  |                     |                  |                      |
| Nonspendable:   |                     |                  |                      |
| Inventory   |                     | 4,711            |                      |
| Restricted for:   |                     |                  |                      |
| Deferred maintenance  | 31,028              |                  |                      |
| Gifted and talented   | 8,157               |                  |                      |
| Community education   |                     |                  | 30,955               |
| Early childhood and family education programs                           |                     |                  | 13,928               |
| School readiness  |                     |                  | (13,106)             |
| Operating capital   | 345,395             |                  |                      |
| Health and safety   | (52,961)            |                  |                      |
| Safe schools crime  | 17,722              |                  |                      |
| Southern Minnesota initiative foundation (SMIF) grant                   |                     |                  | 1,600                |
| Food Service  |                     | 9,625            |                      |
| Community service   |                     |                  | 25,515               |
| Building construction   |                     |                  |                      |
| Debt service  |                     |                  |                      |
| OPEB debt service   |                     |                  |                      |
| Assigned for:   |                     |                  |                      |
| Early risers  | 17,193              |                  |                      |
| Unassigned  | 2,823,546           |                  |                      |
| <b>TOTAL FUND BALANCES</b>  | <b>3,190,080</b>    | <b>14,336</b>    | <b>58,892</b>        |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>                              | <b>\$ 4,780,001</b> | <b>\$ 37,368</b> | <b>\$ 156,357</b>    |

**See Notes to Financial Statements**

| Building<br>Construction | Debt Service      | OPEB<br>Debt Service | Total Governmental Funds |                     |
|--------------------------|-------------------|----------------------|--------------------------|---------------------|
|                          |                   |                      | 2013                     | 2012                |
| \$                       | \$ 400,583        | \$ 71,216            | \$ 3,992,842             | \$ 3,092,587        |
|                          | 277,037           | 56,999               | 721,460                  | 792,043             |
|                          | 14,548            | 3,193                | 46,549                   | 37,802              |
|                          |                   |                      | 61,471                   | 70,082              |
|                          |                   |                      | 25,377                   | 42,964              |
|                          | 5,048             | 1,108                | 701,533                  | 1,663,407           |
|                          |                   |                      | 226,483                  | 195,843             |
|                          |                   |                      | 23,032                   |                     |
|                          |                   |                      | 4,711                    | 5,298               |
| 724,417                  |                   |                      | 724,417                  |                     |
| <u>\$ 724,417</u>        | <u>\$ 697,216</u> | <u>\$ 132,516</u>    | <u>\$ 6,527,875</u>      | <u>\$ 5,900,026</u> |

|               |                |                |                  |                  |
|---------------|----------------|----------------|------------------|------------------|
| \$ 92,700     | \$             | \$             | \$ 113,778       | \$ 41,600        |
|               |                |                | 467,851          | 410,851          |
|               |                |                | 45,975           | 33,913           |
|               |                |                | 23,032           |                  |
|               |                |                | 10,181           | 24,431           |
|               |                |                | 611,199          | 1,438,299        |
|               | 14,548         | 3,193          | 121,107          | 109,354          |
|               | 544,862        | 112,115        | 1,084,713        | 1,135,642        |
| <u>92,700</u> | <u>559,410</u> | <u>115,308</u> | <u>2,477,836</u> | <u>3,194,090</u> |

|                   |                   |                   |                     |                     |
|-------------------|-------------------|-------------------|---------------------|---------------------|
|                   |                   |                   | 4,711               | 5,298               |
|                   |                   |                   | 31,028              | 16,252              |
|                   |                   |                   | 8,157               | 6,165               |
|                   |                   |                   | 30,955              | (22,855)            |
|                   |                   |                   | 13,928              | 10,023              |
|                   |                   |                   | (13,106)            | 2,687               |
|                   |                   |                   | 345,395             | 311,681             |
|                   |                   |                   | (52,961)            | (138,986)           |
|                   |                   |                   | 17,722              |                     |
|                   |                   |                   | 1,600               | 1,600               |
|                   |                   |                   | 9,625               | (5,298)             |
|                   |                   |                   | 25,515              | 24,358              |
| 631,717           |                   |                   | 631,717             |                     |
|                   | 137,806           |                   | 137,806             | 139,138             |
|                   |                   | 17,208            | 17,208              | 12,729              |
|                   |                   |                   | 17,193              | 22,764              |
|                   |                   |                   | 2,823,546           | 2,320,380           |
| <u>631,717</u>    | <u>137,806</u>    | <u>17,208</u>     | <u>4,050,039</u>    | <u>2,705,936</u>    |
| <u>\$ 724,417</u> | <u>\$ 697,216</u> | <u>\$ 132,516</u> | <u>\$ 6,527,875</u> | <u>\$ 5,900,026</u> |

**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2013  
With Partial Comparative Data for the Year Ended June 30, 2012

|  | General             | Food Service     | Community<br>Service |
|--|---------------------|------------------|----------------------|
| <b>Revenues</b>  |                     |                  |                      |
| Local sources:   |                     |                  |                      |
| Property tax levies  | \$ 834,884          | \$               | \$ 69,397            |
| Other local and county sources                                       | 237,486             | 6,085            | 429,941              |
| Investment income  | 11,167              |                  | 169                  |
| State sources  | 4,591,802           | 15,901           | 34,709               |
| Federal sources  | 378,744             | 141,732          |                      |
| Sales and other conversions of assets                                | 5,780               | 193,429          |                      |
| <b>TOTAL REVENUES</b>  | <b>6,059,863</b>    | <b>357,147</b>   | <b>534,216</b>       |
| <b>Expenditures</b>  |                     |                  |                      |
| District and school administration                                   | 331,153             |                  |                      |
| District support services  | 150,697             |                  |                      |
| Regular instruction  | 2,797,096           |                  |                      |
| Vocational instruction   | 63,275              |                  |                      |
| Special education  | 878,830             |                  |                      |
| Community education and services                                     |                     |                  | 491,137              |
| Instructional support services                                       | 82,583              |                  |                      |
| Pupil support services   | 485,848             | 342,811          |                      |
| Site, buildings, and equipment                                       | 585,274             |                  |                      |
| Fiscal and other fixed cost programs                                 | 43,783              |                  |                      |
| <b>TOTAL EXPENDITURES</b>  | <b>5,418,539</b>    | <b>342,811</b>   | <b>491,137</b>       |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> | <b>641,324</b>      | <b>14,336</b>    | <b>43,079</b>        |
| <b>Other Financing Sources (Uses)</b>                                |                     |                  |                      |
| Bond proceeds  |                     |                  |                      |
| Sale of capital assets   | 10,500              |                  |                      |
| Operating transfers in   |                     |                  |                      |
| Operating transfers out  |                     |                  |                      |
| <b>TOTAL OTHER FINANCING<br/>SOURCES (USES)</b>                      | <b>10,500</b>       |                  |                      |
| <b>NET CHANGE IN FUND BALANCES</b>                                   | <b>651,824</b>      | <b>14,336</b>    | <b>43,079</b>        |
| <b>FUND BALANCE - BEGINNING</b>                                      | <b>2,538,256</b>    |                  | <b>15,813</b>        |
| <b>FUND BALANCE - ENDING</b>   | <b>\$ 3,190,080</b> | <b>\$ 14,336</b> | <b>\$ 58,892</b>     |

**See Notes to Financial Statements**

| Building<br>Construction | Debt Service | OPEB<br>Debt Service | Total Governmental Funds |              |
|--------------------------|--------------|----------------------|--------------------------|--------------|
|                          |              |                      | 2013                     | 2012         |
| \$                       | \$ 467,490   | \$ 102,633           | \$ 1,474,404             | \$ 1,477,680 |
|                          |              |                      | 673,512                  | 654,479      |
| 1,586                    | 770          | 48                   | 13,740                   | 27,546       |
|                          | 37,116       | 8,149                | 4,687,677                | 4,607,312    |
|                          |              |                      | 520,476                  | 591,604      |
|                          |              |                      | 199,209                  | 214,497      |
| 1,586                    | 505,376      | 110,830              | 7,569,018                | 7,573,118    |
|                          |              |                      | 331,153                  | 326,866      |
|                          |              |                      | 150,697                  | 147,668      |
|                          |              |                      | 2,797,096                | 2,511,498    |
|                          |              |                      | 63,275                   | 64,025       |
|                          |              |                      | 878,830                  | 914,905      |
|                          |              |                      | 491,137                  | 506,423      |
|                          |              |                      | 82,583                   | 73,122       |
|                          |              |                      | 828,659                  | 846,085      |
| 326,519                  |              |                      | 911,793                  | 714,620      |
|                          | 506,856      | 106,351              | 656,990                  | 680,926      |
| 326,519                  | 506,856      | 106,351              | 7,192,213                | 6,786,138    |
| (324,933)                | (1,480)      | 4,479                | 376,805                  | 786,980      |
| 956,798                  |              |                      | 956,798                  |              |
|                          |              |                      | 10,500                   |              |
|                          | 148          |                      | 148                      | 4,574        |
| (148)                    |              |                      | (148)                    | (4,574)      |
| 956,650                  | 148          |                      | 967,298                  |              |
| 631,717                  | (1,332)      | 4,479                | 1,344,103                | 786,980      |
|                          | 139,138      | 12,729               | 2,705,936                | 1,918,956    |
| \$ 631,717               | \$ 137,806   | \$ 17,208            | \$ 4,050,039             | \$ 2,705,936 |

**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, 2013**

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

|  |                |              |
|--|----------------|--------------|
| Total governmental fund balances (pages 16 and 17)   |                | \$ 4,050,039 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.  |                |              |
| Governmental funds - capital assets  | \$ 9,966,058   |              |
| Less: Accumulated depreciation   | 4,958,077      |              |
|  |                | 5,007,981    |
| Other long-term assets not available to pay for current-period expenditure and, therefore, are deferred in the funds   |                |              |
| Deferred property taxes  |                | 46,549       |
| 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 |                |              |
|  |                | 717,221      |
| 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  | \$ (4,346,798) |              |
| Severance payable  | (49,338)       |              |
| Accrued interest   | (59,688)       |              |
|  |                | (4,455,824)  |
| Net position of governmental activities (page 13)  |                | \$ 5,365,966 |



**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, 2013**

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)  |            | \$ 1,344,103 |
| <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   | \$ 382,829 |              |
| Depreciation expense  | (288,652)  |              |
| Loss on disposal of capital assets  | (8,099)    |              |
|   |            | 86,078       |
| <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   |            | 8,747        |
| <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   |            | 40,524       |
| <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>  |            |              |
|   |            | (72,195)     |
| <p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. 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  | \$ 455,000 |              |
| Issuance of bond  | (965,000)  |              |
| Bond discount   | 8,202      |              |
| Change in accrued interest  | (644)      |              |
|   |            | (502,442)    |
| Change in net position of governmental activities (pages 14 and 15)   |            | \$ 904,815   |

**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, 2013  
With Partial Comparative Data for the Year Ended June 30, 2012

|  | Budgeted Amounts    |                     | 2013<br>Actual      | Over (Under)<br>Final Budget | 2012<br>Actual      |
|--|---------------------|---------------------|---------------------|------------------------------|---------------------|
|  | Original            | Final               |                     |                              |                     |
| <b>Revenues</b>  |                     |                     |                     |                              |                     |
| Local sources:   |                     |                     |                     |                              |                     |
| Property tax levies  | \$ 1,003,630        | \$ 1,003,630        | \$ 834,884          | \$ (168,746)                 | \$ 883,366          |
| Other local and county sources                                       | 162,925             | 222,425             | 237,486             | 15,061                       | 234,391             |
| Investment income  | 15,000              | 12,000              | 11,167              | (833)                        | 25,090              |
| State sources  | 4,275,789           | 4,349,731           | 4,591,802           | 242,071                      | 4,443,330           |
| Federal sources  | 414,276             | 396,899             | 378,744             | (18,155)                     | 447,380             |
| Sales and other conversions of assets                                | 5,100               | 5,476               | 5,780               | 304                          | 10,514              |
| <b>TOTAL REVENUES</b>  | <b>5,876,720</b>    | <b>5,990,161</b>    | <b>6,059,863</b>    | <b>69,702</b>                | <b>6,044,071</b>    |
| <b>Expenditures</b>  |                     |                     |                     |                              |                     |
| District and school administration                                   | 306,325             | 304,546             | 331,153             | 26,607                       | 326,866             |
| District support services  | 173,702             | 169,022             | 150,697             | (18,325)                     | 147,668             |
| Regular instruction  | 2,789,541           | 2,963,838           | 2,797,096           | (166,742)                    | 2,511,498           |
| Vocational instruction   | 72,008              | 70,475              | 63,275              | (7,200)                      | 64,025              |
| Special education  | 967,308             | 903,949             | 878,830             | (25,119)                     | 914,905             |
| Instructional support services                                       | 94,261              | 101,761             | 82,583              | (19,178)                     | 73,122              |
| Pupil support services   | 569,311             | 550,322             | 485,848             | (64,474)                     | 490,390             |
| Site, buildings, and equipment                                       | 786,786             | 710,580             | 585,274             | (125,306)                    | 690,518             |
| Fiscal and other fixed cost programs                                 | 70,000              | 49,684              | 43,783              | (5,901)                      | 60,956              |
| <b>TOTAL EXPENDITURES</b>  | <b>5,829,242</b>    | <b>5,824,177</b>    | <b>5,418,539</b>    | <b>(405,638)</b>             | <b>5,279,948</b>    |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> | <b>47,478</b>       | <b>165,984</b>      | <b>641,324</b>      | <b>475,340</b>               | <b>764,123</b>      |
| <b>Other Financing Sources (Uses)</b>                                |                     |                     |                     |                              |                     |
| Sale of capital assets   |                     | 10,500              | 10,500              |                              |                     |
| Operating transfers out  |                     |                     |                     |                              | (4,574)             |
| <b>NET CHANGE IN FUND BALANCE</b>                                    | <b>47,478</b>       | <b>165,984</b>      | <b>651,824</b>      | <b>475,340</b>               | <b>759,549</b>      |
| <b>FUND BALANCE - BEGINNING</b>                                      | <b>2,538,256</b>    | <b>2,538,256</b>    | <b>2,538,256</b>    |                              | <b>1,778,707</b>    |
| <b>FUND BALANCE - ENDING</b>   | <b>\$ 2,585,734</b> | <b>\$ 2,704,240</b> | <b>\$ 3,190,080</b> | <b>\$ 485,840</b>            | <b>\$ 2,538,256</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, 2013  
With Partial Comparative Data for the Year Ended June 30, 2012

|  | Budgeted Amounts  |                   | 2013<br>Actual   | Over (Under)<br>Final Budget | 2012<br>Actual |
|--|-------------------|-------------------|------------------|------------------------------|----------------|
|  | Original          | Final             |                  |                              |                |
| <b>Revenues</b>  |                   |                   |                  |                              |                |
| Local sources:   |                   |                   |                  |                              |                |
| Other local and county sources                                       | \$                | \$                | \$ 6,085         | \$ 6,085                     | \$ 2,680       |
| State sources  | 16,846            | 16,846            | 15,901           | (945)                        | 14,939         |
| Federal sources  | 117,262           | 117,262           | 141,732          | 24,470                       | 129,519        |
| Sales and other conversions of assets                                | 203,942           | 203,942           | 193,429          | (10,513)                     | 203,983        |
| <b>TOTAL REVENUES</b>  | <b>338,050</b>    | <b>338,050</b>    | <b>357,147</b>   | <b>19,097</b>                | <b>351,121</b> |
| <b>Expenditures</b>  |                   |                   |                  |                              |                |
| Pupil support services   | 339,231           | 339,231           | 342,811          | 3,580                        | 355,695        |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> | <b>(1,181)</b>    | <b>(1,181)</b>    | <b>14,336</b>    | <b>15,517</b>                | <b>(4,574)</b> |
| <b>Other Financing Sources</b>                                       |                   |                   |                  |                              |                |
| Operating transfers in   |                   |                   |                  |                              | 4,574          |
| <b>NET CHANGE IN FUND BALANCE</b>                                    | <b>(1,181)</b>    | <b>(1,181)</b>    | <b>14,336</b>    | <b>15,517</b>                |                |
| <b>FUND BALANCES - BEGINNING</b>                                     |                   |                   |                  |                              |                |
| <b>FUND BALANCES - ENDING</b>  | <b>\$ (1,181)</b> | <b>\$ (1,181)</b> | <b>\$ 14,336</b> | <b>\$ 15,517</b>             | <b>\$</b>      |

**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, 2013  
With Partial Comparative Data for the Year Ended June 30, 2012

|                                    | Budgeted Amounts |           | 2013<br>Actual | Over (Under)<br>Final Budget | 2012<br>Actual |
|------------------------------------|------------------|-----------|----------------|------------------------------|----------------|
|                                    | Original         | Final     |                |                              |                |
| <b>Revenues</b>                    |                  |           |                |                              |                |
| Local sources:                     |                  |           |                |                              |                |
| Property tax levies                | \$ 74,497        | \$ 74,497 | \$ 69,397      | \$ (5,100)                   | \$ 64,764      |
| Other local and county sources     | 329,505          | 396,150   | 429,941        | 33,791                       | 417,408        |
| Investment income                  |                  |           | 169            | 169                          | 141            |
| State sources                      | 33,033           | 33,533    | 34,709         | 1,176                        | 43,298         |
| Federal sources                    |                  |           |                |                              | 14,705         |
| <b>TOTAL REVENUES</b>              | 437,035          | 504,180   | 534,216        | 30,036                       | 540,316        |
| <b>Expenditures</b>                |                  |           |                |                              |                |
| Community education and services   | 450,369          | 465,500   | 491,137        | 25,637                       | 506,423        |
| <b>NET CHANGE IN FUND BALANCES</b> | (13,334)         | 38,680    | 43,079         | 4,399                        | 33,893         |
| <b>FUND BALANCES - BEGINNING</b>   | 15,813           | 15,813    | 15,813         |                              | (18,080)       |
| <b>FUND BALANCES - ENDING</b>      | \$ 2,479         | \$ 54,493 | \$ 58,892      | \$ 4,399                     | \$ 15,813      |

**See Notes to Financial Statements**

**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**June 30, 2013 and 2012**

|   | <b>Governmental Activities -<br/>Internal Service</b> |                   |
|---|---|-------------------|
|   | <b>Postemployment Benefits</b>                        |                   |
|   | <b>2013</b>   | <b>2012</b>       |
| <b>Assets</b>                             |   |                   |
| Cash and investments                      | \$ 503,194  | \$ 637,014        |
| Accounts receivable                       | 428   |                   |
| Net OPEB asset                            | 202,517   | 149,235           |
| Prepaid expenses                          | 11,082  | 3,167             |
| <b>TOTAL ASSETS</b>                       | <b>\$ 717,221</b>                                     | <b>\$ 789,416</b> |
| <br><b>Net Position</b>                   |   |                   |
| Unrestricted                              | 717,221   | 789,416           |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <b>\$ 717,221</b>                                     | <b>\$ 789,416</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, 2013 and 2012

|                                 | <b>Governmental Activities -<br/>Internal Service</b> |             |
|---------------------------------|---|-------------|
|                                 | <b>Postemployment Benefits</b>                        |             |
|                                 | <b>2013</b>   | <b>2012</b> |
| <b>EXPENDITURES</b>             |   |             |
| Post-retirement benefit expense | \$ 73,303   | \$ 72,201   |
| <b>Other Financing Sources</b>  |   |             |
| Investment income               | 1,108   | 1,626       |
| <b>Change in Net Position</b>   | (72,195)  | (70,575)    |
| <b>Net Position - Beginning</b> | 789,416   | 859,991     |
| <b>Net Position - Ending</b>    | \$ 717,221  | \$ 789,416  |

**See Notes to Financial Statements**

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND**  
For the Years Ended June 30, 2013 and 2012

|  | <b>Governmental Activities -<br/>Internal Service</b> |              |
|--|---|--------------|
|  | <b>Postemployment Benefits<br/>Fund</b>               |              |
|  | <b>2013</b>   | <b>2012</b>  |
| <b>Cash Flows From Operating Activities</b>  |   |              |
| Cash payments for benefits   | \$ (134,928)  | \$ (201,424) |
| <b>Cash Flows From Investing Activities</b>  |   |              |
| Investment income  | 1,108   | 1,627        |
| <b>Decrease in Cash and Cash Equivalents</b>   | (133,820)   | (199,797)    |
| <b>Cash and Cash Equivalents - Beginning</b>   | 637,014   | 836,811      |
| <b>Cash and Cash Equivalents - Ending</b>  | \$ 503,194  | \$ 637,014   |
| <b>Reconciliation of Operating Loss to Net Cash<br/>Used In Operating Activities</b>     |   |              |
| Operating loss   | \$ (73,303)   | \$ (72,201)  |
| Adjustments to reconcile Operating loss to Net<br>Cash Provided By Operating Activities: |   |              |
| Accounts receivable  | (428)   |              |
| Postemployment benefit asset   | (53,282)  | (61,032)     |
| Prepaid expenses   | (7,915)   | (3,167)      |
| Due to District  |   | (65,024)     |
| Net Cash Used In Operating Activities  | \$ (134,928)  | \$ (201,424) |

**See Notes to Financial Statements**

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
June 30, 2013**

|   | Private<br>Purpose<br>Trust | Agency<br>Fund                  |
|---|-----------------------------|---------------------------------|
|   | Scholarship<br>Trust Fund   | Family Service<br>Collaborative |
| <b>Assets</b>                             |                             |                                 |
| Cash and cash equivalents                 | \$ 63,521                   | \$ 170,888                      |
| Interest receivable                       | 39                          |                                 |
| <b>TOTAL ASSETS</b>                       | <b>\$ 63,560</b>            | <b>\$ 170,988</b>               |
| <b>Liabilities</b>                        |                             |                                 |
| Due to others                             | \$                          | \$ 170,988                      |
| <b>Net Position, Unrestricted</b>         | <b>63,560</b>               |                                 |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <b>\$ 63,560</b>            | <b>\$ 170,988</b>               |

**See Notes to Financial Statements**



**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
For the Year Ended June 30, 2013**

|   | Private<br>Purpose<br>Trust |
|---|-----------------------------|
|   | Scholarship<br>Trust Fund   |
| <b>Increases</b>                            |                             |
| Other local and county sources              | \$ 24,325                   |
| <b>Decreases</b>                            |                             |
| Fiscal and other fixed cost programs        | 14,793                      |
| <b>EXCESS OF REVENUES OVER EXPENDITURES</b> | 9,532                       |
| <b>NET POSITION - BEGINNING</b>             | 54,028                      |
| <b>NET POSITION - ENDING</b>                | \$ 63,560                   |

**See Notes to Financial Statements**

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2013**

**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**

---

**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.

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.

**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)

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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.

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.

**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 fiduciary funds:

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.

The *agency fund* is established to account for cash and other assets held by the District as the agent for others. This fund accounts for the Fillmore County Family Service Collaborative.

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**

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**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 Revenue

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The District has reported as deferred revenue an amount equal to delinquent taxes receivable, the Community Service Fund levy portion of excess fund balance penalty, an amount equal to special education excess cost, and the amount equal to student prepaid fees for driver's education training for the upcoming year.

Inventories

Inventories are recorded using the consumption method of accounting and consist of food and commodities on hand at June 30, 2013. 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.

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.



**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 (Continued)

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (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 \$402,789 of the property tax levy collectible in 2013 as revenue to the District in fiscal year 2012-2013. The remaining portion of the taxes collectible in 2013 is recorded as deferred revenue.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2013, 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.

|                        | <u>Useful Life<br/>in Years</u> |
|------------------------|---------------------------------|
| 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 12 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, as well as issuance costs, 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. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

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

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, 2012 totals column have been reclassified to conform with the current year 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.

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

**NOTES TO FINANCIAL STATEMENTS**

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

Net Position

Net position represents the difference between assets and liabilities in the government-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 government-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**2. Stewardship and Accountability**

Transfers during the year ended June 30, 2013 were as follows:

| Funds                      | Transfers<br>In | Transfers<br>Out |
|----------------------------|-----------------|------------------|
| Building Construction Fund | \$              | \$ 148           |
| Debt Service Fund          | 148             |                  |
|                            |                 |                  |
| Totals                     | <u>\$ 148</u>   | <u>\$ 148</u>    |

The transfers were support from the General Fund approved by the Board.

Excess of expenditures over budgeted appropriations at the individual fund level during 2013 is as follows:

|                        |          |
|------------------------|----------|
| Food Service Fund      | \$ 3,580 |
| Community Service Fund | 25,637   |

Excess expenditures were the result of planned processes.

Amounts due to and due from other funds at June 30, 2013 are as follows:

|                   | Due to<br>Other Funds | Due from<br>Other Funds |
|-------------------|-----------------------|-------------------------|
| General Fund      | \$                    | \$ 23,032               |
| Food Service Fund | 23,032                |                         |
|                   |                       |                         |
| Totals            | <u>\$ 23,032</u>      | <u>\$ 23,032</u>        |

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

**NOTES TO FINANCIAL STATEMENTS**

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**3. Deposits and Investments**

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Summary of Cash and Investments

As of June 30, 2013, the District's cash and investments consisted of the following items, all of which are held in an internal investment pool:

|  |                     |
|--|---------------------|
| Deposits   | \$ 242,683          |
| Money Market Funds                                       | 11,373              |
| Minnesota School District Liquid Asset Fund (MSDLAF)     | 3,835,102           |
| Minnesota State Board of Investments (cash equivalents)  | <u>641,287</u>      |
| Total cash and investments                               | 4,730,445           |
| Less: Fiduciary fund cash and cash equivalents           | <u>(234,409)</u>    |
| Total Cash and Investments Per Statement of Net Position | <u>\$ 4,496,036</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.
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**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

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

Custodial Credit Risk

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

Minnesota Statutes require that all District deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes certain state of local government obligations and legal investments. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

Credit Risk

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

Concentration of Credit Risk

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

Interest Rate Risk

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

**4. Due From Other Governmental Units**

Amounts due from other governmental units at June 30, 2013 are as follows:

| Fund              | Minnesota<br>Department of<br>Education | Federal<br>Government<br>Through MED | Other School<br>Districts | Total      |
|-------------------|---|--------------------------------------|---------------------------|------------|
| General           | \$ 690,865                              | \$ 218,408                           | \$ 25,377                 | \$ 934,650 |
| Community Service | 99                                      |                                      |                           | 99         |
| Food Service      | 4,413                                   | 8,075                                |                           | 12,488     |
| Debt Service      | 5,048                                   |                                      |                           | 5,048      |
| OPEB Debt Service | 1,108                                   |                                      |                           | 1,108      |
|                   | \$ 701,533                              | \$ 226,483                           | \$ 25,377                 | \$ 953,393 |

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

**NOTES TO FINANCIAL STATEMENTS**

**5. Capital Assets**

Capital asset activity for the year ended June 30, 2013 was as follows:

| <b>Governmental Activities</b>               | Beginning<br>Balance | Additions | Deletions | Ending<br>Balance |
|--|----------------------|-----------|-----------|-------------------|
| Capital assets, not being depreciated:       |                      |           |           |                   |
| Land   | \$ 21,302            | \$        | \$        | \$ 21,302         |
| Construction in progress                     |                      | 326,518   |           | 326,518           |
| Total capital assets, not being depreciated  | 21,302               | 326,518   |           | 347,820           |
| Capital assets, being depreciated:           |                      |           |           |                   |
| Buildings                                    | 8,426,563            | 23,914    |           | 8,450,477         |
| Land improvements                            | 313,643              | 3,100     |           | 316,743           |
| Equipment                                    | 843,317              | 29,297    | 21,596    | 851,018           |
| Total capital assets, being depreciated      | 9,583,523            | 56,311    | 21,596    | 9,618,238         |
| Less accumulated depreciation for:           |                      |           |           |                   |
| Buildings                                    | 3,933,704            | 217,195   |           | 4,150,899         |
| Land improvements                            | 139,674              | 15,678    |           | 155,352           |
| Equipment                                    | 609,544              | 55,779    | 13,497    | 651,826           |
| Total accumulated depreciation               | 4,682,922            | 288,652   | 13,497    | 4,958,077         |
| Total capital assets, being depreciated, net | 4,900,601            | (232,341) | 8,099     | 4,660,161         |
| Governmental activities capital assets, net  | \$ 4,921,903         | \$ 94,177 | \$ 8,099  | \$ 5,007,981      |

Depreciation expense was charged to functions/programs as follows:

|  |            |
|--|------------|
| <b>Governmental Activities:</b>                      |            |
| District and school administration                   | \$ 523     |
| Regular instruction                                  | 19,704     |
| Community Education                                  | 598        |
| Pupil support services                               | 15,143     |
| Site, buildings and equipment                        | 252,684    |
| Total depreciation expense - governmental activities | \$ 288,652 |

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

**NOTES TO FINANCIAL STATEMENTS**

**6. General Obligation Aid Anticipation Certificates of Indebtedness**

For the purpose of providing funds to meet current expenses of the District, General Obligation Aid Anticipation Certificates of Indebtedness were issued in the aggregate principal amount of \$611,199. Proceeds net of issuance costs were \$617,363. The Certificates were issued in August 2012, bearing interest at the annual rate of 2.0%, and matured September 2013.

|                         | Beginning<br>Balance | Additions         | Reductions          | Ending<br>Balance | Amount<br>Due Within<br>One Year |
|-------------------------|----------------------|-------------------|---------------------|-------------------|----------------------------------|
| <b>Aid Anticipation</b> |                      |                   |                     |                   |                                  |
| General Obligation 2013 | \$                   | \$ 611,199        | \$                  | \$ 611,199        | \$ 1,438,299                     |
| General Obligation 2012 | 1,438,299            |                   | 1,438,299           |                   |                                  |
|                         | <u>\$ 1,438,299</u>  | <u>\$ 611,199</u> | <u>\$ 1,438,299</u> | <u>\$ 611,199</u> | <u>\$ 1,438,299</u>              |

**7. 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, 2013 balances is as follows:

|                                    | Range of<br>Interest Rates | Final<br>Maturity | Balance<br>June 30, 2013 |
|------------------------------------|----------------------------|-------------------|--------------------------|
| General Obligation Bonds:          |                            |                   |                          |
| Capital Facilities of 2006         | 4.00%                      | 2016              | \$ 285,000               |
| School Building Refunding of 2009  | 2.00 - 3.00%               | 2015              | 490,000                  |
| OPEB Bonds 2008A                   | 4.75 - 7.00%               | 2029              | 1,055,000                |
| Alternative Facilities Bonds 2010A | 2.00 - 4.00%               | 2025              | 1,560,000                |
| Alternative Facilities Bonds 2012A | 0.50 - 2.10%               | 2028              | 965,000                  |
| Bond discount                      |                            |                   | (8,202)                  |
| Severance payable                  |                            |                   | 49,338                   |
| Total                              |                            |                   | <u>\$ 4,396,136</u>      |

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

**NOTES TO FINANCIAL STATEMENTS**

**7. Long-Term Liabilities (Continued)**

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2013:

|                                      | Beginning<br>Balance | Additions         | Reductions        | Ending<br>Balance   | Amounts<br>Due Within<br>One Year |
|--------------------------------------|----------------------|-------------------|-------------------|---------------------|-----------------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>       |                      |                   |                   |                     |                                   |
| Bonds Payable:                       |                      |                   |                   |                     |                                   |
| General Obligation Bonds:            |                      |                   |                   |                     |                                   |
| Capital Facilities of 2006           | \$ 370,000           | \$                | \$ 85,000         | \$ 285,000          | \$ 90,000                         |
| OPEB Bonds of 2008A                  | 1,090,000            |                   | 35,000            | 1,055,000           | 40,000                            |
| School Building Refunding of 2009    | 715,000              |                   | 225,000           | 490,000             | 235,000                           |
| GO Alternative Facilities Bond 2010A | 1,670,000            |                   | 110,000           | 1,560,000           | 110,000                           |
| GO Alternative Facilities Bond 2012A |                      | 965,000           |                   | 965,000             | 60,000                            |
| Bond Discount                        |                      | (8,202)           |                   | (8,202)             |                                   |
| Other Liabilities:                   |                      |                   |                   |                     |                                   |
| Severance Payable                    | 89,862               |                   | 40,524            | 49,338              |                                   |
| Governmental Activities              |                      |                   |                   |                     |                                   |
| Long-term Liabilities                | <u>\$ 3,934,862</u>  | <u>\$ 956,798</u> | <u>\$ 495,524</u> | <u>\$ 4,396,136</u> | <u>\$ 535,000</u>                 |

The annual requirements to amortize all long-term debt outstanding as of June 30, 2013, over the life of the debt, are summarized below:

| Years                          | General Obligation Bonds |                     |                     |
|--------------------------------|--------------------------|---------------------|---------------------|
|                                | Principal                | Interest            | Total               |
| <u>Governmental Activities</u> |                          |                     |                     |
| 2014                           | \$ 535,000               | \$ 157,666          | \$ 692,666          |
| 2015                           | 565,000                  | 142,298             | 707,298             |
| 2016                           | 320,000                  | 125,513             | 445,513             |
| 2017                           | 225,000                  | 115,333             | 340,333             |
| 2018                           | 230,000                  | 108,440             | 338,440             |
| 2019-2023                      | 1,300,000                | 415,137             | 1,715,137           |
| 2024-2028                      | 1,075,000                | 155,243             | 1,230,243           |
| 2029                           | 105,000                  | 7,350               | 112,350             |
| Totals                         | <u>\$ 4,355,000</u>      | <u>\$ 1,226,978</u> | <u>\$ 5,581,978</u> |

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.



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

**NOTES TO FINANCIAL STATEMENTS**

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**8. Fund Equity**

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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.

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 - Beginning in the 1996-97 year, represents available resources in the General Fund to be used to purchase equipment and facilities.

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

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

**NOTES TO FINANCIAL STATEMENTS**

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**8. Fund Equity (Continued)**

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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 Deferred Maintenance - Represents unspent aid and levy that can be used for those activities having a useful life of five (5) years or more excluding technological equipment and activities, instructional equipment, and other non-maintenance equipment or materials.

Restricted for Southern Minnesota Initiative Foundation (SMIF) Grant - Represents resources to be used for Kinder Camp in FY 13-14.

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**9. 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.

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

**NOTES TO FINANCIAL STATEMENTS**

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

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

TEACHERS RETIREMENT ASSOCIATION (TRA)

Plan Description

All teachers employed by the District are covered by defined benefit plans administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All Basic members were first hired prior to July 1, 1989. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

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 5 consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

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

| Tier I: <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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**10. Defined Benefit Pension Plans – Statewide (Continued)**

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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: For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for coordinated members and 2.7 percent for Basic members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.4 percent per year.

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 (A-1) 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 provisions in effect at the time they last terminated their public service.

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefit provisions. The report may be accessed at the TRA Web site [www.minnesotatra.org](http://www.minnesotatra.org). Alternatively, a copy of the report may be obtained by writing or calling TRA: Teachers Retirement Association, 60 Empire Drive, Suite 400, St. Paul, Minnesota, 55103-4000, (651) 296-2409, (800) 657-3669.

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

**NOTES TO FINANCIAL STATEMENTS**

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

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*Funding Policy*

Minnesota Statute Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members were required to contribute 6.0 percent and 9.5 percent, respectively, of their annual covered salary as employee contributions. The TRA employer contribution rates are 6.0 for Coordinated members and 10.0 percent for Basic members. Total covered payroll salaries for all TRA members statewide during fiscal year ended June 30, 2012, was approximately \$3.87 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2011 and June 30, 2010 were \$3.84 billion and \$3.79 billion, respectively.

The District contributions for the years ending June 30, 2013, 2012, and 2011, were \$155,975, \$139,944, and \$132,005, respectively, equal to required contributions for each year as set by state statute.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)**

*Plan Description*

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year.

Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced social security benefits capped at 66 for coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

**NOTES TO FINANCIAL STATEMENTS**

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

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There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the web at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2012. The District is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The District's contributions to the General Employee's Retirement Fund for the years ending June 30, 2013, 2012, and 2011, were \$59,582, \$56,138, and \$53,549, respectively. The District's contributions were equal to the contractually required contributions for each year as set by the state statute.

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**11. Other Postemployment Benefit Plan**

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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, 2013 there were approximately 14 retirees and 1 spouse of retirees participating in the District's group health plan.

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

**NOTES TO FINANCIAL STATEMENTS**

**11. 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 2013, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

|                                    |                            |
|------------------------------------|----------------------------|
| Annual required contribution (ARC) | \$ 70,873                  |
| Interest on net OPEB obligations   | (6,716)                    |
| Adjustment to ARC                  | <u>9,146</u>               |
| Annual OPEB cost                   | 73,303                     |
| Contributions during the year      | <u>(126,585)</u>           |
| Decrease in net OPEB obligation    | (53,282)                   |
| Net OPEB asset beginning of year   | <u>(149,235)</u>           |
| Net OPEB asset end of year         | <u><u>\$ (202,517)</u></u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2013, 2012, and 2011 were as follows:

| Fiscal Year<br>Ended | Annual<br>OPEB Cost | Employer<br>Contribution | Percentage<br>Contributed | Net OPEB<br>Obligation<br>(Asset) |
|----------------------|---------------------|--------------------------|---------------------------|-----------------------------------|
| 6/30/2011            | \$ 98,148           | \$ 130,093               | 132.55%                   | \$ (88,203)                       |
| 6/30/2012            | 72,201              | 133,233                  | 184.53%                   | (149,235)                         |
| 6/30/2013            | 73,303              | 126,585                  | 172.69%                   | (202,517)                         |

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

**NOTES TO FINANCIAL STATEMENTS**

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

Funding Status and Funding Progress

The required schedule of funding progress is as follows:

| Actuarial<br>Valuation Date | Actuarial<br>Value of<br>Assets<br>( a ) | Actuarial<br>Accrued<br>Liability<br>( b ) | Unfunded<br>Actuarial<br>Accrued<br>Liability<br>( b - a ) | Funded<br>Ratio<br>( a / b ) | Covered<br>Payroll<br>( c ) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>( ( b - a ) / c ) |
|-----------------------------|--|--|--|------------------------------|-----------------------------|---|
| 7/1/2011                    | \$                                       | \$ 837,734                                 | \$ 837,734   | 0.00%                        | \$ 2,200,362                | 38.07%  |
| 7/1/2008                    | \$                                       | \$ 1,181,167                               | \$ 1,181,167   | 0.00%                        | \$ 2,391,742                | 49.39%  |

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, 2008 actuarial valuation, projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% 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 3.0%. The annual healthcare cost trend rate is 9.0% initially, reduced incrementally to an ultimate rate of 5.0% after eight years. The unfunded actuarial accrued liability will be amortized as level dollar amount over an open 30-year period which began in fiscal year 2009.

**12. 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 \$49,338. 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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**13. 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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**14. 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 2013.

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**15. 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**

**NOTES TO FINANCIAL STATEMENTS**

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**16. New Accounting Pronouncements**

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GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, implemented this year provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The District has determined they have no deferred outflows or inflows as defined by this standard.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the District.

GASB 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the District beginning with its year ending June 30, 2014. This statement requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows resources, deferred inflows of resources, or current-period outflows and inflows.

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

**REQUIRED SUPPLEMENTAL INFORMATION**

**JUNE 30, 2013**

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

Schedule of Funding Progress – Other Postemployment Benefits  
June 30, 2013

| Actuarial<br>Valuation Date | Actuarial<br>Value of<br>Assets<br>( a ) | Actuarial<br>Accrued<br>Liability<br>( b ) | Unfunded<br>Actuarial<br>Accrued<br>Liability<br>( b - a ) | Funded<br>Ratio<br>( a / b ) | Covered<br>Payroll<br>( c ) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>( ( b - a ) / c ) |
|-----------------------------|--|--|--|------------------------------|-----------------------------|---|
| 7/1/2011                    | \$                                       | \$ 837,734                                 | \$ 837,734   | 0.00%                        | \$ 2,200,362                | 38.07%  |
| 7/1/2008                    | \$                                       | \$ 1,181,167                               | \$ 1,181,167   | 0.00%                        | \$ 2,391,742                | 49.39%  |

See Note 11, Other Postemployment Benefit Plan, for more information.

Schedule of Employer Contributions  
Year Ended June 30, 2013

| Fiscal Year<br>Ended | Annual<br>Required<br>Contribution | Percentage of<br>Annual<br>Required<br>Contributions<br>Recognized |
|----------------------|------------------------------------|--|
| 6/30/2011            | \$ 98,148                          | 133%   |
| 6/30/2012            | 70,873                             | 188%   |
| 6/30/2013            | 70,873                             | 179%   |

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

**SUPPLEMENTAL INFORMATION**

**JUNE 30, 2013**

**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**COMPARATIVE BALANCE SHEET**  
**GENERAL FUND**  
June 30, 2013 and 2012

|   | 2013                | 2012                |
|---|---------------------|---------------------|
| <b>Assets</b>   |                     |                     |
| Cash and cash equivalents                                       | \$ 3,420,723        | \$ 2,627,332        |
| Current property taxes receivable                               | 348,862             | 446,848             |
| Delinquent property taxes receivable                            | 26,669              | 20,570              |
| Accounts receivable   | 26,065              | 68,901              |
| Due from other Minnesota school districts                       | 25,377              | 42,964              |
| Due from Minnesota Department of Education                      | 690,865             | 1,613,478           |
| Due from Federal through Minnesota Department of Education      | 218,408             | 191,805             |
| Due from other funds  | 23,032              |                     |
| <b>TOTAL ASSETS</b>   | <b>\$ 4,780,001</b> | <b>\$ 5,011,898</b> |
| <b>Liabilities</b>  |                     |                     |
| Accounts payable  | \$ 12,372           | \$ 25,919           |
| Salaries and accrued liabilities payable                        | 431,334             | 380,966             |
| Due to other Minnesota school districts                         | 45,975              | 33,913              |
| Interest payable  | 10,181              | 24,431              |
| General obligation aid anticipation certificate of indebtedness | 611,199             | 1,438,299           |
| Deferred revenue  | 90,119              | 90,670              |
| Taxes levied for subsequent year                                | 388,741             | 479,444             |
| <b>TOTAL LIABILITIES</b>  | <b>1,589,921</b>    | <b>2,473,642</b>    |
| <b>Fund Balances</b>  |                     |                     |
| Restricted for:   |                     |                     |
| Deferred maintenance  | 31,028              | 16,252              |
| Gifted and talented   | 8,157               | 6,165               |
| Operating capital   | 345,395             | 311,681             |
| Health and safety   | (52,961)            | (138,986)           |
| Safe schools crime  | 17,722              |                     |
| Assigned for:   |                     |                     |
| Designated for early risers                                     | 17,193              | 22,764              |
| Unassigned  | 2,823,546           | 2,320,380           |
| <b>TOTAL FUND BALANCES</b>                                      | <b>3,190,080</b>    | <b>2,538,256</b>    |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>                      | <b>\$ 4,780,001</b> | <b>\$ 5,011,898</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, 2013  
With Partial Comparative Data for the Year Ended June 30, 2012

|  | Budgeted Amounts |            | 2013<br>Actual | Over (Under)<br>Final Budget | 2012<br>Actual |
|--|------------------|------------|----------------|------------------------------|----------------|
|  | Original         | Final      |                |                              |                |
| <b>Revenues</b>  |                  |            |                |                              |                |
| Local sources:   |                  |            |                |                              |                |
| Investment income  | \$               | \$ 1,000   | \$ 1,586       | \$ 586                       | \$             |
| <b>Expenditures</b>  |                  |            |                |                              |                |
| Site, buildings, and equipment                                       |                  | 484,000    | 326,519        | (157,481)                    | 24,102         |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> |                  | (483,000)  | (324,933)      | 158,067                      | (24,102)       |
| <b>Other Financing Sources (Uses)</b>                                |                  |            |                |                              |                |
| Bond proceeds  |                  | 956,800    | 956,798        | 2                            |                |
| Operating transfer out   |                  |            | (148)          | 148                          |                |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                          |                  | 956,800    | 956,650        | 150                          |                |
| <b>NET CHANGE IN FUND BALANCE</b>                                    |                  | 473,800    | 631,717        | 158,217                      | (24,102)       |
| <b>FUND BALANCES - BEGINNING</b>                                     |                  |            |                |                              | 24,102         |
| <b>FUND BALANCES - ENDING</b>  | \$               | \$ 473,800 | \$ 631,717     | \$ 158,217                   | \$             |

**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, 2013  
With Partial Comparative Data for the Year Ended June 30, 2012

|   | Budgeted Amounts |            | 2013<br>Actual | Over (Under)<br>Final Budget | 2012<br>Actual |
|---|------------------|------------|----------------|------------------------------|----------------|
|   | Original         | Final      |                |                              |                |
| <b>Revenues</b>   |                  |            |                |                              |                |
| Local sources:  |                  |            |                |                              |                |
| Property tax levies                                     | \$ 425,098       | \$ 425,098 | \$ 467,490     | \$ 42,392                    | \$ 434,294     |
| Investment income                                       | 500              | 500        | 770            | 270                          | 2,190          |
| State Sources   | 81,586           | 81,586     | 37,116         | (44,470)                     | 88,689         |
| <b>TOTAL REVENUES</b>                                   | 507,184          | 507,184    | 505,376        | (1,808)                      | 525,173        |
| <b>Expenditures</b>                                     |                  |            |                |                              |                |
| Fiscal and Other Fixed Cost Programs                    | 506,875          | 506,875    | 506,856        | (19)                         | 511,857        |
| <b>EXCESS OF REVENUES OVER<br/>(UNDER) EXPENDITURES</b> | 309              | 309        | (1,480)        | (1,789)                      | 13,316         |
| <b>Other Financing Sources</b>                          |                  |            |                |                              |                |
| Operating transfers in                                  |                  |            | 148            | (148)                        |                |
| <b>NET CHANGE IN FUND BALANCES</b>                      | 309              | 309        | (1,332)        | (1,937)                      | 13,316         |
| <b>FUND BALANCE - BEGINNING</b>                         | 139,138          | 139,138    | 139,138        |                              | 125,822        |
| <b>FUND BALANCE - ENDING</b>                            | \$ 139,447       | \$ 139,447 | \$ 137,806     | \$ (1,937)                   | \$ 139,138     |



**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
SUPPLEMENTAL COST SCHEDULES**  
For the Years Ended June 30, 2013 and 2012  
(Unaudited)

|  | Cost Per<br>Adjusted<br>Marginal Cost<br>Pupil Unit (All<br>Funds) |                  |
|--|--|------------------|
|  | 2012 - 2013<br>Expenditures  |                  |
| <b>Fiscal Year Ended June 30, 2013</b> |  |                  |
| District and school administration     | \$ 331,153   | \$ 520           |
| District support services              | 150,697  | 237              |
| Regular instruction                    | 2,797,096  | 4,391            |
| Vocational instruction                 | 63,275   | 99               |
| Special education                      | * 878,830  | 1,380            |
| Community education and services       | 491,137  | 771              |
| Instructional support services         | 82,583   | 130              |
| Pupil support services                 | 828,659  | 1,301            |
| Site, buildings, and equipment         | 911,793  | 1,431            |
| Fiscal and other fixed cost programs   | 656,990  | 1,031            |
| <b>TOTALS</b>                          | <b>\$ 7,192,213</b>  | <b>\$ 11,291</b> |

2012 - 2013 Adjusted Marginal Cost Pupil Units - 636.96

\* Includes Root River program expenditures

|  | Cost Per<br>Adjusted<br>Marginal Cost<br>Pupil Unit (All<br>Funds) |                  |
|--|--|------------------|
|  | 2011 - 2012<br>Expenditures  |                  |
| <b>Fiscal Year Ended June 30, 2012</b> |  |                  |
| District and school administration     | \$ 326,866   | \$ 516           |
| District support services              | 147,668  | 233              |
| Regular instruction                    | 2,511,498  | 3,962            |
| Vocational instruction                 | 64,025   | 101              |
| Special education                      | * 914,905  | 1,443            |
| Community education and services       | 506,423  | 799              |
| Instructional support services         | 73,122   | 115              |
| Pupil support services                 | 846,085  | 1,335            |
| Site, buildings, and equipment         | 714,620  | 1,127            |
| Fiscal and other fixed cost programs   | 680,926  | 1,074            |
| <b>TOTALS</b>                          | <b>\$ 6,786,138</b>  | <b>\$ 10,705</b> |

2011 - 2012 Adjusted Marginal Cost Pupil Units - 633.94

\* Includes Root River program expenditures

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

TAX LEVY HISTORY

|                       | 12 Pay 13<br>Fiscal 14 | 11 Pay 12<br>Fiscal 13 | 10 Pay 11<br>Fiscal 12 | 09 Pay 10<br>Fiscal 11 | 08 Pay 09<br>Fiscal 10 |
|-----------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| <b>Tax Levy*</b>      |                        |                        |                        |                        |                        |
| General               | \$ 732,150             | \$ 928,827             | \$ 835,875             | \$ 760,570             | \$ 1,011,246           |
| Community Service     | 75,866                 | 74,498                 | 72,498                 | 73,557                 | 71,982                 |
| Debt Redemption (Net) | 656,977                | 617,906                | 627,744                | 653,725                | 373,475                |
| <b>TOTAL TAX LEVY</b> | <b>\$ 1,464,993</b>    | <b>\$ 1,621,231</b>    | <b>\$ 1,536,117</b>    | <b>\$ 1,487,852</b>    | <b>\$ 1,456,703</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**

**SINGLE AUDIT REPORTS**

**JUNE 30, 2013**

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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 55939

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the comptroller General of the United States; and the provisions of the *Minnesota Legal Audit Guide for Political Subdivisions*, promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Section 6.65, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District #2198, Preston, Minnesota, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the District's basic financial statements and have issued our report thereon dated November 18, 2013.

**Internal Control Over Financial Reporting**

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

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

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

### **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*.

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

In 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 Political Subdivisions*. 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.

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Smith, Schafu and Associates, Ltd.*

November 18, 2013  
Rochester, Minnesota

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited Independent School District #2198, Preston, Minnesota's compliance with the types of compliance requirements described in the *OMB A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Independent School District #2198, Preston, Minnesota, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that

### **Internal Control Over Compliance (Continued)**

are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities and each major fund of Independent School District #2198, Preston, Minnesota, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 18, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Smith, Schafn and Associates, Ltd.*



**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2013**

| <b>Federal Grantor/Pass-through Grantor/Program</b>                        | <b>Federal CFDA<br/>Number</b> | <b>Federal<br/>Expenditures</b> |
|--|--------------------------------|---------------------------------|
| U.S. Department of Education-Direct<br>Rural Education Achievement Program | 84.358A                        | \$ 16,290                       |
| Pass-through programs from:<br>Minnesota Department of Education:          |                                |                                 |
| Title I  | 84.010                         | 204,419 ***                     |
| Title II - Part A  | 84.367                         | 45,025                          |
| Special Education Cluster (IDEA):  |                                |                                 |
| Special Education - Grants to States                                       | 84.027                         | 103,281                         |
| Special Education - Preschool Grants                                       | 84.173                         | <u>6,456</u>                    |
| Subtotal:  |                                | 109,737                         |
| Special Education - Grants for Infants and<br>Families with Disabilities   | 84.181                         | 1,206                           |
| Carl Perkins/Tech Prep   | 84.048                         | <u>2,067</u>                    |
| Subtotal U.S. Department of Education                                      |                                | <u>378,744</u>                  |
| US Department of Agriculture   |                                |                                 |
| Pass-through programs from:<br>Minnesota Department of Education:          |                                |                                 |
| Child Nutrition Cluster:   |                                |                                 |
| School Breakfast Program (SBP)   | 10.553                         | 21,443                          |
| National School Lunch Program (NSLP)                                       | 10.555                         | <u>120,289</u>                  |
| Subtotal U.S. Department of Agriculture                                    |                                | <u>141,732</u>                  |
| Total expenditures of federal awards                                       |                                | <u>\$ 520,476</u>               |

\*\*\* Major Program

**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2013

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**1. General**

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The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal programs of Independent School District #2198, Preston, Minnesota. The reporting entity is defined in Note 1 to the District's financial statements. All federal awards passed through other government agencies are included on the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the financial statements.

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**2 Basis of Accounting**

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The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements.

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**3 Food Distribution**

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Nonmonetary assistance is reported in the schedule with the National School Lunch Program at the fair market value of the commodities received and disbursed which totaled \$22,481.

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**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2013

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unmodified opinion on the financial statements of Independent School District #2198, Preston, Minnesota.
2. During the audit of the financial statements and reported in the 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*, one finding was disclosed as noted below.
3. No instances of noncompliance material to the financial statements of Independent School District #2198, Preston, Minnesota, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit and reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Independent School District #2198, Preston, Minnesota expresses an unmodified opinion on all major federal programs.
6. Audit findings, if any, that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The Title I Program, CFDA #84.010 was determined to be the major program.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Independent School District #2198, Preston, Minnesota was determined to be a low-risk auditee.

**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2013

**B. FINDING - FINANCIAL STATEMENTS AUDIT**

**FINDINGS – 2013-1      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.

**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**SCHEDULE OF PRIOR YEAR FINDINGS**  
Year Ended June 30, 2013

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**2012-1**  
**2011-1**

**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):**

**2012 and 2011 Response:** 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.

**CURRENT STATUS:**

The finding recurred in 2013.

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
SCHEDULE OF PRIOR YEAR FINDINGS  
Year Ended June 30, 2013**

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.

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

**STUDENT ACTIVITY FUNDS**

**JUNE 30, 2013**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Independent School District #2198  
Preston, Minnesota 55939

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, 2013. 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, 2013, and the receipts and disbursements for the year then ended on the basis of accounting describe in the notes to the Student Activity Funds Financial Statement.

*Smith, Schafner and Associates, Ltd.*

November 18, 2013  
Rochester, Minnesota

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
HIGH SCHOOL STUDENT ACTIVITY FUNDS  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS  
For the Year Ended June 30, 2013**

| <b>Funds</b>           | <u>Balance</u>   |                   |                   |           | <u>Balance</u> |
|------------------------|------------------|-------------------|-------------------|-----------|----------------|
|                        | 06/30/12         | Receipts          | Disbursements     |           | 06/30/13       |
| Class of 2012          | \$ 2,503         | \$                | \$ 2,503          | \$        |                |
| Class of 2013          | 4,495            | 82,827            | 85,123            |           | 2,199          |
| Class of 2014          | 2,660            | 7,166             | 5,676             |           | 4,150          |
| Class of 2015          | 1,377            | 1,198             | 822               |           | 1,753          |
| Class of 2016          | 761              | 878               |                   |           | 1,639          |
| Class of 2017          | 821              | 1,163             | 16                |           | 1,968          |
| Class of 2018          |                  | 600               |                   |           | 600            |
| Annual                 | 14,536           | 7,087             | 7,124             |           | 14,499         |
| Band                   | 10,081           | 40,056            | 35,763            |           | 14,374         |
| Cheerleading           | 83               | 1                 |                   |           | 84             |
| FFA                    | 7,916            | 31,925            | 28,765            |           | 11,076         |
| HS Choir               | 1,808            | 2,878             | 188               |           | 4,498          |
| Jazz Account           | 1,921            | 14,106            | 13,723            |           | 2,304          |
| National Honor Society | 204              | 221               |                   |           | 425            |
| SADD                   | 940              | 3,278             | 2,745             |           | 1,473          |
| Science                | 545              | 1                 |                   |           | 546            |
| Spanish Club           |                  | 782               | 675               |           | 107            |
| Sr. FLA                | 889              |                   | 889               |           |                |
| Student Council        | 3,482            | 897               | 282               |           | 4,097          |
| Tapestry               | 3,202            | 4,317             | 4,294             |           | 3,225          |
| TNT                    | 295              | 220               | 95                |           | 420            |
| Video Club             | 294              | 4                 | 75                |           | 223            |
| <b>TOTAL</b>           | <b>\$ 58,813</b> | <b>\$ 199,605</b> | <b>\$ 188,758</b> | <b>\$</b> | <b>69,660</b>  |

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

**NOTES TO STUDENT ACTIVITY FUNDS FINANCIAL STATEMENTS  
Year Ended June 30, 2013**

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 55939

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, 2013, and have issued our report thereon dated November 18, 2013.

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.*

November 18, 2013  
Rochester, Minnesota

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

**COMPLIANCE TABLE**

**JUNE 30, 2013**

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**Fiscal Compliance Report - 6/30/2013**  
**District: FILLMORE CENTRAL (2198-1)**

|                                  | <b>Audit</b> | <b>UFARS</b>       | <b>Audit - UFARS</b> |   | <b>Audit</b> | <b>UFARS</b>     | <b>Audit - UFARS</b> |
|----------------------------------|--------------|--------------------|----------------------|---|--------------|------------------|----------------------|
| <b>01 GENERAL FUND</b>           |              |                    |                      | <b>06 BUILDING CONSTRUCTION</b>           |              |                  |                      |
| Total Revenue                    | \$6,059,863  | <u>\$6,059,856</u> | <u>\$7</u>           | Total Revenue                             | \$1,586      | <u>\$1,586</u>   | <u>\$0</u>           |
| Total Expenditures               | \$5,418,539  | <u>\$5,418,533</u> | <u>\$6</u>           | Total Expenditures                        | \$326,519    | <u>\$326,519</u> | <u>\$0</u>           |
| <i>Non Spendable:</i>            |              |                    |                      | <i>Non Spendable:</i>                     |              |                  |                      |
| 4.60 Non Spendable Fund Balance  | \$0          | <u>\$0</u>         | <u>\$0</u>           | 4.60 Non Spendable Fund Balance           | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| <i>Restricted/ Reserved:</i>     |              |                    |                      | <i>Restricted/ Reserved:</i>              |              |                  |                      |
| 4.03 Staff Development           | \$0          | <u>\$0</u>         | <u>\$0</u>           | 4.07 Capital Projects Levy                | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| 4.05 Deferred Maintenance        | \$31,028     | <u>\$31,028</u>    | <u>\$0</u>           | 4.09 Alternative Facility Program         | \$631,717    | <u>\$631,717</u> | <u>\$0</u>           |
| 4.06 Health and Safety           | (\$52,961)   | <u>(\$52,961)</u>  | <u>\$0</u>           | 4.13 Project Funded by COP                | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| 4.07 Capital Projects Levy       | \$0          | <u>\$0</u>         | <u>\$0</u>           | <i>Restricted:</i>                        |              |                  |                      |
| 4.08 Cooperative Revenue         | \$0          | <u>\$0</u>         | <u>\$0</u>           | 4.64 Restricted Fund Balance              | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| 4.14 Operating Debt              | \$0          | <u>\$0</u>         | <u>\$0</u>           | <i>Unassigned:</i>                        |              |                  |                      |
| 4.16 Levy Reduction              | \$0          | <u>\$0</u>         | <u>\$0</u>           | 4.63 Unassigned Fund Balance              | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| 4.17 Taconite Building Maint     | \$0          | <u>\$0</u>         | <u>\$0</u>           | <b>07 DEBT SERVICE</b>                    |              |                  |                      |
| 4.23 Certain Teacher Programs    | \$0          | <u>\$0</u>         | <u>\$0</u>           | Total Revenue                             | \$505,376    | <u>\$505,376</u> | <u>\$0</u>           |
| 4.24 Operating Capital           | \$345,395    | <u>\$345,395</u>   | <u>\$0</u>           | Total Expenditures                        | \$506,856    | <u>\$506,856</u> | <u>\$0</u>           |
| 4.26 \$25 Taconite               | \$0          | <u>\$0</u>         | <u>\$0</u>           | <i>Non Spendable:</i>                     |              |                  |                      |
| 4.27 Disabled Accessibility      | \$0          | <u>\$0</u>         | <u>\$0</u>           | 4.60 Non Spendable Fund Balance           | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| 4.28 Learning & Development      | \$0          | <u>\$0</u>         | <u>\$0</u>           | <i>Restricted/ Reserved:</i>              |              |                  |                      |
| 4.34 Area Learning Center        | \$0          | <u>\$0</u>         | <u>\$0</u>           | 4.25 Bond Refundings                      | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| 4.35 Contracted Alt. Programs    | \$0          | <u>\$0</u>         | <u>\$0</u>           | 4.51 QZAB Payments                        | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| 4.36 State Approved Alt. Program | \$0          | <u>\$0</u>         | <u>\$0</u>           | <i>Restricted:</i>                        |              |                  |                      |
| 4.38 Gifted & Talented           | \$8,157      | <u>\$8,157</u>     | <u>\$0</u>           | 4.64 Restricted Fund Balance              | \$137,806    | <u>\$137,806</u> | <u>\$0</u>           |
| 4.41 Basic Skills Programs       | \$0          | <u>\$0</u>         | <u>\$0</u>           | <i>Unassigned:</i>                        |              |                  |                      |
| 4.45 Career Tech Programs        | \$0          | <u>\$0</u>         | <u>\$0</u>           | 4.63 Unassigned Fund Balance              | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| 4.49 Safe School Crime           | \$17,722     | <u>\$17,722</u>    | <u>\$0</u>           | <b>08 TRUST</b>                           |              |                  |                      |
| 4.50 Pre-Kindergarten            | \$0          | <u>\$0</u>         | <u>\$0</u>           | Total Revenue                             | \$24,325     | <u>\$24,324</u>  | <u>\$1</u>           |
| 4.51 QZAB Payments               | \$0          | <u>\$0</u>         | <u>\$0</u>           | Total Expenditures                        | \$14,793     | <u>\$14,792</u>  | <u>\$1</u>           |
| 4.52 OPEB Liab Not In Trust      | \$0          | <u>\$0</u>         | <u>\$0</u>           | 4.22 Unassigned Fund Balance (Net Assets) | \$63,560     | <u>\$63,561</u>  | <u>(\$1)</u>         |
| 4.53 Unfunded Sev & Retirement   | \$0          | <u>\$0</u>         | <u>\$0</u>           | <b>20 INTERNAL SERVICE</b>                |              |                  |                      |
| <i>Restricted:</i>               |              |                    |                      | <i>Restricted:</i>                        |              |                  |                      |
| 4.64 Restricted Fund Balance     | \$0          | <u>\$0</u>         | <u>\$0</u>           | Total Revenue                             | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| <i>Committed:</i>                |              |                    |                      | <i>Committed:</i>                         |              |                  |                      |
| 4.18 Committed for Separation    | \$0          | <u>\$0</u>         | <u>\$0</u>           | Total Expenditures                        | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| 4.61 Committed Fund Balance      | \$0          | <u>\$0</u>         | <u>\$0</u>           | 4.22 Unassigned Fund Balance (Net Assets) | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| <i>Assigned:</i>                 |              |                    |                      | <b>25 OPEB REVOCABLE TRUST</b>            |              |                  |                      |
| 4.62 Assigned Fund Balance       | \$17,193     | <u>\$17,193</u>    | <u>\$0</u>           | Total Revenue                             | \$1,108      | <u>\$1,108</u>   | <u>\$0</u>           |
| 4.22 Unassigned Fund Balance     | \$2,823,546  | <u>\$2,823,545</u> | <u>\$1</u>           | Total Expenditures                        | \$73,303     | <u>\$73,303</u>  | <u>\$0</u>           |
| <b>02 FOOD SERVICES</b>          |              |                    |                      | 4.22 Unassigned Fund Balance (Net Assets) |              |                  |                      |
| Total Revenue                    | \$357,147    | <u>\$357,149</u>   | <u>(\$2)</u>         | <u>\$717,221</u>                          |              |                  |                      |
| Total Expenditures               | \$342,811    | <u>\$342,813</u>   | <u>(\$2)</u>         | <b>45 OPEB IRREVOCABLE TRUST</b>          |              |                  |                      |
| <i>Non Spendable:</i>            |              |                    |                      | <i>Non Spendable:</i>                     |              |                  |                      |
| 4.60 Non Spendable Fund Balance  | \$4,711      | <u>\$4,711</u>     | <u>\$0</u>           | Total Revenue                             | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| <i>Restricted/ Reserved:</i>     |              |                    |                      | <i>Restricted/ Reserved:</i>              |              |                  |                      |
| 4.52 OPEB Liab Not In Trust      | \$0          | <u>\$0</u>         | <u>\$0</u>           | Total Expenditures                        | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| <i>Restricted:</i>               |              |                    |                      | <i>Restricted:</i>                        |              |                  |                      |
| 4.64 Restricted Fund Balance     | \$9,625      | <u>\$9,625</u>     | <u>\$0</u>           | 4.22 Unassigned Fund Balance (Net Assets) | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| <i>Unassigned:</i>               |              |                    |                      | <b>47 OPEB DEBT SERVICE</b>               |              |                  |                      |
| 4.63 Unassigned Fund Balance     | \$0          | <u>\$0</u>         | <u>\$0</u>           | Total Revenue                             | \$110,830    | <u>\$110,829</u> | <u>\$1</u>           |
| <b>04 COMMUNITY SERVICE</b>      |              |                    |                      | <i>Non Spendable:</i>                     |              |                  |                      |
| Total Revenue                    | \$534,216    | <u>\$534,217</u>   | <u>(\$1)</u>         | Total Expenditures                        | \$106,351    | <u>\$106,350</u> | <u>\$1</u>           |
| Total Expenditures               | \$491,137    | <u>\$491,137</u>   | <u>\$0</u>           | <i>Non Spendable:</i>                     |              |                  |                      |
| <i>Non Spendable:</i>            |              |                    |                      | <i>Non Spendable:</i>                     |              |                  |                      |
| 4.60 Non Spendable Fund Balance  | \$0          | <u>\$0</u>         | <u>\$0</u>           | 4.60 Non Spendable Fund Balance           | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| <i>Restricted/ Reserved:</i>     |              |                    |                      | <i>Restricted:</i>                        |              |                  |                      |
| 4.26 \$25 Taconite               | \$0          | <u>\$0</u>         | <u>\$0</u>           | 4.25 Bond Refundings                      | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| 4.31 Community Education         | \$32,555     | <u>\$32,554</u>    | <u>\$1</u>           | 4.64 Restricted Fund Balance              | \$17,208     | <u>\$17,209</u>  | <u>(\$1)</u>         |
| 4.32 E.C.F.E                     | \$13,928     | <u>\$13,928</u>    | <u>\$0</u>           | <i>Unassigned:</i>                        |              |                  |                      |
| 4.44 School Readiness            | (\$13,106)   | <u>(\$13,106)</u>  | <u>\$0</u>           | 4.63 Unassigned Fund Balance              | \$0          | <u>\$0</u>       | <u>\$0</u>           |
| 4.47 Adult Basic Education       | \$0          | <u>\$0</u>         | <u>\$0</u>           | <b>04 COMMUNITY SERVICE</b>               |              |                  |                      |
| 4.52 OPEB Liab Not In Trust      | \$0          | <u>\$0</u>         | <u>\$0</u>           | Total Revenue                             | \$534,216    | <u>\$534,217</u> | <u>(\$1)</u>         |
| <i>Restricted:</i>               |              |                    |                      | <i>Restricted/ Reserved:</i>              |              |                  |                      |
| 4.64 Restricted Fund Balance     | \$25,515     | <u>\$25,516</u>    | <u>(\$1)</u>         | Total Expenditures                        | \$491,137    | <u>\$491,137</u> | <u>\$0</u>           |
| <i>Unassigned:</i>               |              |                    |                      | <i>Non Spendable:</i>                     |              |                  |                      |
| 4.63 Unassigned Fund Balance     | \$0          | <u>\$0</u>         | <u>\$0</u>           | 4.60 Non Spendable Fund Balance           | \$0          | <u>\$0</u>       | <u>\$0</u>           |