

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

**FINANCIAL STATEMENTS**

**JUNE 30, 2024**



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

**INTRODUCTORY SECTION**

**JUNE 30, 2024**

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**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
BOARD OF EDUCATION AND ADMINISTRATION  
JUNE 30, 2024**

2023 - 2024

Craig Britton	Chairperson	12/31/2026
Jennifer Pickett	Vice Chairperson	12/31/2026
Susan Sikkink	Treasurer	12/31/2026
Deb Ristau	Clerk	12/31/2024
Shelly Topness	Vice-Clerk	12/31/2026
Aaron Bishop	Director	12/31/2024
Jim Love	Director	12/31/2024

Superintendent

Heath Olstad

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

**FINANCIAL SECTION**

**JUNE 30, 2024**

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## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Independent School District #2198  
Preston, Minnesota

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the 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, 2024, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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 District, as of June 30, 2024, and the respective changes in financial position, and the budgetary comparison for the General Fund and each major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

### ***Supplementary 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 supplementary information, Uniform Financial Accounting and Reporting Standards Compliance Table, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CRF) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

**Supplementary Information (Continued)**

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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, Uniform Financial Accounting and Reporting Standards Compliance Table, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Information**

Management is responsible for the other information included in the report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

**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, 2023, from which such partial information was derived.

We have previously audited the District's 2023 financial statements and our report, dated October 16, 2023, expressed unmodified opinions on the respective financial statements of the governmental activities each major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, 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 our report dated November 1, 2024 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on 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.



**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, 2024. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2023-2024 fiscal year include the following:

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$9,219,802 (*net position*).
- Overall revenues for the General Fund were \$10,045,084 while overall expenditures totaled \$8,755,742.
- The General Fund Unassigned Fund Balance is \$1,480,885. This represents an increase of \$46,462 from last fiscal year. The restricted fund balances total \$1,396,291 as compared to \$993,813 last fiscal year. The assigned fund balances total \$3,628,187 as compared to \$2,821,471 last fiscal year. The increase in unassigned fund balance is due to greater than expected interest earnings generated by the district's cash balances and the increase in assigned fund balance is due to allocating funds to the district's Site Improvement assigned fund balance.
- The General Fund total fund balance increased by \$1,252,392 in 2023-2024. The increase in fund balance is in large part due to additional federal funds received to deal with the district's response to the covid-19 pandemic as well as increased state special education revenue, compensatory revenue, and greater than expected interest earnings.
- The Food Service Fund total fund balance increased by \$64,730 in 2023-2024. This increase is due to the availability of supply chain assistance funds allocated by the state of Minnesota as well as the Free School Meals program implemented by the State of Minnesota this fiscal year.
- The Community Service Fund total fund balance increased by \$28,700 in 2023-2024. The increase in fund balance is due to the ECFE program and preschool program's revenues exceeding expenses.

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

***Fund Financial Statements.*** The fund financial statements provide more detailed information about the District's funds – focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District establishes other funds to control and manage money for particular purposes (i.e. scholarship trust fund).

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

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

The District has three kinds of funds:

- **Governmental funds.** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or difference) between them.
- **Proprietary funds.** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. The District's sole proprietary fund is an internal service fund which charges the District's activities for the cost of other postemployment benefits consisting primarily of health insurance.
- **Fiduciary funds.** The District is the trustee, or fiduciary, for assets that belong to others, such as the trust fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position.** The District's combined net position from Governmental activities was \$9,219,802 on June 30, 2024. This was an increase of \$1,433,259 from the prior year.

	Total	
	2024	2023
<b>Assets</b>		
Current and other assets	\$ 10,366,590	\$ 9,020,444
Capital assets	10,197,290	10,950,013
Total assets	20,563,880	19,970,457
<b>Deferred Outflows of Resources</b>	1,411,365	1,974,385
<b>Liabilities</b>		
Current liabilities	840,959	920,005
Long-Term liabilities	9,544,026	10,544,228
Total liabilities	10,384,985	11,464,233
<b>Deferred Inflows of Resources</b>	2,370,458	2,694,066
<b>Net Position</b>		
Net investment in capital assets	7,096,033	7,436,457
Restricted	2,068,122	1,687,579
Unrestricted	55,647	(1,337,493)
Total net position	\$ 9,219,802	\$ 7,786,543



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

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

**District's Revenue.** The District's total revenues were \$12,159,475 for the year ended June 30, 2024; compared to \$11,229,642 on June 30, 2023. General revenues from federal and state sources accounted for 49.56% of total revenue for the year ended June 30, 2024, compared to 49.78% in the prior year. Local property taxes (levies) accounted for 11.65% percent (compared to 11.74% the previous year) of the total revenue, with the remaining revenue coming from other sources.

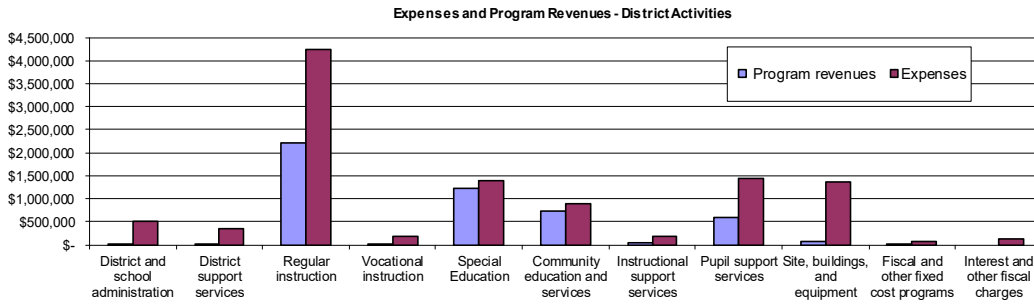
A condensed version of the Statement of Activities follows:

	Total	
	2024	2023
<b>Revenue</b>		
Program revenues:		
Charges for services	\$ 1,100,383	\$ 1,206,911
Operating grants and contributions	3,708,105	2,844,099
Capital grants and contributions	56,810	62,760
General revenues:		
Property taxes	1,416,147	1,318,109
State sources	5,540,087	5,588,336
Other sources	337,943	209,427
Total revenues	12,159,475	11,229,642
<b>Expenses</b>		
District and school administration	499,110	425,886
District support services	348,873	360,159
Regular instruction	4,231,410	3,474,362
Vocational instruction	190,241	138,392
Special education	1,395,531	1,224,561
Community education and services	891,459	878,962
Instructional support services	187,664	149,132
Pupil support services	1,432,694	1,305,934
Site, buildings, and equipment	1,354,000	1,179,592
Fiscal and other fixed cost programs	74,420	81,143
Interest and other fiscal charges	120,814	136,817
Total expenses	10,726,216	9,354,940
Change in net position	1,433,259	1,874,702
Net position, beginning	7,786,543	5,911,841
Net position, end of year	\$ 9,219,802	\$ 7,786,543

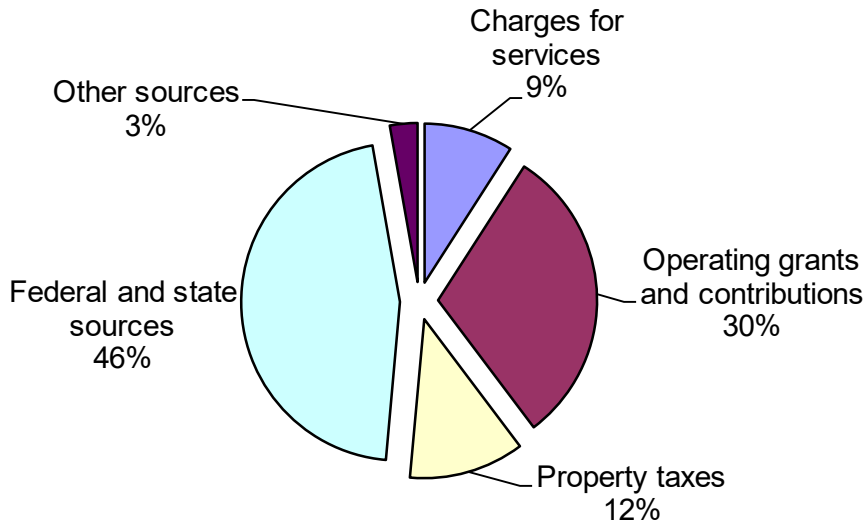
**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

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



**Revenues by Source - District Activities**



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

**FUND BASIS FINANCIAL ANALYSIS**

**Financial Analysis of the District's Funds**

The financial performance of the District as a school is reflected in its governmental funds as well. As the District completed the year, its Governmental Funds reported a combined fund balance of \$7,551,587.

Enrollment is expected to decrease slightly for the 2024-2025 school year. With the completion of the veteran's home in Preston, we are optimistic that enrollment may begin to increase over time.

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

<u>Fiscal Year</u>	<u>ADM</u>	<u>% Change</u>
2015	590.61	
2016	627.26	6.2%
2017	625.37	-0.3%
2018	634.51	1.5%
2019	615.93	-2.9%
2020	612.25	-0.6%
2021	574.72	-6.1%
2022	581.71	1.2%
2023	586.17	0.8%
2024	574.61	-2.0%

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

Total General Fund revenues increased by \$955,961 from the previous year (being \$10,045,084 in FY24, and \$9,089,123 in FY23).

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:

	2024	2023	Increase/ (Decrease)
Local property tax levies	\$ 986,212	\$ 862,090	\$ 124,122
Other local and county sources	497,417	446,162	51,255
Investment income	326,145	212,507	113,638
State sources	6,739,677	6,059,491	680,186
Federal sources	1,474,889	1,479,288	(4,399)
Sales and other conversions of assets	20,744	29,585	(8,841)
<b>Total</b>	<b>\$ 10,045,084</b>	<b>\$ 9,089,123</b>	<b>\$ 955,961</b>

Total General Fund expenditures increased by \$356,914.

General fund expenditures and transfers were as follows:

	2024	2023	Increase/ (Decrease)
District and school administration	\$ 526,411	\$ 506,507	\$ 19,904
District support services	352,943	370,254	(17,311)
Regular instruction	4,168,023	3,905,403	262,620
Vocational instruction	206,775	185,691	21,084
Special Education	1,434,438	1,326,636	107,802
Instructional support services	242,793	156,680	86,113
Pupil support services	851,571	802,235	49,336
Site, buildings, and equipment	894,345	1,079,025	(184,680)
Fiscal and other fixed cost programs and transfers out	78,443	66,397	12,046
<b>Total</b>	<b>\$ 8,755,742</b>	<b>\$ 8,398,828</b>	<b>\$ 356,914</b>

The total General Fund balance on June 30, 2024, was \$6,560,754 compared to \$5,308,362 on June 30, 2023 (increase of \$1,252,392). Of the amount, \$1,396,291 is restricted for specific purposes by state requirements, \$3,628,187 is assigned; and \$1,480,885 is the Unassigned General Fund Balance.

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

The total Food Service Fund Balance on June 30, 2024, was \$407,242 compared to \$342,512 on June 30, 2023.

The Food Service revenue for 2023-2024 totaled \$598,194 compared to \$547,371 the previous year – an increase of \$50,824.

The Food Service expenditures for 2023-2024 totaled \$535,443 compared to \$519,687 the previous year – an increase in expenditures \$15,756.

**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 \$28,700.

Community Service Fund revenues for 2023-2024 totaled \$821,570 compared to \$872,932 in the previous year. This was a decrease in revenue of \$23,861 from the previous year. This decrease is due to the lack of financial hardship assistance for the district's daycare and SAC programs.

Community Service Fund expenditures for 2023-2024 totaled \$886,139 compared to \$860,164 in the previous year. This was an increase in expenditures of \$25,975 from the previous year. This increase is primarily due the annual increase of wages and benefits to staff in the community education area.

**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 \$8,067 in 2023-2024.

**Internal Service Fund.** The Postemployment Benefits Fund was established in fiscal 2009 with initial funding of \$1,145,132 from bonds issued. The fund charges departments for the estimated cost of other postemployment benefits consisting primarily of health insurance. This fund had deficit net position of \$108,482 at June 30, 2024.

**Fiduciary Fund.** Private-purpose trust (scholarship trust) fund is the District's fiduciary fund. The net position of the scholarship trust is \$15,744 (compared to \$24,441 in FY23).

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The District provided a Revised General Fund 2023-2024 budget in May of 2024. The Revised FY24 Budget estimated an increase of revenue of \$581,920 over the projected FY24 budget.

The Actual FY24 revenues were \$376,212 more than the Revised Budget for revenue. This was due to greater than anticipated interest earnings, tuition/participation fees from neighboring districts, state special education and MA reimbursement revenue, literacy incentive aid, new student support personnel aid, and TRA/PERA special funding.

The Revised FY24 Budget expenditures were \$290,481 more than the Original FY24 Budget. There were increases to PSEO tuition costs, transportation expenses due to an additional bus route, and increased supply purchases (funded by community donations and grants), as well as the increase of required permanent transfers to the community education fund.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2024, the District had invested \$21,229,981 (before depreciation) in a broad range of capital assets including school buildings, athletic facilities, technology equipment, and other types of equipment.

	Total (Net of Depreciation)	
	2024	2023
Land	\$ 44,373	\$ 44,373
Site improvements	2,958,823	3,169,403
Buildings	6,518,297	6,977,250
Machinery and equipment	632,924	758,987
Right to use leased equipment	42,873	
Total	\$ 10,197,290	\$ 10,950,013

**Long Term Liabilities.** As of June 30, 2024, the District had \$3,475,000 in bonds outstanding. The District also had \$18,500 in severance benefits payable at the end of the year. A summary of outstanding long-term liabilities as of June 30, 2024, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds Payable:					
General Obligation Bonds:					
Alternative Facilities Bond 2010A	\$ 305,000	\$	\$ 150,000	\$ 155,000	\$ 155,000
Alternative Facilities Bond 2012A	345,000		65,000	280,000	70,000
Alternative & Capital Facilities Bond 2014A	2,820,000		235,000	2,585,000	245,000
OPEB Refunding Bonds 2017A	540,000		85,000	455,000	85,000
Bond Discount	(5,422)	995		(4,427)	
Bond Premium	48,978		6,997	41,981	
Other Liabilities:					
Lease Payable - Copier/Printers		53,591	9,888	43,703	10,286
Severance Payable	1,125	17,375		18,500	
Governmental Activities					
Long-term Liabilities	\$ 4,054,681	\$ 71,961	\$ 551,885	\$ 3,574,757	\$ 565,286

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

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

The Covid-19 pandemic has significantly affected the district's enrollment as students transitioned to virtual options as well as homeschooling to keep families safe. We are hopeful that the opening of a veteran's home in Preston in the fall of 2023 will bring new young working families to the area and make a positive impact on our future enrollment. To offset our decline of enrollment we are holding a special election in the fall of 2024 asking the community to support an operating referendum that will increase annual revenue by \$500,000.

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.

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

**BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2024**

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**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**STATEMENT OF NET POSITION**  
June 30, 2024  
With Comparative Data as of June 30, 2023

	Governmental Activities	
	2024	2023
<b>Assets</b>		
Cash and investments	\$ 7,962,844	\$ 6,920,645
Taxes receivable	888,419	877,032
Other receivables	12,980	28,298
Due from other governmental units	1,434,306	1,129,230
Inventory	12,168	9,722
Prepaid items	55,873	55,517
Capital Assets:		
Nondepreciable	44,373	44,373
Right to use leased assets, net of amortization	42,873	
Depreciable, net of accumulated depreciation	10,110,044	10,905,640
<b>TOTAL ASSETS</b>	<b>20,563,880</b>	<b>19,970,457</b>
<b>Deferred Outflows of Resources</b>		
Deferred outflows from pension activities	1,338,439	1,897,584
Deferred outflows from OPEB activity	72,926	76,801
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,411,365</b>	<b>1,974,385</b>
<b>Liabilities</b>		
Accounts payable	39,178	48,145
Due to other governmental units	1,445	82,582
Unearned revenue	15,639	18,704
Accrued liabilities	739,935	719,217
Accrued interest payable	44,762	51,357
Noncurrent Liabilities:		
Due within one year:		
Long-term liabilities	555,000	535,000
Lease payable	10,286	
Post-employment benefit liability	26,077	23,018
Due in more than one year:		
Long-term liabilities	2,976,054	3,519,681
Net pension liability	5,604,172	6,043,206
Lease payable	33,417	
Post-employment benefits liability	339,020	423,323
<b>TOTAL LIABILITIES</b>	<b>10,384,985</b>	<b>11,464,233</b>
<b>Deferred Inflows of Resources</b>		
Deferred inflows from pension activities	537,541	993,629
Deferred inflows from OPEB activity	137,686	65,188
Property taxes levied for subsequent year	1,695,231	1,635,249
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>2,370,458</b>	<b>2,694,066</b>
<b>Net Position</b>		
Net investment in capital assets	7,096,033	7,436,457
Restricted:		
Operating capital purposes	640,408	580,028
State-mandated restrictions	480,855	272,340
Food service	407,242	342,512
Community service	414,158	385,458
Debt service	125,459	107,241
Unrestricted	55,647	(1,337,493)
<b>TOTAL NET POSITION</b>	<b>\$ 9,219,802</b>	<b>\$ 7,786,543</b>

**See Notes to Financial Statements**

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

For the Year Ended June 30, 2024

With Partial Comparative Data for the Year Ended June 30, 2023

		2024			
		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
District and school administration	\$ 499,110	\$	\$ 3,476	\$	
District support services	348,873		761		
Regular instruction	4,231,410	427,604	1,778,764		
Vocational instruction	190,241		2,180		
Special education	1,395,531	14,843	1,211,606		
Community education and services	891,459	580,361	144,661		
Instruction support services	187,664		33,102		
Pupil support services	1,432,694	52,670	533,529		
Site, buildings, and equipment	1,354,000		26		56,810
Fiscal and other fixed cost programs	74,420	24,905			
Interest and other fiscal charges	120,814				
	<b>\$ 10,726,216</b>	<b>\$ 1,100,383</b>	<b>\$ 3,708,105</b>	<b>\$</b>	<b>56,810</b>

General Revenues:

Property taxes levied for:

General purposes

Community Service

Debt Service

State aid not restricted to specific purposes

Investment income

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

**See Notes to Financial Statements**

	2024		2023
	Net (Expense) Revenue and Changes in Net Position Total Governmental Activities		Net (Expense) Revenue and Changes in Net Position Total Governmental Activities
\$	(495,634)	\$	(425,886)
	(348,112)		(360,159)
	(2,025,042)		(1,382,810)
	(188,061)		(138,392)
	(169,082)		(277,535)
	(166,437)		(95,811)
	(154,562)		(131,944)
	(846,495)		(765,152)
	(1,297,164)		(1,116,832)
	(49,515)		(72,322)
	(120,814)		(136,817)
	(5,860,918)		(4,903,660)
	1,075,945		953,607
	70,211		69,948
	269,991		294,554
	5,540,087		5,250,826
	337,943		209,427
	7,294,177		6,778,362
	1,433,259		1,874,702
	7,786,543		5,911,841
\$	9,219,802	\$	7,786,543

**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2024  
With Partial Comparative Data as of June 30, 2023

	General	Food Service	Community Service
<b>Assets</b>			
Cash and investments	\$ 6,474,624	\$ 295,305	\$ 512,387
Current property taxes receivable	452,964		33,127
Delinquent property taxes receivable	1,313		99
Accounts receivable	12,476	150	354
Due from other school districts	57,003		
Due from Minnesota Department of Education	663,799	52,770	9,602
Due from Federal through Minnesota Department of Education	566,617	55,065	
Prepaid items	55,391		
Inventory		12,168	
<b>TOTAL ASSETS</b>	<b>\$ 8,284,187</b>	<b>\$ 415,458</b>	<b>\$ 555,569</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 29,023	\$ 8,216	\$ 1,939
Salaries and accrued liabilities payable	688,602		51,333
Due to other school districts	1,445		
Unearned revenue	2,444		13,195
<b>TOTAL LIABILITIES</b>	<b>721,514</b>	<b>8,216</b>	<b>66,467</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue:			
Property taxes levied for subsequent year	1,000,606		74,845
Delinquent property taxes	1,313		99
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,001,919</b>		<b>74,944</b>
<b>Fund Balances</b>			
Nonspendable	55,391	12,168	
Restricted	1,396,291	395,074	414,158
Assigned	3,628,187		
Unassigned	1,480,885		
<b>TOTAL FUND BALANCES</b>	<b>6,560,754</b>	<b>407,242</b>	<b>414,158</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 8,284,187</b>	<b>\$ 415,458</b>	<b>\$ 555,569</b>

**See Notes to Financial Statements**

				Total Governmental Funds	
		OPEB			
Debt Service	Debt Service		2024	2023	
\$ 283,718	\$ 75,917	\$	7,641,951	\$	6,601,383
356,786	43,342		886,219		868,374
657	131		2,200		8,658
			12,980		28,298
			57,003		50,803
28,649	801		755,621		620,504
			621,682		457,923
			55,391		58,655
			12,168		9,722
<u>\$ 669,810</u>	<u>\$ 120,191</u>	<u>\$</u>	<u>10,045,215</u>	<u>\$</u>	<u>8,704,320</u>

\$	\$	\$	39,178	\$	48,144
			739,935		719,217
			1,445		82,582
			15,639		18,704
			<u>796,197</u>		<u>868,647</u>

521,855	97,925		1,695,231		1,635,249
657	131		2,200		8,658
<u>522,512</u>	<u>98,056</u>		<u>1,697,431</u>		<u>1,643,907</u>

			67,559		68,377
147,298	22,135		2,374,956		1,867,495
			3,628,187		2,821,471
			1,480,885		1,434,423
<u>147,298</u>	<u>22,135</u>		<u>7,551,587</u>		<u>6,191,766</u>

<u>\$ 669,810</u>	<u>\$ 120,191</u>	<u>\$</u>	<u>10,045,215</u>	<u>\$</u>	<u>8,704,320</u>
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**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2024  
With Partial Comparative Data for the Year Ended June 30, 2023

	General	Food Service	Community Service
<b>Revenues</b>			
Local sources:			
Property tax levies	\$ 986,212	\$	\$ 70,211
Other local and county sources	497,417		579,195
Investment income	326,145	15,137	21,458
State sources	6,739,677	234,622	60,758
Federal sources	1,474,889	290,072	89,948
Sales and other conversions of assets	20,744	58,363	
<b>TOTAL REVENUES</b>	<b>10,045,084</b>	<b>598,194</b>	<b>821,570</b>
<b>Expenditures</b>			
District and school administration	526,411		
District support services	352,943		
Regular instruction	4,168,023		
Vocational instruction	206,775		
Special education	1,434,438		
Community education and services			886,139
Instructional support services	242,793		
Pupil support services	851,571	535,443	
Site, buildings, and equipment	894,345		
Fiscal and other fixed cost programs	78,443		
<b>TOTAL EXPENDITURES</b>	<b>8,755,742</b>	<b>535,443</b>	<b>886,139</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,289,342</b>	<b>62,751</b>	<b>(64,569)</b>
<b>Other Financing Sources (Uses)</b>			
Proceeds from sale of property	4,707		
Lease proceeds	53,591		
Transfer in		1,979	93,269
Transfer out	(95,248)		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(36,950)</b>	<b>1,979</b>	<b>93,269</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,252,392</b>	<b>64,730</b>	<b>28,700</b>
<b>FUND BALANCE - BEGINNING</b>	<b>5,308,362</b>	<b>342,512</b>	<b>385,458</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 6,560,754</b>	<b>\$ 407,242</b>	<b>\$ 414,158</b>

**See Notes to Financial Statements**



Debt Service	OPEB Debt Service	Total Governmental Funds	
		2024	2023
\$ 269,991	\$ 96,191	\$ 1,422,605	\$ 1,313,885
		1,076,612	997,352
13,349	2,617	378,706	250,584
286,245	8,015	7,329,317	6,410,655
		1,854,909	1,994,414
		79,107	213,168
<u>569,585</u>	<u>106,823</u>	<u>12,141,256</u>	<u>11,180,058</u>
		526,411	506,507
		352,943	370,254
		4,168,023	3,905,403
		206,775	185,691
		1,434,438	1,326,636
		886,139	860,164
		242,793	156,680
		1,387,014	1,321,922
		894,345	1,079,025
561,518	100,891	740,852	729,616
<u>561,518</u>	<u>100,891</u>	<u>10,839,733</u>	<u>10,441,898</u>
8,067	5,932	1,301,523	738,160
		4,707	4,144
		53,591	
		95,248	20,747
		(95,248)	(20,747)
		<u>58,298</u>	<u>4,144</u>
8,067	5,932	1,359,821	742,304
139,231	16,203	6,191,766	5,449,462
<u>\$ 147,298</u>	<u>\$ 22,135</u>	<u>\$ 7,551,587</u>	<u>\$ 6,191,766</u>

**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, 2024**

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

Total governmental fund balances (pages 17 and 18)		\$ 7,551,587
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 21,229,981	
Less: Accumulated depreciation	11,032,691	10,197,290
Other long-term assets not available to pay for current-period expenditure and, therefore, are deferred in the funds		
Delinquent property taxes		2,200
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		
		(108,482)
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	\$ (3,475,000)	
Bond premium	(41,981)	
Bond discount	4,427	
Net pension liability	(4,803,274)	
Severance payable	(18,500)	
Lease payable	(43,703)	
Accrued interest	(44,762)	
		(8,422,793)
Net position of governmental activities (page 14)		\$ 9,219,802

**See Notes to Financial Statements**

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2024**

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

Net change in fund balances - total governmental funds (pages 19 and 20)		\$ 1,359,821
<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	\$ 60,791	
Depreciation expense	<u>(813,514)</u>	(752,723)
<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		(6,458)
<p>The governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligations bonds and related items is as follows.</p>		
Principal retirement on long-term debt	\$ 535,000	
Change in bond discount	(995)	
Change in bond premium	6,997	
Change in accrued interest	<u>6,595</u>	547,597
<p>In the statement of activities, certain operating expenses - net pension liability and severance - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).</p>		
Severance payable	\$ (17,375)	
Net pension liability	<u>335,977</u>	318,602
<p>In governmental funds, a lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.</p>		
		(43,703)
<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>		
		<u>10,123</u>
Change in net position of governmental activities (pages 15 and 16)		<u><u>\$ 1,433,259</u></u>

**See Notes to Financial Statements**

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND**

For the Year Ended June 30, 2024  
With Partial Comparative Data for the Year Ended June 30, 2023

	Budgeted Amounts		2024 Actual	Over (Under) Final Budget	2023 Actual
	Original	Final			
<b>Revenues</b>					
Local sources:					
Property tax levies	\$ 998,630	\$ 993,624	\$ 986,212	\$ (7,412)	\$ 862,090
Other local and county sources	277,394	394,480	497,417	102,937	446,162
Investment income	165,900	290,700	326,145	35,445	212,507
State sources	6,195,233	6,460,403	6,739,677	279,274	6,059,491
Federal sources	1,388,972	1,495,276	1,474,889	(20,387)	1,479,288
Sales and other conversions of assets	1,250	20,306	20,744	438	29,585
<b>TOTAL REVENUES</b>	<b>9,027,379</b>	<b>9,654,789</b>	<b>10,045,084</b>	<b>390,295</b>	<b>9,089,123</b>
<b>Expenditures</b>					
District and school administration	529,025	524,495	526,411	1,916	506,507
District support services	340,144	350,645	352,943	2,298	370,254
Regular instruction	4,094,085	4,186,678	4,168,023	(18,655)	3,905,403
Vocational instruction	205,787	203,849	206,775	2,926	185,691
Special education	1,365,455	1,497,313	1,434,438	(62,875)	1,326,636
Instructional support services	160,351	206,412	242,793	36,381	156,680
Pupil support services	887,025	899,124	851,571	(47,553)	802,235
Site, buildings, and equipment	1,073,941	998,034	894,345	(103,689)	1,079,025
Fiscal and other fixed cost programs	118,611	119,378	78,443	(40,935)	66,397
<b>TOTAL EXPENDITURES</b>	<b>8,774,424</b>	<b>8,985,928</b>	<b>8,755,742</b>	<b>(230,186)</b>	<b>8,398,828</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>252,955</b>	<b>668,861</b>	<b>1,289,342</b>	<b>620,481</b>	<b>690,295</b>
<b>Other Financing Sources</b>					
Sale of capital assets			4,707	4,707	4,144
Lease proceeds			53,591	53,591	
Operating transfers out	(13,000)	(121,707)	(95,248)	26,459	(20,747)
<b>NET CHANGE IN FUND BALANCE</b>	<b>239,955</b>	<b>547,154</b>	<b>1,252,392</b>	<b>705,238</b>	<b>673,692</b>
<b>FUND BALANCE - BEGINNING</b>	<b>5,308,362</b>	<b>5,308,362</b>	<b>5,308,362</b>		<b>4,634,670</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 5,548,317</b>	<b>\$ 5,855,516</b>	<b>\$ 6,560,754</b>	<b>\$ 705,238</b>	<b>\$ 5,308,362</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, 2024  
With Partial Comparative Data for the Year Ended June 30, 2023

	Budgeted Amounts		2024 Actual	Over (Under) Final Budget	2023 Actual
	Original	Final			
<b>Revenues</b>					
Local sources:					
Investment income	\$ 5,000	\$ 10,000	\$ 15,137	\$ 5,137	\$ 10,587
State sources	219,500	219,500	234,622	15,122	25,137
Federal sources	266,142	285,484	290,072	4,588	328,063
Sales and other conversions of assets	56,196	53,166	58,363	5,197	183,583
<b>TOTAL REVENUES</b>	<b>546,838</b>	<b>568,150</b>	<b>598,194</b>	<b>30,044</b>	<b>547,370</b>
<b>Expenditures</b>					
Pupil support services	558,648	562,091	535,443	(26,648)	519,687
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(11,810)</b>	<b>6,059</b>	<b>62,751</b>	<b>56,692</b>	<b>27,683</b>
<b>Other Financing Sources</b>					
Operating transfers in	2,500	2,000	1,979	(21)	2,701
<b>NET CHANGE IN FUND BALANCE</b>	<b>(9,310)</b>	<b>8,059</b>	<b>64,730</b>	<b>56,671</b>	<b>30,384</b>
<b>FUND BALANCES - BEGINNING</b>	<b>342,512</b>	<b>342,512</b>	<b>342,512</b>		<b>312,128</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 333,202</b>	<b>\$ 350,571</b>	<b>\$ 407,242</b>	<b>\$ 56,671</b>	<b>\$ 342,512</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, 2024  
With Partial Comparative Data for the Year Ended June 30, 2023

	Budgeted Amounts		2024 Actual	Over (Under) Final Budget	2023 Actual
	Original	Final			
<b>Revenues</b>					
Local sources:					
Property tax levies	\$ 76,887	\$ 76,887	\$ 70,211	\$ (6,676)	\$ 69,948
Other local and county sources	565,867	569,602	579,195	9,593	551,190
Investment income	9,000	18,000	21,458	3,458	15,037
Federal sources	54,000	86,500	89,948	3,448	187,063
State sources	41,956	53,473	60,758	7,285	49,694
<b>TOTAL REVENUES</b>	<b>747,710</b>	<b>804,462</b>	<b>821,570</b>	<b>17,108</b>	<b>872,932</b>
<b>Expenditures</b>					
Community education and services	856,378	920,112	886,139	(33,973)	860,164
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(108,668)</b>	<b>(115,650)</b>	<b>(64,569)</b>	<b>51,081</b>	<b>12,768</b>
<b>Other Financing Sources</b>					
Operating transfers out					
Operating transfers in	10,500	118,207	93,269	(24,938)	18,046
<b>NET CHANGE IN FUND BALANCES</b>	<b>(98,168)</b>	<b>2,557</b>	<b>28,700</b>	<b>26,143</b>	<b>30,814</b>
<b>FUND BALANCES - BEGINNING</b>	<b>385,458</b>	<b>385,458</b>	<b>385,458</b>		<b>354,644</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 287,290</b>	<b>\$ 388,015</b>	<b>\$ 414,158</b>	<b>\$ 26,143</b>	<b>\$ 385,458</b>

**See Notes to Financial Statements**

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
June 30, 2024 and 2023**

	<b>Governmental Activities - Internal Service</b>	
	<b>Postemployment Benefits Fund</b>	
	<b>2024</b>	<b>2023</b>
<b>Assets</b>		
Cash and investments	\$ 320,893	\$ 319,848
Prepaid items	482	
<b>TOTAL ASSETS</b>	<b>321,375</b>	<b>319,848</b>
<b>Deferred Outflows of Resources</b>		
Deferred outflows from OPEB activity	72,926	76,801
<b>Liabilities</b>		
Accounts payable		3,715
Postemployment benefits payable	365,097	446,351
<b>TOTAL LIABILITIES</b>	<b>365,097</b>	<b>450,066</b>
<b>Deferred Inflows of Resources</b>		
Deferred inflows from OPEB activity	137,686	65,188
<b>Net Position</b>		
Unrestricted	\$ (108,482)	\$ (118,605)

**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, 2024 and 2023**

	<b>Governmental Activities - Internal Service</b>	
	<b>Postemployment Benefits Fund</b>	
	<b>2024</b>	<b>2023</b>
<b>REVENUES</b>		
Employee charges	\$ 7,408	\$ 7,995
<b>EXPENSES</b>		
Post-retirement benefit expense	15,275	26,493
<b>Operating Loss</b>	(7,867)	(18,498)
<b>Non-Operating Revenues</b>		
Investment income	17,990	12,475
<b>Change in Net Position</b>	10,123	(6,023)
<b>Net Position - Beginning</b>	(118,605)	(112,582)
<b>Net Position - Ending</b>	\$ (108,482)	\$ (118,605)

**See Notes to Financial Statements**



**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND**  
For the Years Ended June 30, 2024 and 2023

	<b>Governmental Activities - Internal Service</b>	
	<b>Postemployment Benefits Fund</b>	
	<b>2024</b>	<b>2023</b>
<b>Cash Flows From Operating Activities</b>		
Cash (payments) receipts for benefits	\$ (16,945)	\$ (14,420)
<b>Cash Flows From Investing Activities</b>		
Investment income	17,990	12,475
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	1,045	(1,945)
<b>Cash and Cash Equivalents - Beginning</b>	319,848	321,793
<b>Cash and Cash Equivalents - Ending</b>	\$ 320,893	\$ 319,848

**Reconciliation of Operating Loss to Net Cash  
Used In Operating Activities**

Operating loss	\$ (7,867)	\$ (18,498)
Adjustments to reconcile Operating loss to Net Cash Used In Operating Activities:		
Deferred outflows from OPEB activity	3,875	17,029
Deferred inflows from OPEB activity	72,498	24,914
Accounts payable	(3,715)	(4,865)
Postemployment benefits payable	(81,254)	(33,000)
<b>Net Cash Used In Operating Activities</b>	\$ (16,945)	\$ (14,420)

**See Notes to Financial Statements**

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
June 30, 2024**

	<u>Private Purpose Trust</u>
	<u>Scholarship Trust Fund</u>
<b>Assets</b>	
Cash and cash equivalents	<u>\$      15,744</u>
<b>Net Position, Unrestricted</b>	<u><u>\$      15,744</u></u>

**See Notes to Financial Statements**

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
For the Year Ended June 30, 2024**

	Private Purpose Trust <hr/> Scholarship Trust Fund <hr/>
<b>Additions</b>	
Other local and county sources	\$ 26,192
<b>Deductions</b>	
Fiscal and other fixed cost programs	<hr/> 34,889
<b>CHANGE IN NET POSITION</b>	(8,697)
<b>NET POSITION - BEGINNING</b>	<hr/> 24,441
<b>NET POSITION - ENDING</b>	<hr/> <hr/> \$ 15,744

**See Notes to Financial Statements**

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2024**

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

**NOTES TO FINANCIAL STATEMENTS**

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**1. Summary of Significant Accounting Policies**

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The financial statements of Independent School District #2198 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

Financial Reporting Entity

Independent School District #2198 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

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

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization.

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

Basic Financial Statement Presentation

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

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.

**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*

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

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

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

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes are recognized in the year for which the tax is levied. Revenue from grants and donations are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements including timing requirements, which specify the year in which the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

---

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

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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, net position/fund balance, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

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

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

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

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

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

The District reports the following proprietary fund:

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

The District reports the following fiduciary fund:

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

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



**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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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.

Accounts Receivable

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

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.

Inventories

Inventories are recorded using the consumption method of accounting and consist of food and commodities on hand at June 30, 2024. 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.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks. There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**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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Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section of deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The District has two types of items that qualify for reporting in this category. The deferred outflows from pension activity and OPEB activity.

Deferred Inflows of Resources

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

Prepaid Items

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

Property Taxes

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred inflows of resources (property taxes levied for subsequent year). The majority of District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift", which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$48,078 of the property tax levy collectible in 2024 as revenue to the District in fiscal year 2023-2024. The remaining portion of the taxes collectible in 2024 is recorded as deferred inflows of resources.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred inflows of resources because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2024, 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.

**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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Capital Assets

Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District maintains a capitalization threshold level of \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

Capital assets not being depreciated include land.

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

Compensated Absences

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

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

Other Postemployment Benefits

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

Net Position

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

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Long-term Obligations

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

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

Interfund Transactions

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

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

Comparative Data

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data has not been presented since the inclusion would not provide meaningful comparisons. Certain amounts in the June 30, 2023 totals column have been reclassified to conform to the current year presentation.

Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund (DTRFA) in 2015. Additional information can be found in Note 9.

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

**NOTES TO FINANCIAL STATEMENTS**

**2. Stewardship and Accountability**

Operating transfers as of June 30, 2024, at the individual fund level are summarized below:

Funds	Transfers In	Transfers Out
General Fund	\$	\$ 95,248
Food Service Fund	1,979	
Community Service Fund	93,269	
Totals	\$ 95,248	\$ 95,248

The District recorded a transfer from the General Fund to the Food Service Fund and Community Service Fund for operating purposes.

**3. Cash and Investments**

Summary of Cash and Investments

As of June 30, 2024, the District's cash and investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 646,094
MSDLAF+ Max Class	6,907,926
MSDLAF+ Liquid Class	424,568
Total cash and investments	7,978,588
Less: Fiduciary fund cash and cash equivalents	(15,744)
Total Cash and Investments Per Statement of Net Position	\$ 7,962,844

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.

**NOTES TO FINANCIAL STATEMENTS**

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

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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.

Concentration of Credit Risk

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer. Investments in any one issuer that represent 5% or more of total investments are as follows:

MSDLAF+ Liquid Class	6%
MSDLAF+ Max Class	94%

Fair Value Measurement

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

*Fair Value Measurement (Continued)*

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

Investment Type	Credit Risk		Fair Value Measurements Using	Interest Risk - Maturity Duration in Years				Total
	Rating	Agency		No Maturity Date	Less Than 1	1 to 5	6 to 10	
MSDLAF+ Liquid Class	AAAa	S&P	N/A	\$ 424,568	\$	\$	\$	\$ 424,568
MSDLAF+ Max Class	AAAa	S&P	N/A	6,907,926				6,907,926
Total Investments				<u>\$ 7,332,494</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 7,332,494</u>

N/A - Not applicable

Minnesota School District Liquid Asset Fund (MSDLAF) Plus Liquid Class, and MSDLAF Plus Max Class are external investment pools not registered with the Securities and Exchange Commission regulated by Minnesota Statutes. The District's investments in these investment pools are measured at the net asset value per share provided by the pool, which is based on amortized cost method that approximates fair value. For the MSDLAF Plus Liquid Class and MSDLAF Plus Max Class investment pools, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice required.

**4. Due From Other Governmental Units**

Amounts due from other governmental units at June 30, 2024 are as follows:

Fund	Minnesota Department of Education	Federal Government Through MDE	Other School Districts	Total
General	\$ 663,799	\$ 566,617	\$ 57,003	\$ 1,287,419
Community Service	9,602			9,602
Food Service	52,770	55,065		107,835
Debt Service	28,649			28,649
OPEB Debt Service	801			801
	<u>\$ 755,621</u>	<u>\$ 621,682</u>	<u>\$ 57,003</u>	<u>\$ 1,434,306</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**5. Capital Assets**

Capital asset activity for the year ended June 30, 2024 was as follows:

<b>Governmental Activities</b>	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 44,373	\$	\$	\$ 44,373
Total capital assets, not being depreciated	<u>44,373</u>			<u>44,373</u>
Capital assets, being depreciated:				
Buildings	14,945,823			14,945,823
Site improvements	4,395,261			4,395,261
Equipment	1,836,164	7,200	52,431	1,790,933
Capital assets, being amortized:				
Leased equipment - right to use		53,591		53,591
Total capital assets, being depreciated	<u>21,177,248</u>	<u>60,791</u>	<u>52,431</u>	<u>21,185,608</u>
Less accumulated depreciation for:				
Buildings	7,968,573	458,953		8,427,526
Site improvements	1,225,858	210,580		1,436,438
Equipment	1,077,177	133,263	52,431	1,158,009
amortization for:				
Leased equipment - right to use		10,718		10,718
Total accumulated depreciation and amortization	<u>10,271,608</u>	<u>813,514</u>	<u>52,431</u>	<u>11,032,691</u>
Total capital assets, being depreciated, net	<u>10,905,640</u>	<u>(752,723)</u>		<u>10,152,917</u>
Governmental activities capital assets, net	<u>\$ 10,950,013</u>	<u>\$ (752,723)</u>	<u>\$</u>	<u>\$ 10,197,290</u>

Depreciation expense was charged to functions/programs as follows:

<b>Governmental Activities:</b>	
Regular instruction	\$ 291,497
Special education	6,174
Instructional support	10,718
Pupil support services	49,458
Site, buildings and equipment	<u>455,667</u>
Total depreciation and amortization expense - governmental activities	<u>\$ 813,514</u>



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

**NOTES TO FINANCIAL STATEMENTS**

**6. Long-Term Liabilities**

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

A summary of interest rates, maturities and June 30, 2024 balances is as follows:

	Original Amount of Debt	Range of Interest Rates	Final Maturity	Balance June 30, 2024
General Obligation Bonds:				
Alternative Facilities Bonds 2010A	\$ 1,890,000	2.00 - 4.00%	2025	\$ 155,000
Alternative Facilities Bonds 2012A	965,000	0.50 - 2.10%	2028	280,000
Alternative Facilities Bonds 2014A	4,420,000	3.00 - 3.50%	2030	2,585,000
OPEB Refunding Bonds 2017A	850,000	2.85%	2029	455,000
Bond discount				(4,427)
Bond premium				41,981
Severance payable				18,500
Other Liabilities:				
Lease payable				43,703
Total				<u>\$ 3,574,757</u>

Description of long-term debt

*General Obligation Bonds.* On February 15, 2010, the District issued a General Obligation bond for \$1,890,000 for school building improvements. Annual principal and interest will be paid by the Debt Service Fund.

On December 27, 2012, the District issued a General Obligation bond for \$965,000 for facilities maintenance and improvements. Annual principal and interest will be paid by the Debt Service Fund.

On July 22, 2014, the District issued a General Obligation bond for \$4,420,000 for facilities maintenance and improvements. Annual principal and interest will be paid by the Debt Service Fund.

On March 27, 2017, the District entered into a General Obligation bond for \$850,000 for facilities maintenance and improvements. Annual principal and interest will be paid by the Debt Service Fund.

*Severance Payable.* Severance payable provides for early retirement severance pay that qualifies as a termination benefit. These benefits are paid by the General Fund.

*Lease Payable.* On November 11, 2023, the District entered into a lease payable for technology equipment. Annual principal and interest will be paid by the General Fund.

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

**NOTES TO FINANCIAL STATEMENTS**

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

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2024:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds Payable:					
General Obligation Bonds:					
Alternative Facilities Bond 2010A	\$ 305,000	\$	\$ 150,000	\$ 155,000	\$ 155,000
Alternative Facilities Bond 2012A	345,000		65,000	280,000	70,000
Alternative & Capital Facilities Bond 2014A	2,820,000		235,000	2,585,000	245,000
OPEB Refunding Bonds 2017A	540,000		85,000	455,000	85,000
Bond Discount	(5,422)	995		(4,427)	
Bond Premium	48,978		6,997	41,981	
Other Liabilities:					
Lease Payable - Copier/Printers		53,591	9,888	43,703	10,286
Severance Payable	1,125	17,375		18,500	
Governmental Activities					
Long-term Liabilities	<u>\$ 4,054,681</u>	<u>\$ 71,961</u>	<u>\$ 551,885</u>	<u>\$ 3,574,757</u>	<u>\$ 565,286</u>

The annual requirements to amortize all long-term debt outstanding as of June 30, 2024, excluding compensated absences and severance payable over the life of the debt, are summarized below:

Years	General Obligation Bonds		
	Principal	Interest	Total
<u>Governmental Activities</u>			
2025	\$ 555,000	\$ 106,218	\$ 661,218
2026	570,000	88,846	658,846
2027	585,000	72,649	657,649
2028	600,000	55,866	655,866
2029	625,000	37,387	662,387
2030	540,000	18,900	558,900
Totals	<u>\$ 3,475,000</u>	<u>\$ 379,866</u>	<u>\$ 3,854,866</u>

In November 2023, the District issued a lease payable totaling \$53,591 for technology equipment with an interest rate of 4.03%.

Years	Leases	
	Principal	Interest
2025	\$ 10,286	\$ 1,763
2026	10,701	1,348
2027	11,133	916
2028	11,583	467
Totals	<u>\$ 43,703</u>	<u>\$ 4,494</u>

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

**NOTES TO FINANCIAL STATEMENTS**

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**7. Fund Balance**

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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.

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

**NOTES TO FINANCIAL STATEMENTS**

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**7. Fund Balance (Continued)**

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

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

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

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

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

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

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

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

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

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

Restricted for Medical Assistance - Represents available resources to be used for medical assistance expenditures.

Restricted for Literacy Incentive Aid – Represents the resources available to support implementation of evidence based reading instruction.

Restricted for School Library Aid – Represents the resources available for the school library aid uses.

Restricted for Student Support Personnel – Represents available resources to be used for student support personnel that are in addition to current staff levels.

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

**NOTES TO FINANCIAL STATEMENTS**

**7. Fund Balance (Continued)**

The following is a summary of fund balances as of June 30, 2024 with comparative totals as of June 30, 2023:

	General	Food Service	Community Service	Debt Service	OPEB Debt Service	2024 Totals	2023 Totals
<b>Nonspendable</b>							
Inventory	\$	\$ 12,168	\$	\$	\$	\$ 12,168	\$ 9,722
Prepaid items	55,391					55,391	58,655
Total nonspendable	55,391	12,168				67,559	68,377
<b>Restricted</b>							
Gifted and talented	20,127					20,127	23,827
Community education			140,553			140,553	139,299
Early childhood and family education			75,792			75,792	57,247
Scholarships	13,235					13,235	10,026
School readiness			111,437			111,437	102,948
Operating capital	640,408					640,408	580,028
Staff development	157,421					157,421	115,591
Basic skills	263,203					263,203	111,329
Basic skills extended time							3,297
LTFM	19,660					19,660	
Student activities	153,565					153,565	131,419
Literacy incentive	35,444					35,444	
School library aid	13,124					13,124	
Student support	40,000					40,000	
Medical assistance	40,104					40,104	18,296
Food service		395,074				395,074	332,790
Community service			86,376			86,376	85,964
Debt service				147,298		147,298	139,231
OPEB debt service					22,135	22,135	16,203
Total restricted	1,396,291	395,074	414,158	147,298	22,135	2,374,956	1,867,495
<b>Assigned</b>							
Student laptop repairs	88,033					88,033	81,227
Milk break assistance	25,127					25,127	25,315
Roof repair	500,000					500,000	500,000
Site improvements	2,500,000					2,500,000	1,700,000
Technology	500,000					500,000	500,000
Athletic fine arts	15,027					15,027	14,929
Total assigned	3,628,187					3,628,187	2,821,471
<b>Unassigned</b>							
	1,480,885					1,480,885	1,434,423
Total Fund Balance	\$ 6,560,754	\$ 407,242	\$ 414,158	\$ 147,298	\$ 22,135	\$ 7,551,587	\$ 6,191,766

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

**NOTES TO FINANCIAL STATEMENTS**

**7. Fund Balance (Continued)**

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

	GASB Balance	Reconciling Balance	UFARS Balance June 30, 2024	UFARS Balance June 30, 2023
<b>Nonspendable</b>				
Inventory	\$ 12,168	\$	\$ 12,168	\$ 9,722
Prepaid items	55,391		55,391	58,655
Total nonspendable	<u>67,559</u>		<u>67,559</u>	<u>68,377</u>
<b>Restricted</b>				
Gifted and talented	20,127		20,127	23,827
Community education	140,553		140,553	139,299
Early childhood and family education	75,792		75,792	57,247
Scholarships	13,235		13,235	10,026
School readiness	111,437		111,437	102,948
Operating capital	640,408		640,408	580,028
Staff development	157,421		157,421	115,591
Basic skills	263,203		263,203	111,329
Basic skills extended time				3,297
LTFM	19,660		19,660	(27,826)
Student activities	153,565		153,565	131,419
Literacy incentive	35,444		35,444	
School library aid	13,124		13,124	
Student support	40,000		40,000	
Safe school		(1,231)	(1,231)	(4,583)
Medical assistance	40,104		40,104	18,296
Food service	395,074		395,074	332,790
Community service	86,376		86,376	85,964
Debt service	147,298		147,298	139,231
OPEB debt service	22,135		22,135	16,203
Total restricted	<u>2,374,956</u>	<u>(1,231)</u>	<u>2,373,725</u>	<u>1,835,086</u>
<b>Assigned</b>				
Student laptop repairs	88,033		88,033	81,227
Milk break assistance	25,127		25,127	25,315
Roof repair	500,000		500,000	500,000
Site improvements	2,500,000		2,500,000	1,700,000
Technology	500,000		500,000	500,000
Athletic fine arts	15,027		15,027	14,929
Total assigned	<u>3,628,187</u>		<u>3,628,187</u>	<u>2,821,471</u>
<b>Unassigned</b>				
	<u>1,480,885</u>	<u>1,231</u>	<u>1,482,116</u>	<u>1,466,832</u>
Total Fund Balance	<u>\$ 7,551,587</u>	<u>\$</u>	<u>\$ 7,551,587</u>	<u>\$ 6,191,766</u>

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

**NOTES TO FINANCIAL STATEMENTS**

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**8. Commitments and Contingencies**

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

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

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Plan Description

1. General Employees Retirement Fund

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

All full-time and certain part-time employees of the District are covered by the General Employees Plan, other than teachers. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

2. Teachers Retirement Association (TRA)

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

Educators employed in Minnesota's public elementary and secondary school, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined Contribution Plan (DCR) administered by the State of Minnesota.

Benefits Provided

1. General Employees Plan Benefits

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

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

**NOTES TO FINANCIAL STATEMENTS**

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

*Benefits Provided (Continued)*

General Employees Plan benefits are based on a member’s highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA’s Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate of Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of - living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

**2. TRA Benefits**

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

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

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

With these provisions:

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

Or



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

**NOTES TO FINANCIAL STATEMENTS**

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

Benefits Provided (Continued)

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

*Tier II Benefits*

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

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

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

Contributions

1. General Employees Fund Contributions

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2024 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2024 were \$118,624. The District's contributions were equal to the required contributions as set by the state statute.

2. TRA Contributions

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2023 and June 30, 2024 were:

	Ended June 30, 2023		Ended June 30, 2024	
	Employee	Employer	Employee	Employer
Basic	11.0%	12.55%	11.25%	12.75%
Coordinated	7.5%	8.55%	7.75%	8.75%

The District's contributions to the TRA fund for the year ended June 30, 2024 were \$295,807. The District's contributions were equal to the required contributions as set by the state statute.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

Contributions (Continued)

The following is a reconciliation of employer contributions in TRA's fiscal year 2023 ACFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

Employer contributions reported in TRA's ACFR, Statement of Changes in Fiduciary Net Position	\$ 508,764,000
Employer contributions not related to future contribution efforts	(87,000)
TRA's contributions not included in allocation	<u>(643,000)</u>
Total employer contributions	508,034,000
Total non-employer contributions	<u>35,587,000</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u>\$ 543,621,000</u>

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

Pension Costs

1. General Employees Fund Pension Costs

At June 30, 2024, the District reported a liability of \$1,112,786 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$30,603.

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2023, the District's proportion was 0.0199 percent at the end of the measurement period and 0.0211 percent of the beginning of the period.

District's proportionate share of net pension liability	\$ 1,112,786
State's proportionate share of the net pension liability associated with the district	<u>49,176</u>
Total	<u>\$ 1,161,962</u>

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

**NOTES TO FINANCIAL STATEMENTS**

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

*Pension Costs (Continued)*

For the year ended June 30, 2024, the District recognized pension expense of \$28,030 for its proportionate share of the General Employees Plan’s pension expense. In addition, the District recognized an additional \$138 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

At June 30, 2024, the District reported its proportionate share of General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 37,073	\$ 8,089
Changes in actuarial assumptions	190,066	305,005
Net difference between projected and actual investment earnings		37,879
Changes in proportion	17,123	71,280
Contributions paid to PERA subsequent to the measurement date	131,457	
Total	\$ 375,719	\$ 422,253

The \$131,457 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2025	\$ 26,827
2026	(191,492)
2027	10,814
2028	(24,140)

**2. TRA Pension Costs**

On June 30, 2024, the District reported a liability of \$4,491,386 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District’s proportionate share was 0.393 percent at the end of the measurement period and 0.0370 percent for the beginning of the year.

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

**NOTES TO FINANCIAL STATEMENTS**

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

*Pension Costs (Continued)*

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

District's proportionate share of the net pension liability	\$ 4,491,386
State's proportionate share of the net pension liability associated with the district	<u>314,558</u>
Total	<u>\$ 4,805,944</u>

For the year ended June 30, 2023, the District recognized pension expense of (\$364,007.) It also recognized \$44,292 as an increase to pension expense for the support provided by direct aid.

At June 30, 2024, the District had deferred resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 44,689	\$ 65,001
Net difference between projected and actual investment earnings	4,084	
Changes in actuarial assumptions	515,550	
Changes in proportion	81,950	50,287
Contributions paid to TRA subsequent to the measurement date	<u>316,447</u>	
Total	<u>\$ 962,720</u>	<u>\$ 115,288</u>

The \$316,447 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2025	\$ 93,464
2026	(3,705)
2027	502,512
2028	(50,397)
2029	(10,889)

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

**NOTES TO FINANCIAL STATEMENTS**

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

Aggregate Pension Costs

Pension expense recognized by the District for the year ended June 30, 2024 is as follows:

General Employees Retirement Fund	\$ 28,168
TRA	(319,715)
Total	<u>\$ (291,547)</u>

Long-Term Expected Return on Investment

1. General Employees Fund Long-Term Expected Return on Investment

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	33.50%	5.10%
International Equity	16.50%	5.30%
Fixed Income	25.00%	0.75%
Private Markets	25.00%	5.90%
Total	<u>100%</u>	

2. TRA Long-Term Expected Return on Investment

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	33.50%	5.10%
International Equity	16.50%	5.30%
Fixed Income	25.00%	0.75%
Private Markets	25.00%	5.90%
Total	<u>100%</u>	

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

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Actuarial Methods and Assumptions

1. General Employees Fund Actuarial Methods and Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.0 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

Change in Plan Provisions:

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

**NOTES TO FINANCIAL STATEMENTS**

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

Actuarial Methods and Assumptions (Continued)

2.TRA Actuarial Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

<b>Key Methods and Assumptions Used in Valuation of Total Pension Liability</b>	
<b>Actuarial Information</b>	
Valuation Date	July 1, 2023
Measurement Date	June 30, 2023
Experience Studies	June 28, 2019 (demographic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Price Inflation	2.50%
Wage growth rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increase	2.85 to 8.85% before July 1, 2028 and 3.25 to 9.25% after June 30, 2028
Cost of Living Adjustment	1% for January 2019 through January 2023, then increasing by 0.10% each year up to 1.5% annually.
Mortality Assumptions:	
Pre-Retirement:	RP-2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP-2015 scale.
Post-Retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-Disability:	RP-2014 disabled retiree mortality table, without adjustment.

The TRA actuary has determined the average of the expected remaining service lives of all members for the fiscal year 2023 is six years. The *Difference between Expected and Actual Experience, Changes of Assumptions, and Changes in Proportion* uses the amortization period of six years in the schedule presented. The amortization period for *Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments* is five years as required by GASB 68.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

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Actuarial Methods and Assumptions (Continued)

Changes in TRA actuarial assumptions since the 2022 valuation:

The 2023 Tax Finance and Policy Bill, effective July 1, 2025:

- The employer contribution rate will increase from 8.75% to 9.5% on July 1, 2025.
- The employee contribution rate will increase from 7.75% to 8% on July 1, 2025.
- The pension adjustment rate for school districts and the base budgets for Minnesota State, Perpich Center for Arts Education, and Minnesota Academies will increase to reflect the 0.75% employer contribution rate increase.

The 2024 Omnibus Pensions and Retirement Bill:

- The Normal Retirement Age (NRA) for active and eligible deferred Tier II members will be 65 effective July 1, 2024.
- TRA's amortization date will remain the same at 2048.

Discount Rate

1. General Employees Fund Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

2. TRA Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. There was no change in the discount rate since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2023 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

Pension Liability Sensitivity

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



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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

*Pension Liability Sensitivity (Continued)*

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
General Employees Retirement Fund Discount Rate	6.00%	7.00%	8.00%
District's proportionate share of the General Employees Retirement Fund net pension liability	\$ 1,968,607	\$ 1,112,786	\$ 408,840
TRA Discount Rate	6.00%	7.00%	8.00%
District's proportionate share of the TRA net pension liability	\$ 7,163,430	\$ 4,491,386	\$ 2,303,992

*Pension Plan Fiduciary Net Position*

Detailed information about the General Employees Retirement Fund's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

Detailed information about TRA's fiduciary net position is available in a separately issued TRA financial report. That report can be obtained at [www.MinnesotaTRA.org](http://www.MinnesotaTRA.org); by writing to TRA at 60 Empire Drive 400, St. Paul, Minnesota, 55103-4000; or by calling (651) 296-2409 or 1-800-657-3669.

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

**NOTES TO FINANCIAL STATEMENTS**

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**10. Other Postemployment Benefit Plan**

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The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions for the year ended June 30, 2024.

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.

The District has no assets accumulated in a trust that meet the criteria of GASB Statement No, 75.

Benefits Provided

Retirees that were hired on or before September 2, 1997 are eligible for continued health insurance benefits paid for by the district if they qualify under the "rule of 90" or have worked in the district for 20 years and are at least 60 years of age. The benefit will be for the same plan in force at the time of retirement. A retiree can switch from family to single coverage, but not from single to family coverage. This benefit will end upon reaching eligibility for Medicare. These retirees will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the District's health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active retiree population, the retirees are receiving an implicit rate subsidy. As of June 30, 2024 there were 39 active participants and 2 retired participants in the District's group health plan.

Funding Policy

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

Total OPEB Liability

The District's total OPEB liability was measured as of July 1, 2023, and the total OPEB liability was determined by an actuarial valuation as of July 1, 2023. The components of the total OPEB liability of the District at year-end were as follows:

Total OPEB liability	<u>\$ 365,097</u>
Liability discount rate	<u>3.80%</u>

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.

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

**NOTES TO FINANCIAL STATEMENTS**

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

*Actuarial Methods and Assumptions (Continued)*

The total OPEB liability was determined by an actuarial valuation as of June 30, 2023, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Plan Type	Single Employer
Discount rate	3.90%
20-Year Municipal Bond Yield	3.90%
Inflation rate	2.50%
Salary Increases	Service graded table, see sample rates. Note: 3.00% used to roll pay forward to the valuation rate
Medical Trend Rate	6.50% as of July 1, 2023 grading to 5.00% over 6 years and then to 4.00% over the next 48 years
Dental Trend Rate	NA

The following changes in economic assumptions since the last valuation have been made:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP- 2021 Generational Improvement Scale.
- The percentage of future retirees eligible for a subsidy who are assumed to continue on the District's medical plan post-employment was decreased from 100% to 50%.
- The discount rate was changed from 3.80% to 3.90%.

There were no changes in plan provisions or demographic and other assumptions since the previous valuation.

Changes in Total OPEB Liability

	Total OPEB Liability
Beginning Balance 6/30/2023	\$ 446,341
Changes for the year:	
Service cost	14,467
Interest	17,179
Assumption changes	(49,809)
Difference between Expected and Actual Experience	(45,453)
Benefit payments	(17,628)
Net Changes	<u>(81,244)</u>
Balance End of Year 6/30/2024	<u>\$ 365,097</u>

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

**NOTES TO FINANCIAL STATEMENTS**

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

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

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

	Net OPEB Liability
1% decrease in Discount Rate (2.90%)	\$ 385,530
Current Discount Rate (3.90%)	365,097
1% increase in Discount Rate (4.90%)	345,332

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

	Net OPEB Liability
1% decrease in Trend Rates	\$ 340,668
Current Trend Rates	365,097
1% increase in Trend Rates	393,890

OPEB Related Deferred Outflows/Inflows of Resources

As of the year ended June 30, 2024, the District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 33,016	\$ 63,791
Change in actuarial assumption	16,892	73,895
Contributions paid to OPEB subsequent to the measurement date	23,018	
Total	\$ 72,926	\$ 137,686

The \$72,926 reported as deferred outflows of resources and \$137,686 reported as deferred inflows of resources related to OPEB resulting from District contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2025.

**NOTES TO FINANCIAL STATEMENTS**

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**11. Severance Pay and Early Retirement Incentive Pay**

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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 PTO at the rate of \$15.63 per hour, not to exceed 800 hours. Teachers hired on or before September 2, 1997 may continue to be covered under the Article XVII Severance Plan. The District shall however, subtract any amount it has paid to the 403B matching contribution plan from the amount the teacher would be eligible for under the Severance Plan in Section 1 of Article XVII. 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 \$18,500. This amount is included in the financial statements as part of long-term liabilities.

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**12. Flexible Benefit Plan**

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

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

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

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

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**13. Risk Management**

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The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries insurance for employee health, liability, property, and automotive insurance. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There was no reduction in insurance coverage during 2024.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2024**

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

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

	Total OPEB Liability						
	2024	2023	2022	2021	2020	2019	2018
Service cost	\$ 14,467	\$ 16,543	\$ 21,737	\$ 20,902	\$ 17,977	\$ 19,064	\$ 18,510
Interest	17,179	10,177	10,227	13,033	16,822	17,577	18,796
Assumption changes	(49,809)	(37,092)	16,055	12,381	(64,442)		
Difference between Expected and Actual Experience	(45,453)		49,525				
Benefit payments	(17,628)	(22,638)	(44,918)	(37,914)	(57,163)	(58,340)	(88,824)
Net changes in total OPEB liability	(81,244)	(33,010)	52,626	8,402	(86,806)	(21,699)	(51,518)
Total OPEB liability - beginning of year	446,341	479,351	426,725	418,323	505,129	526,828	578,346
Total OPEB liability - end of year	<u>\$ 365,097</u>	<u>\$ 446,341</u>	<u>\$ 479,351</u>	<u>\$ 426,725</u>	<u>\$ 418,323</u>	<u>\$ 505,129</u>	<u>\$ 526,828</u>
<b>Total OPEB Liability - End of Year</b>	<b>\$ 365,097</b>	<b>\$ 446,341</b>	<b>\$ 479,351</b>	<b>\$ 426,725</b>	<b>\$ 418,323</b>	<b>\$ 505,129</b>	<b>\$ 526,828</b>
<b>Covered-Employee Payroll</b>	<b>\$ 3,367,054</b>	<b>\$ 3,316,634</b>	<b>\$ 3,220,033</b>	<b>\$ 3,080,975</b>	<b>\$ 2,991,238</b>	<b>\$ 2,867,875</b>	<b>\$ 2,784,346</b>
<b>Total OPEB Liability as a Percentage of Covered-Employee Payroll</b>	<b>10.8%</b>	<b>13.5%</b>	<b>14.9%</b>	<b>13.9%</b>	<b>14.0%</b>	<b>17.6%</b>	<b>18.9%</b>

Note: There are no assets in a trust to pay related benefits.



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

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

Fiscal Year Ended June 30	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	PERA	\$ 61,026	\$ 61,026	\$	\$ 813,680	7.50%
2016	PERA	73,633	73,633		981,773	7.50%
2017	PERA	81,932	81,932		1,092,427	7.50%
2018	PERA	92,822	92,822		1,237,627	7.50%
2019	PERA	103,288	103,288		1,377,173	7.50%
2020	PERA	109,364	109,364		1,458,187	7.50%
2021	PERA	106,952	106,952		1,426,027	7.50%
2022	PERA	113,592	113,592		1,514,560	7.50%
2023	PERA	118,728	118,728		1,583,040	7.50%
2024	PERA	118,624	118,624		1,581,653	7.50%

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

Fiscal Year Ended June 30	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	TRA	\$ 172,344	\$ 172,344	\$	\$2,297,920	7.50%
2016	TRA	189,286	189,286		2,523,813	7.50%
2017	TRA	196,289	196,289		2,617,187	7.50%
2018	TRA	206,969	206,969		2,759,587	7.50%
2019	TRA	211,380	211,380		2,818,400	7.50%
2020	TRA	232,942	232,942		3,021,297	7.71%
2021	TRA	251,270	251,270		3,172,601	7.92%
2022	TRA	260,724	260,724		3,206,937	8.13%
2023	TRA	281,720	281,720		3,377,938	8.34%
2024	TRA	295,807	295,807		3,459,731	8.55%

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

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

Fiscal Year Ended June 30	District's Proportionate (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the District (a+b)	District's Covered Payroll (c)	District's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
						Percentage of its Covered Payroll ((a+b)/c)	Percentage of the Total Pension Liability
2014	0.0175%	\$ 822,062	\$	\$ 822,062	\$ 813,680	101%	78.70%
2015	0.0170%	881,028		881,028	981,773	90%	78.20%
2016	0.0176%	1,429,033	18,632	1,447,665	1,092,427	133%	68.90%
2017	0.0192%	1,225,715	15,421	1,241,136	1,237,627	100%	75.90%
2018	0.0205%	1,137,256	37,353	1,174,609	1,377,173	85%	79.53%
2019	0.0206%	1,138,928	35,332	1,174,260	1,458,187	81%	80.23%
2020	0.0200%	1,199,091	36,946	1,236,037	1,426,027	87%	79.06%
2021	0.0210%	896,794	27,461	924,255	1,514,560	61%	87.00%
2022	0.0211%	1,671,127	49,176	1,720,303	1,583,040	109%	76.70%
2023	0.0199%	1,112,786	30,603	1,143,389	1,581,653	72%	83.10%

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

Fiscal Year Ended June 30	District's Proportionate (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the District (a+b)	District's Covered Payroll (c)	District's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
						Percentage of its Covered Payroll ((a+b)/c)	Percentage of the Total Pension Liability
2014	0.0539%	\$ 2,483,673	\$ 174,748	\$ 2,658,421	\$ 2,297,920	116%	81.50%
2015	0.0497%	3,074,437	377,135	3,451,572	2,523,813	137%	76.80%
2016	0.0503%	11,997,750	1,203,199	13,200,949	2,617,187	504%	44.90%
2017	0.0513%	10,240,411	990,629	11,231,040	2,759,587	407%	51.57%
2018	0.0510%	3,204,076	301,002	3,505,078	2,818,400	124%	78.07%
2019	0.0532%	3,390,979	300,050	3,691,029	3,021,297	122%	78.07%
2020	0.0546%	4,033,921	338,193	4,372,114	3,172,601	138%	75.48%
2021	0.0536%	2,345,696	197,763	2,543,459	3,206,937	79%	86.63%
2022	0.0546%	4,372,079	323,957	4,696,036	3,377,938	139%	76.17%
2023	0.0544%	4,491,386	314,558	4,805,944	3,459,731	139%	76.42%

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

**SUPPLEMENTARY INFORMATION**

**JUNE 30, 2024**

**INDEPENDENT SCHOOL DISTRICT #2198  
PRESTON, MINNESOTA  
COMPARATIVE BALANCE SHEET  
GENERAL FUND  
June 30, 2024 and 2023**

	2024	2023
<b>Assets</b>		
Cash and investments	\$ 6,474,624	\$ 5,454,823
Current property taxes receivable	452,964	439,965
Delinquent property taxes receivable	1,313	5,093
Accounts receivable	12,476	10,616
Due from other school districts	57,003	50,803
Due from Minnesota Department of Education	663,799	588,033
Due from Federal through Minnesota Department of Education	566,617	437,049
Prepaid items	55,391	58,655
<b>TOTAL ASSETS</b>	<b>\$ 8,284,187</b>	<b>\$ 7,045,037</b>
<b>Liabilities</b>		
Accounts payable	\$ 29,023	\$ 43,795
Salaries and accrued liabilities payable	688,602	655,769
Due to other school districts	1,445	82,582
Unearned revenue	2,444	2,444
<b>TOTAL LIABILITIES</b>	<b>721,514</b>	<b>784,590</b>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue:		
Property taxes levied for subsequent year	1,000,606	946,992
Delinquent property taxes	1,313	5,093
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>1,001,919</b>	<b>952,085</b>
<b>Fund Balances</b>		
Nonspendable	55,391	58,655
Restricted	1,396,291	993,813
Assigned	3,628,187	2,821,471
Unassigned	1,480,885	1,434,423
<b>TOTAL FUND BALANCES</b>	<b>6,560,754</b>	<b>5,308,362</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 8,284,187</b>	<b>\$ 7,045,037</b>

**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, 2024  
With Partial Comparative Data for the Year Ended June 30, 2023

	Budgeted Amounts		2024 Actual	Over (Under) Final Budget	2023 Actual
	Original	Final			
<b>Revenues</b>					
Local sources:					
Property tax levies	\$ 509,410	\$ 509,410	\$ 269,991	\$ (239,419)	\$ 294,553
Investment income	5,000	12,000	13,349	1,349	10,527
State sources	57,283	57,283	286,245	228,962	268,597
<b>TOTAL REVENUES</b>	571,693	578,693	569,585	(9,108)	573,677
<b>Expenditures</b>					
Fiscal and Other Fixed Cost Programs	561,868	561,868	561,518	(350)	564,599
<b>NET CHANGE IN FUND BALANCES</b>	9,825	16,825	8,067	(8,758)	9,078
<b>FUND BALANCE - BEGINNING</b>	139,231	139,231	139,231		130,153
<b>FUND BALANCE - ENDING</b>	\$ 149,056	\$ 156,056	\$ 147,298	\$ (8,758)	\$ 139,231

**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**SUPPLEMENTAL COST SCHEDULES**  
For the Years Ended June 30, 2024 and 2023  
(Unaudited)

<b>Fiscal Year Ended June 30, 2024</b>	2023 - 2024 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	\$ 526,411	\$ 916
District support services	352,943	614
Regular instruction	4,168,023	7,254
Vocational instruction	206,775	360
Special education	1,434,438	2,496
Community education and services	886,139	1,542
Instructional support services	242,793	423
Pupil support services	1,387,014	2,414
Site, buildings, and equipment	894,345	1,556
Fiscal and other fixed cost programs	740,852	1,289
<b>TOTALS</b>	<b>\$ 10,839,733</b>	<b>\$ 18,865</b>

2023 - 2024 Adjusted Average Daily Membership - 574.61

<b>Fiscal Year Ended June 30, 2023</b>	2022 - 2023 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	\$ 506,507	\$ 864
District support services	370,254	632
Regular instruction	3,905,403	6,663
Vocational instruction	185,691	317
Special education	1,326,636	2,263
Community education and services	860,164	1,467
Instructional support services	156,680	267
Pupil support services	1,321,922	2,255
Site, buildings, and equipment	1,079,025	1,841
Fiscal and other fixed cost programs	729,616	1,245
<b>TOTALS</b>	<b>\$ 10,441,898</b>	<b>\$ 17,814</b>

2022 - 2023 Adjusted Average Daily Membership - 586.17

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

TAX LEVY HISTORY

	23 Pay 24 Fiscal 25	22 Pay 23 Fiscal 24	21 Pay 22 Fiscal 23	20 Pay 21 Fiscal 22	19 Pay 20 Fiscal 21
<b>Tax Levy*</b>					
General	\$ 1,048,683	\$ 1,018,337	\$ 966,330	\$ 1,022,012	\$ 826,558
Community Service	74,846	76,887	76,174	78,180	78,310
Debt Redemption (Net)	619,780	611,370	600,340	619,165	548,311
<b>TOTAL TAX LEVY</b>	<b>\$ 1,743,309</b>	<b>\$ 1,706,594</b>	<b>\$ 1,642,844</b>	<b>\$ 1,719,357</b>	<b>\$ 1,453,179</b>

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

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

**OTHER REQUIRED REPORTS**

**JUNE 30, 2024**

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

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

We have audited, 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 (Government Auditing Standard), and the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Section 6.65, the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Independent School District #2198, Preston, Minnesota (the District), as of and for the year ended June 30, 2024, and the related notes to financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated November 1, 2024.

**Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether District's financial statements are free from 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

### **Minnesota Legal Compliance**

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for Minnesota school districts (UFARS) sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Smith, Schafu and Associates, Ltd.*

Rochester, Minnesota  
November 1, 2024

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

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

We have audited the District's compliance with the types of compliance requirements identified as subject to audit in the OMB 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, 2024. 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.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a material effect on its major federal programs for the year ended June 30, 2024.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for major federal programs. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's major federal programs.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

### ***Auditor's Responsibilities for the Audit of Compliance (Continued)***

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purposes of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 and correct, 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited 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, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 1, 2024, 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 the Uniform Guidance 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Smith, Schafu and Associates, Ltd.*

Rochester, Minnesota  
November 1, 2024

**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Fiscal Year Ended June 30, 2024

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal ALN</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Pass-through from Minnesota Department of Education:		
Child Nutrition Cluster:		
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	\$ 52,142
Cash Assistance		
School Breakfast Program (SBP)	10.553	41,995
Summer Food Service Program (SFSP)	10.555	168,298
Child and Adult Care Food Program	10.558	14,215
Summer Food Service Program for Children	10.559	27,637
Subtotal - U.S. Department of Agriculture		<u>304,287</u>
<u>U.S. Department of Treasury</u>		
American Relief Funds	21.019C	14,554
Pass-through from Minnesota Department of Education:		
Coronavirus State & Local Fiscal Recovery Funds	21.027	5,538
Subtotal - U.S. Department of Treasury		<u>20,092</u>
<u>U.S. Department of Education</u>		
Pass-through from Minnesota Department of Education:		
Title I Grants to Local Educational Agencies	84.010	212,757
Special Education - Grants to States	84.027	145,642
Career and Tech Education - Basic Grants to States (Perkins IV)	84.048A	60,826
Special Education - Preschool Grants (IDEA, Part B)	84.173	9,588
Special Education - Grants for Infants and Families	84.181	1,428
Title V, Part A - Small Rural Ed Achievement Program	84.358	13,173
Supporting Effective Instruction State Grants	84.367	38,932
Student Support and Academic Enrichment Program	84.424	14,861
Elementary and Secondary School Emergency Relief Fund	84.425U	1,033,323 ***
Subtotal - U.S. Department of Education		<u>1,530,530</u>
Total Expenditures of Federal Awards		<u>\$ 1,854,909</u>

\*\*\* Major Program



**Independent School District #2198  
PRESTON, MINNESOTA**

**NOTES TO SCHEUDLE OF EXPENDITURES OF FEDERAL AWARDS**

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**1. General**

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The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Independent School District #2198, Preston, Minnesota under programs of the federal government for the year ended June 30, 2024. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in assets, or cash flows of the District.

All pass-through entities listed in the Schedule use the same Assistance Listing Numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

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**2. Summary of Significant Accounting Principles**

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Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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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 \$52,142.

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**4. Indirect Cost Rate**

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Independent School District #2198 has not charged indirect costs to any of the federal programs. Therefore, the election of the 10 percent de minimis indirect cost rate is not applicable as allowed under the Uniform Guidance.

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**5. Subrecipients**

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Independent School District #2198 did not have subrecipients for the fiscal year ended June 30, 2024.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Fiscal Year Ended June 30, 2023**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**PRIOR YEAR REFERENCE NUMBER: 2011-01**

**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.

**CURRENT STATUS:**

Reoccurred in the current year.

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

No findings.

**FINDINGS RELATED TO MINNESOTA LEGAL COMPLIANCE**

Our audit did not disclose any matters required to be reported for Minnesota Legal Compliance in the prior year.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2024**

**SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

1. Type of auditor's report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified?                      Yes     X     No
- Significant deficiency(ies) identified?     X     Yes                      None reported
3. Noncompliance material to financial statements noted?                      Yes     X     No

***Federal Awards***

1. Internal control over major federal programs:
- Material weakness(es) identified?                      Yes     X     No
- Significant deficiency(ies) identified?                      Yes     X     None reported
2. Type of auditor's report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?                      Yes     X     No

***Programs Tested as a Major Program***

<b>Assistance Listing Number(s)</b>	<b>Name of Federal Program or Cluster</b>
- 84.425U	Education Stabilization Cluster

Dollar threshold used to distinguish between Type A and Type B programs:     \$ 750,000    

Auditee qualified as low-risk auditee?     X     Yes                      No

**INDEPENDENT SCHOOL DISTRICT #2198**  
**PRESTON, MINNESOTA**  
**SCHEDULE OF PRIOR YEAR FINDINGS**  
Year Ended June 30, 2024

**FINDING – 2011-01      ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPALS (GAAP)**

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

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

**Questioned Costs:**        None.

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

**Effect:**                        No effect on the financial statements.

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

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

**Views of Responsible Officials and Planned**

**Corrective Action:**        Management agrees with the recommendation. See corresponding Corrective Action Plan.

**Current Status:**            The finding recurred in 2024.

# *FILLMORE CENTRAL SCHOOL DISTRICT #2198*

*Home of the Falcons*

*700 Chatfield Street, PO BOX 50*

*Preston, MN 55965*

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

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## **CORRECTIVE ACTION PLAN (CAP):**

The Independent School District #2198 respectfully submits the following corrective action plan for the year ended June 30, 2024: Audit period: July 1, 2023 - June 30, 2024.

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

## **RESPONSE: FINDING 2011-001**

### **Explanation of Disagreement with Audit Finding:**

There is no disagreement with the audit finding.

### **Actions Planned in Response to Finding:**

The Superintendent and Business Manager 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 business manager 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:**

Heath Olstad, Superintendent, will ensure the review by the Bookkeeper has been completed. He will do this through discussion with the Bookkeeper and reviewing the draft of the financial statements.

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

**COMPLIANCE TABLE**

**JUNE 30, 2024**

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**Fiscal Compliance Report - 6/30/2024**  
**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	\$10,045,084	<u>\$10,045,081</u>	\$3	Total Revenue	\$0	<u>\$0</u>	\$0
Total Expenditures	\$8,755,742	<u>\$8,755,740</u>	\$2	Total Expenditures	\$0	<u>\$0</u>	\$0
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$55,391	<u>\$55,391</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.01 Student Activities	\$153,566	<u>\$153,566</u>	\$0	4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0
4.02 Scholarships	\$13,235	<u>\$13,235</u>	\$0	4.13 Funded by COP/FP	\$0	<u>\$0</u>	\$0
4.03 Staff Development	\$157,421	<u>\$157,421</u>	\$0	4.67 LTFM	\$0	<u>\$0</u>	\$0
4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.08 Cooperative Revenue	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0
4.12 Literacy Incentive Aid	\$35,444	<u>\$35,444</u>	\$0	<i>Unassigned:</i>			
4.14 Operating Debt	\$0	<u>\$0</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.16 Levy Reduction	\$0	<u>\$0</u>	\$0				
4.17 Taconite Building Maint	\$0	<u>\$0</u>	\$0	<b>07 DEBT SERVICE</b>			
4.20 American Indian Education Aid	\$0	<u>\$0</u>	\$0	Total Revenue	\$569,585	<u>\$569,584</u>	\$1
4.24 Operating Capital	\$640,408	<u>\$640,407</u>	\$1	Total Expenditures	\$561,518	<u>\$561,518</u>	\$0
4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0	<i>Non Spendable:</i>			
4.27 Disabled Accessibility	\$0	<u>\$0</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
4.28 Learning & Development	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.34 Area Learning Center	\$0	<u>\$0</u>	\$0	4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	\$0	4.33 Maximum Effort Loan Aid	\$0	<u>\$0</u>	\$0
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	\$0	4.51 OZAB Payments	\$0	<u>\$0</u>	\$0
4.38 Gifted & Talented	\$20,127	<u>\$20,127</u>	\$0	4.67 LTFM	\$0	<u>\$0</u>	\$0
4.39 English Learner	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$147,298	<u>\$147,298</u>	\$0
4.41 Basic Skills Programs	\$263,203	<u>\$263,203</u>	\$0	<i>Unassigned:</i>			
4.43 School Library Aid	\$13,124	<u>\$13,124</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.48 Achievement and Integration	\$0	<u>\$0</u>	\$0				
4.49 Safe Schools Levy	(\$1,231)	<u>(\$1,231)</u>	\$0	<b>08 TRUST</b>			
4.51 OZAB Payments	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
4.53 Unfunded Sev. & Retirement Levy	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.59 Basic Skills Extended Time	\$0	<u>\$0</u>	\$0	4.01 Student Activities	\$0	<u>\$0</u>	\$0
4.67 LTFM	\$19,660	<u>\$19,660</u>	\$0	4.02 Scholarships	\$0	<u>\$0</u>	\$0
4.71 Student Support Personnel Aid	\$40,000	<u>\$40,000</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
4.72 Medical Assistance	\$40,104	<u>\$40,104</u>	\$0				
<i>Restricted:</i>				<b>18 CUSTODIAL</b>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0	Total Revenue	\$26,192	<u>\$26,193</u>	(\$1)
4.75 Title VII Impact Aid	\$0	<u>\$0</u>	\$0	Total Expenditures	\$34,889	<u>\$34,890</u>	(\$1)
4.76 Payments in Lieu of Taxes	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
<i>Committed:</i>				4.01 Student Activities	\$10,000	<u>\$10,000</u>	\$0
4.18 Committed for Separation	\$0	<u>\$0</u>	\$0	4.02 Scholarships	\$5,744	<u>\$5,744</u>	\$0
4.61 Committed Fund Balance	\$0	<u>\$0</u>	\$0	4.48 Achievement and Integration	\$0	<u>\$0</u>	\$0
<i>Assigned:</i>				4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0
4.62 Assigned Fund Balance	\$3,628,187	<u>\$3,628,187</u>	\$0				
<i>Unassigned:</i>				<b>20 INTERNAL SERVICE</b>			
4.22 Unassigned Fund Balance	\$1,482,116	<u>\$1,482,116</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
				Total Expenditures	\$0	<u>\$0</u>	\$0
				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
<b>02 FOOD SERVICES</b>							
Total Revenue	\$598,194	<u>\$598,195</u>	(\$1)	<b>25 OPEB REVOCABLE TRUST</b>			
Total Expenditures	\$535,443	<u>\$535,443</u>	\$0	Total Revenue	\$25,398	<u>\$25,398</u>	\$0
<i>Non Spendable:</i>				Total Expenditures	\$15,275	<u>\$15,275</u>	\$0
4.60 Non Spendable Fund Balance	\$12,168	<u>\$12,168</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)	(\$108,482)	<u>(\$108,482)</u>	\$0
<i>Restricted / Reserved:</i>							
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	<b>45 OPEB IRREVOCABLE TRUST</b>			
<i>Restricted:</i>				Total Revenue	\$0	<u>\$0</u>	\$0
4.64 Restricted Fund Balance	\$395,074	<u>\$395,075</u>	(\$1)	Total Expenditures	\$0	<u>\$0</u>	\$0
<i>Unassigned:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0				
<b>04 COMMUNITY SERVICE</b>							
Total Revenue	\$821,570	<u>\$821,569</u>	\$1	<b>47 OPEB DEBT SERVICE</b>			
Total Expenditures	\$886,139	<u>\$886,139</u>	\$0	Total Revenue	\$106,823	<u>\$106,823</u>	\$0
<i>Non Spendable:</i>				Total Expenditures	\$100,891	<u>\$100,890</u>	\$1
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0	<i>Non Spendable:</i>			
<i>Restricted / Reserved:</i>				4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.31 Community Education	\$140,553	<u>\$140,553</u>	\$0	4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
4.32 E.C.F.E	\$75,792	<u>\$75,792</u>	\$0	4.64 Restricted Fund Balance	\$22,135	<u>\$22,136</u>	(\$1)
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.44 School Readiness	\$111,437	<u>\$111,437</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.47 Adult Basic Education	\$0	<u>\$0</u>	\$0				
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0				
<i>Restricted:</i>							
4.64 Restricted Fund Balance	\$86,376	<u>\$86,376</u>	\$0				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0				