

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

FINANCIAL STATEMENTS

JUNE 30, 2025

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

INTRODUCTORY SECTION

JUNE 30, 2025

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**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2025**

2024 - 2025

Jennifer Pickett	Chairperson	12/31/2026
Craig Britton	Vice Chairperson	12/31/2026
Susan Sikkink	Treasurer	12/31/2026
Shelly Topness	Clerk	12/31/2026
Jason Schwarz	Vice-Clerk	12/31/2028
Brian Michel	Director	12/31/2028
Carrie Mathison	Director	12/31/2028

Superintendent

Heath Olstad

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

FINANCIAL SECTION

JUNE 30, 2025

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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, 2025, 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, 2025, and the respective changes in financial position and, where applicable cashflows there of, 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 (GAS)*, 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 GAS 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 GAS, 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, 2024, from which such partial information was derived.

We have previously audited the District's 2024 financial statements and our report, dated November 1, 2024, 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, 2024, 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 21, 2025 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, 2025. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2024-2025 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 \$8,673,159 (*net position*).
- Overall revenues for the General Fund were \$9,202,763 while overall expenditures totaled \$9,105,951.
- The General Fund Unassigned Fund Balance is \$1,311,255. This represents a decrease of \$169,630 from last fiscal year. The restricted fund balances total \$1,500,982 as compared to \$1,396,291 last fiscal year. The assigned fund balances total \$3,634,857 as compared to \$3,628,187 last fiscal year. The decrease in unassigned fund balance is due to a reduction of federal funding available to Fillmore Central, the increase in restricted fund balance is due to increases in several areas with restricted uses that make it difficult for Fillmore Central to use, such as English Learner, Student Support Personnel, Literacy/READ Act funding as well as an increase in our Capital Outlay reserve.
- The General Fund total fund balance increased by \$47,793 in 2024-2025. The increase in fund balance is fund balance was due to cautious spending by the District.
- The Food Service Fund total fund balance increased by \$11,958 in 2024-2025. This increase is due the implementation of a shared Food Service Director with a neighboring district. This reduced our annual contract with Taher.
- The Community Service Fund total fund balance increased by \$81,557 in 2024-2025. The increase in fund balance is due to increased participation in our Youth Enrichment Program, reduced expenses/programming in the ECFE program as the District searches for a new coordinator, as well as cautious spending in all other programs.

**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 \$8,673,159 on June 30, 2025.

	Total	
	2025	2024
Assets		
Current and other assets	\$ 10,676,963	\$ 10,366,590
Capital assets	9,455,402	10,197,290
Total assets	20,132,365	20,563,880
Deferred Outflows of Resources	1,215,418	1,411,365
Liabilities		
Current liabilities	989,385	840,959
Long-Term liabilities	8,372,818	9,544,026
Total liabilities	9,362,203	10,384,985
Deferred Inflows of Resources	3,312,421	2,370,458
Net Position		
Net investment in capital assets	6,104,929	7,096,033
Restricted	2,140,048	2,068,122
Unrestricted	428,182	55,647
Total net position	\$ 8,673,159	\$ 9,219,802

**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 \$11,313,920 for the year ended June 30, 2025; compared to \$12,159,475 on June 30, 2024. General revenues from federal and state sources accounted for 51.61% of total revenue for the year ended June 30, 2025, compared to 49.56% in the prior year. Local property taxes (levies) accounted for 13.76% percent (compared to 11.65% the previous year) of the total revenue, with the remaining revenue coming from other sources.

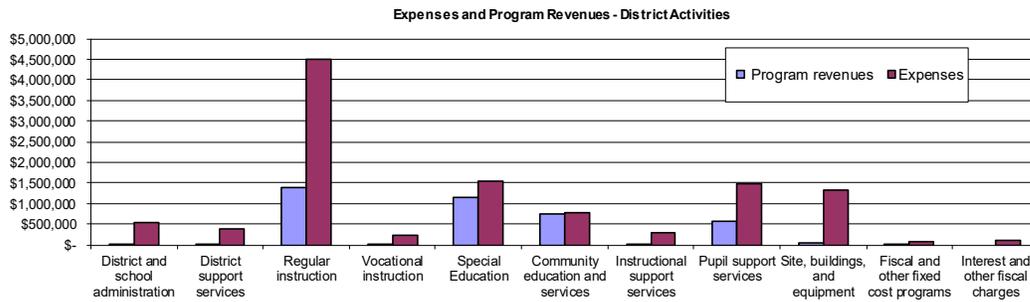
A condensed version of the Statement of Activities follows:

	Total	
	2025	2024
Revenue		
Program revenues:		
Charges for services	\$ 1,154,603	\$ 1,100,383
Operating grants and contributions	2,725,687	3,708,105
Capital grants and contributions	36,986	56,810
General revenues:		
Property taxes	1,557,226	1,416,147
State sources	5,516,508	5,540,087
Other sources	322,910	337,943
Total revenues	<u>11,313,920</u>	<u>12,159,475</u>
Expenses		
District and school administration	526,855	499,110
District support services	369,746	348,873
Regular instruction	4,490,457	4,231,410
Vocational instruction	220,279	190,241
Special education	1,537,165	1,395,531
Community education and services	787,607	891,459
Instructional support services	296,660	187,664
Pupil support services	1,466,445	1,432,694
Site, buildings, and equipment	1,319,431	1,354,000
Fiscal and other fixed cost programs	68,429	74,420
Interest and other fiscal charges	104,118	120,814
Total expenses	<u>11,187,192</u>	<u>10,726,216</u>
Change in net position	126,728	1,433,259
Net position, beginning, as originally stated	9,219,802	7,786,543
Restatement (Note 14)	(673,371)	
Net position - beginning, as restated	<u>8,546,431</u>	<u>7,786,543</u>
Net position, end of year	<u>\$ 8,673,159</u>	<u>\$ 9,219,802</u>

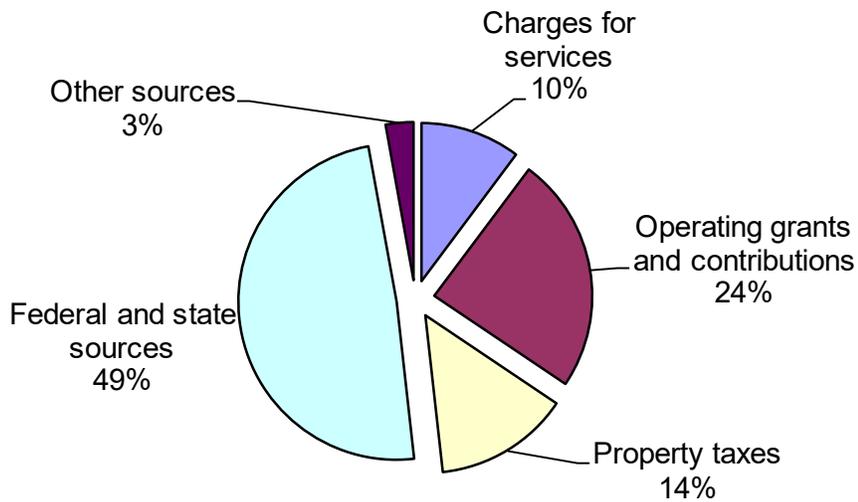
**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

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



Revenues by Source - District Activities



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

FUND BASIS FINANCIAL ANALYSIS

Financial Analysis of the District's Funds

The financial performance of the District as a school is reflected in its governmental funds as well. As the District completed the year, its Governmental Funds reported a combined fund balance of \$7,700,049.

Enrollment is expected to decrease for the 2025-2026 school year.

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

<u>Fiscal Year</u>	<u>ADM</u>	<u>% Change</u>
2016	627.26	
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%
2025	560.27	-2.5%

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

Total General Fund revenues decreased by \$842,321 from the previous year (being \$9,202,763 in FY25, and \$10,045,084 in FY24).

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:

	2025	2024	Increase/ (Decrease)
Local property tax levies	\$ 1,088,366	\$ 986,212	\$ 102,154
Other local and county sources	561,115	497,417	63,698
Investment income	282,249	326,145	(43,896)
State sources	6,670,671	6,739,677	(69,006)
Federal sources	579,117	1,474,889	(895,772)
Sales and other conversions of assets	21,245	20,744	501
Total	\$ 9,202,763	\$ 10,045,084	\$ (842,321)

Total General Fund expenditures increased by \$350,209.

General fund expenditures and transfers were as follows:

	2025	2024	Increase/ (Decrease)
District and school administration	\$ 538,799	\$ 526,411	\$ 12,388
District support services	314,683	352,943	(38,260)
Regular instruction	4,286,844	4,168,023	118,821
Vocational instruction	225,260	206,775	18,485
Special Education	1,574,295	1,434,438	139,857
Instructional support services	299,219	242,793	56,426
Pupil support services	870,658	851,571	19,087
Site, buildings, and equipment	920,124	894,345	25,779
Fiscal and other fixed cost programs and transfers out	76,069	78,443	(2,374)
Total	\$ 9,105,951	\$ 8,755,742	\$ 350,209

The total General Fund balance on June 30, 2025, was \$6,608,547 compared to \$6,560,754 on June 30, 2024 (increase of \$47,793). Of the amount, \$1,500,982 is restricted for specific purposes by state requirements, \$3,634,857 is assigned; and \$1,311,255 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, 2025, was \$419,200 compared to \$407,242 on June 30, 2024.

The Food Service revenue for 2024-2025 totaled \$564,263 compared to \$598,194 the previous year – a decrease of \$33,931.

The Food Service expenditures for 2024-2025 totaled \$553,900 compared to \$535,443 the previous year – an increase in expenditures \$18,457.

**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 \$81,557.

Community Service Fund revenues for 2024-2025 totaled \$849,160 compared to \$821,570 in the previous year. This was an increase in revenue of \$27,590 from the previous year. This increase is due to increased participation in our Youth Enrichment programs and changes to our Daycare and SAC contracts that increased revenue for those programs.

Community Service Fund expenditures for 2024-2025 totaled \$815,027 compared to \$886,139 in the previous year. This was a decrease in expenditures of \$71,112 from the previous year. This decrease is primarily due to difficulty finding staff. Fillmore Central operated without a full-time ECFE director or a Daycare director.

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) decreased by \$543 in 2024-2025.

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 \$113,675 at June 30, 2025.

Fiduciary Fund. Private-purpose trust (scholarship trust) fund is the District's fiduciary fund. The net position of the scholarship trust is \$14,234 (compared to \$15,744 in FY24).

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The District provided a Revised General Fund 2024-2025 budget in May of 2025. The Revised FY25 Budget estimated an increase of revenue of \$365,984 over the projected FY25 budget.

The Actual FY25 revenues were \$166,936 more than the Revised Budget for revenue. This was due to greater than anticipated general education aid, interest earnings, tuition/participation fees from neighboring districts, and student support personnel aid.

The Revised FY25 Budget expenditures were \$184,778 more than the Original FY25 Budget. There were budget increases due to Read Act Training, summer hourly unemployment, additional substitute costs, a street assessment in Harmony, and increased supply purchases (funded by community donations and grants).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2025, the District had invested \$21,279,287 (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)	
	2025	2024
Land	\$ 44,373	\$ 44,373
Site improvements	2,760,143	2,958,823
Buildings	6,067,661	6,518,297
Machinery and equipment	551,070	632,924
Right to use leased equipment	32,155	42,873
Total	\$ 9,455,402	\$ 10,197,290

Long Term Liabilities. As of June 30, 2025, the District had \$2,920,000 in bonds outstanding. The District also had \$28,500 in severance benefits payable at the end of the year. A summary of outstanding long-term liabilities as of June 30, 2025, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable:					
General Obligation Bonds:					
Alternative Facilities Bond 2010A	\$ 155,000	\$	\$ 155,000	\$	\$
Alternative Facilities Bond 2012A	280,000		70,000	210,000	70,000
Alternative & Capital Facilities Bond 2014A	2,585,000		245,000	2,340,000	410,000
OPEB Refunding Bonds 2017A	455,000		85,000	370,000	90,000
Bond Discount	(4,427)		643	(5,070)	
Bond Premium	41,981		6,997	34,984	
Other Liabilities:					
Lease Payable - Copier/Printers	43,703		10,286	33,417	10,701
Compensated Absences	673,371	63,771		737,142	
Severance Payable	18,500	10,000		28,500	
Governmental Activities				\$ 3,748,973	\$ 580,701
Long-term Liabilities	\$ 4,248,128	\$ 73,771	\$ 572,926	\$ 3,748,973	\$ 580,701

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

School choice continues to impact the district's enrollment. Families have the flexibility to select any public school (for any reason), pursue homeschooling, or participate in online learning to meet their family's needs. Additionally, high school students can attend college through Minnesota's PSEO program while still high school aged. Each of these options affects Fillmore Central's enrollment and therefore the revenue. To address the recent decline in enrollment, we will be conducting a special election in the fall of 2025, seeking community support for an operating referendum that would 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, 2025

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INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2025

	Governmental Activities
	2025
Assets	
Cash and investments	\$ 8,363,687
Taxes receivable	898,620
Other receivables	22,264
Due from other governmental units	1,220,544
Inventory	11,301
Prepaid items	160,547
Capital Assets:	
Nondepreciable	44,373
Right to use leased assets, net of amortization	32,155
Depreciable, net of accumulated depreciation	9,378,874
TOTAL ASSETS	20,132,365
Deferred Outflows of Resources	
Deferred outflows from pension activities	1,145,743
Deferred outflows from OPEB activity	69,675
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,215,418
Liabilities	
Accounts payable	76,748
Due to other governmental units	50,194
Unearned revenue	14,246
Accrued liabilities	810,644
Accrued interest payable	37,553
Noncurrent Liabilities:	
Due within one year:	
Long-term liabilities	570,000
Lease payable	10,701
Post-employment benefit liability	32,774
Due in more than one year:	
Long-term liabilities	3,145,556
Net pension liability	4,234,063
Lease payable	22,716
Post-employment benefits liability	357,008
TOTAL LIABILITIES	9,362,203
Deferred Inflows of Resources	
Deferred inflows from pension activities	1,520,224
Deferred inflows from OPEB activity	118,253
Property taxes levied for subsequent year	1,673,944
TOTAL DEFERRED INFLOWS OF RESOURCES	3,312,421
Net Position	
Net investment in capital assets	6,104,929
Restricted:	
Operating capital purposes	713,067
State-mandated restrictions	363,627
Food service	419,200
Community service	495,715
Debt service	148,439
Unrestricted	428,182
TOTAL NET POSITION	\$ 8,673,159

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2025

2025

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
District and school administration	\$ 526,855	\$	\$ 240	\$
District support services	369,746		87	
Regular instruction	4,490,457	463,977	917,024	
Vocational instruction	220,279		486	
Special education	1,537,165	17,535	1,139,176	
Community education and services	787,607	609,327	145,845	
Instruction support services	296,660		23,661	
Pupil support services	1,466,445	52,367	499,081	
Site, buildings, and equipment	1,319,431		87	36,986
Fiscal and other fixed cost programs	68,429	11,397		
Interest and other fiscal charges	104,118			
Total governmental activities	\$ 11,187,192	\$ 1,154,603	\$ 2,725,687	\$ 36,986

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, as originally stated

Restatement (Note 14)

Net Position - Beginning, as restated

Net Position - Ending

See Notes to Financial Statements

2025	
Net (Expense)	
Revenue and	
Changes in Net	
Position	
Total	
Governmental	
Activities	
\$	(526,615)
	(369,659)
	(3,109,456)
	(219,793)
	(380,454)
	(32,435)
	(272,999)
	(914,997)
	(1,282,358)
	(57,032)
	(104,118)
	<u>(7,269,916)</u>
	1,205,213
	70,768
	281,245
	5,516,508
	322,910
	<u>7,396,644</u>
	<u>126,728</u>
	9,219,802
	(673,371)
	<u>8,546,431</u>
\$	<u><u>8,673,159</u></u>

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2025
With Partial Comparative Data as of June 30, 2024

	General	Food Service	Community Service
Assets			
Cash and investments	\$ 6,738,912	\$ 332,099	\$ 595,088
Current property taxes receivable	454,379		34,882
Delinquent property taxes receivable	15,913		1,135
Accounts receivable	9,850	150	12,264
Due from other school districts	62,100		118
Due from Minnesota Department of Education	671,508	56,819	10,465
Due from Federal through Minnesota Department of Education	334,140	57,038	
Prepaid items	161,453		
Inventory		11,301	
TOTAL ASSETS	\$ 8,448,255	\$ 457,407	\$ 653,952
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 37,089	\$ 37,304	\$ 2,355
Salaries and accrued liabilities payable	750,865	903	58,876
Due to other school districts	47,750		
Due to other governments	2,444		
Unearned revenue			14,246
TOTAL LIABILITIES	838,148	38,207	75,477
Deferred Inflows of Resources			
Unavailable revenue:			
Property taxes levied for subsequent year	985,647		81,625
Delinquent property taxes	15,913		1,135
TOTAL DEFERRED INFLOWS OF RESOURCES	1,001,560		82,760
Fund Balances			
Nonspendable	161,453	11,301	
Restricted	1,500,982	407,899	495,715
Assigned	3,634,857		
Unassigned	1,311,255		
TOTAL FUND BALANCES	6,608,547	419,200	495,715
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 8,448,255	\$ 457,407	\$ 653,952

See Notes to Financial Statements

		Total Governmental Funds	
Debt Service	OPEB Debt Service	2025	2024
\$ 291,681	\$ 80,316	\$ 8,038,096	\$ 7,641,951
338,853	44,053	872,167	886,219
7,919	1,486	26,453	2,200
		22,264	12,980
		62,218	57,003
28,044	312	767,148	755,621
		391,178	621,682
		161,453	55,391
		11,301	12,168
<u>\$ 666,497</u>	<u>\$ 126,167</u>	<u>\$ 10,352,278</u>	<u>\$ 10,045,215</u>

\$	\$	\$ 76,748	\$ 39,178
		810,644	739,935
		47,750	1,445
		2,444	
		14,246	15,639
		<u>951,832</u>	<u>796,197</u>

503,583	103,089	1,673,944	1,695,231
7,919	1,486	26,453	2,200
<u>511,502</u>	<u>104,575</u>	<u>1,700,397</u>	<u>1,697,431</u>

		172,754	67,559
154,995	21,592	2,581,183	2,374,956
		3,634,857	3,628,187
		1,311,255	1,480,885
<u>154,995</u>	<u>21,592</u>	<u>7,700,049</u>	<u>7,551,587</u>
<u>\$ 666,497</u>	<u>\$ 126,167</u>	<u>\$ 10,352,278</u>	<u>\$ 10,045,215</u>

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2025
With Partial Comparative Data for the Year Ended June 30, 2024

	General	Food Service	Community Service
Revenues			
Local sources:			
Property tax levies	\$ 1,088,366	\$	\$ 70,768
Other local and county sources	561,115		608,511
Investment income	282,249	14,815	21,656
State sources	6,670,671	241,143	68,445
Federal sources	579,117	254,542	79,780
Sales and other conversions of assets	21,245	53,763	
TOTAL REVENUES	<u>9,202,763</u>	<u>564,263</u>	<u>849,160</u>
Expenditures			
District and school administration	538,799		
District support services	314,683		
Regular instruction	4,286,844		
Vocational instruction	225,260		
Special education	1,574,295		
Community education and services			815,027
Instructional support services	299,219		
Pupil support services	870,658	553,900	
Site, buildings, and equipment	920,124		
Fiscal and other fixed cost programs	76,069		
TOTAL EXPENDITURES	<u>9,105,951</u>	<u>553,900</u>	<u>815,027</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>96,812</u>	<u>10,363</u>	<u>34,133</u>
Other Financing Sources (Uses)			
Proceeds from sale of property			
Lease proceeds			
Transfer in		1,595	47,424
Transfer out	(49,019)		
TOTAL OTHER FINANCING SOURCES (USES)	<u>(49,019)</u>	<u>1,595</u>	<u>47,424</u>
NET CHANGE IN FUND BALANCES	47,793	11,958	81,557
FUND BALANCE - BEGINNING	<u>6,560,754</u>	<u>407,242</u>	<u>414,158</u>
FUND BALANCE - ENDING	<u>\$ 6,608,547</u>	<u>\$ 419,200</u>	<u>\$ 495,715</u>

See Notes to Financial Statements

Debt Service	OPEB Debt Service	Total Governmental Funds	
		2025	2024
\$ 281,245	\$ 92,594	\$ 1,532,973	\$ 1,422,604
		1,169,626	1,076,612
12,307	2,312	333,339	378,707
281,906	3,117	7,265,282	7,329,317
		913,439	1,854,909
		75,008	79,107
<u>575,458</u>	<u>98,023</u>	<u>11,289,667</u>	<u>12,141,256</u>
		538,799	526,411
		314,683	352,943
		4,286,844	4,168,023
		225,260	206,775
		1,574,295	1,434,438
		815,027	886,139
		299,219	242,793
		1,424,558	1,387,014
		920,124	894,345
567,761	98,566	742,396	740,852
<u>567,761</u>	<u>98,566</u>	<u>11,141,205</u>	<u>10,839,733</u>
7,697	(543)	148,462	1,301,523
			4,707
			53,591
		49,019	95,248
		(49,019)	(95,248)
			<u>58,298</u>
7,697	(543)	148,462	1,359,821
147,298	22,135	7,551,587	6,191,766
<u>\$ 154,995</u>	<u>\$ 21,592</u>	<u>\$ 7,700,049</u>	<u>\$ 7,551,587</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, 2025**

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

Total governmental fund balances (pages 17 and 18)		\$ 7,700,049
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 21,279,287	
Less: Accumulated depreciation	11,823,885	9,455,402
Other long-term assets not available to pay for current-period expenditure and, therefore, are deferred in the funds		
Delinquent property taxes		26,453
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		
		(113,675)
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	\$ (2,920,000)	
Bond premium	(34,984)	
Bond discount	5,070	
Net pension liability	(4,608,544)	
Severance payable	(28,500)	
Accrued compensated absences	(737,142)	
Lease payable	(33,417)	
Accrued interest	(37,553)	
		(8,395,070)
Net position of governmental activities (page 14)		\$ 8,673,159

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, 2025**

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)		\$ 148,462
<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	\$ 59,561	
Depreciation expense	<u>(801,449)</u>	(741,888)
<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		24,253
<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	\$ 555,000	
Change in bond discount	643	
Change in bond premium	6,997	
Change in accrued interest	<u>7,209</u>	569,849
<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	\$ (10,000)	
Change in accrued compensated absences	(63,771)	
Net pension liability	<u>194,730</u>	120,959
<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>		
		10,286
<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>(5,193)</u>
Change in net position of governmental activities (pages 15 and 16)		<u>\$ 126,728</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, 2025
With Partial Comparative Data for the Year Ended June 30, 2024

	Budgeted Amounts		2025 Actual	Over (Under) Final Budget	2024 Actual
	Original	Final			
Revenues					
Local sources:					
Property tax levies	\$ 1,069,376	\$ 1,088,691	\$ 1,088,366	\$ (325)	\$ 986,212
Other local and county sources	433,720	500,158	561,115	60,957	497,417
Investment income	193,000	226,100	282,249	56,149	326,145
State sources	6,397,729	6,576,349	6,670,671	94,322	6,739,677
Federal sources	563,768	625,427	579,117	(46,310)	1,474,889
Sales and other conversions of assets	12,250	19,102	21,245	2,143	20,744
TOTAL REVENUES	8,669,843	9,035,827	9,202,763	166,936	10,045,084
Expenditures					
District and school administration	541,167	540,225	538,799	(1,426)	526,411
District support services	352,311	355,013	314,683	(40,330)	352,943
Regular instruction	4,306,980	4,411,327	4,286,844	(124,483)	4,168,023
Vocational instruction	215,019	228,595	225,260	(3,335)	206,775
Special education	1,639,095	1,637,394	1,574,295	(63,099)	1,434,438
Instructional support services	223,746	306,575	299,219	(7,356)	242,793
Pupil support services	916,839	932,060	870,658	(61,402)	851,571
Site, buildings, and equipment	1,034,435	1,011,418	920,124	(91,294)	894,345
Fiscal and other fixed cost programs	119,192	110,955	76,069	(34,886)	78,443
TOTAL EXPENDITURES	9,348,784	9,533,562	9,105,951	(427,611)	8,755,742
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(678,941)	(497,735)	96,812	594,547	1,289,342
Other Financing Sources					
Sale of capital assets					4,707
Lease proceeds					53,591
Operating transfers out	(103,905)	(98,059)	(49,019)	49,040	(95,248)
NET CHANGE IN FUND BALANCE	(782,846)	(595,794)	47,793	643,587	1,252,392
FUND BALANCE - BEGINNING	6,560,754	6,560,754	6,560,754		5,308,362
FUND BALANCE - ENDING	\$ 5,777,908	\$ 5,964,960	\$ 6,608,547	\$ 643,587	\$ 6,560,754

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, 2025
With Partial Comparative Data for the Year Ended June 30, 2024

	Budgeted Amounts		2025 Actual	Over (Under) Final Budget	2024 Actual
	Original	Final			
Revenues					
Local sources:					
Investment income	\$ 8,000	\$ 11,000	\$ 14,815	\$ 3,815	\$ 15,137
State sources	296,635	306,074	241,143	(64,931)	234,622
Federal sources	245,756	257,547	254,542	(3,005)	290,072
Sales and other conversions of assets	65,404	55,252	53,763	(1,489)	58,363
TOTAL REVENUES	615,795	629,873	564,263	(65,610)	598,194
Expenditures					
Pupil support services	598,291	609,312	553,900	(55,412)	535,443
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	17,504	20,561	10,363	(10,198)	62,751
Other Financing Sources					
Operating transfers in	1,950	2,150	1,595	(555)	1,979
NET CHANGE IN FUND BALANCE	19,454	22,711	11,958	(10,753)	64,730
FUND BALANCES - BEGINNING	407,242	407,242	407,242		342,512
FUND BALANCES - ENDING	\$ 426,696	\$ 429,953	\$ 419,200	\$ (10,753)	\$ 407,242

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, 2025
With Partial Comparative Data for the Year Ended June 30, 2024

	Budgeted Amounts		2025 Actual	Over (Under) Final Budget	2024 Actual
	Original	Final			
Revenues					
Local sources:					
Property tax levies	\$ 69,936	\$ 72,465	\$ 70,768	\$ (1,697)	\$ 70,211
Other local and county sources	571,138	566,069	608,511	42,442	579,195
Investment income	14,400	15,000	21,656	6,656	21,458
Federal sources	89,000	89,000	79,780	(9,220)	89,948
State sources	53,473	68,706	68,445	(261)	60,758
TOTAL REVENUES	797,947	811,240	849,160	37,920	821,570
Expenditures					
Community education and services	927,355	883,328	815,027	(68,301)	886,139
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(129,408)	(72,088)	34,133	106,221	(64,569)
Other Financing Sources					
Operating transfers in	100,405	95,909	47,424	(48,485)	93,269
NET CHANGE IN FUND BALANCES	(29,003)	23,821	81,557	57,736	28,700
FUND BALANCES - BEGINNING	414,158	414,158	414,158		385,458
FUND BALANCES - ENDING	\$ 385,155	\$ 437,979	\$ 495,715	\$ 57,736	\$ 414,158

See Notes to Financial Statements

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2025 and 2024**

	Governmental Activities - Internal Service	
	Postemployment Benefits Fund	
	2025	2024
Assets		
Cash and investments	\$ 325,591	\$ 320,893
Prepaid items	3,341	482
TOTAL ASSETS	328,932	321,375
Deferred Outflows of Resources		
Deferred outflows from OPEB activity	69,675	72,926
Liabilities		
Accounts payable	4,247	
Postemployment benefits payable	389,782	365,097
TOTAL LIABILITIES	394,029	365,097
Deferred Inflows of Resources		
Deferred inflows from OPEB activity	118,253	137,686
Net Position		
Unrestricted	\$ (113,675)	\$ (108,482)

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, 2025 and 2024**

	Governmental Activities - Internal Service	
	Postemployment Benefits Fund	
	2025	2024
REVENUES		
Employee charges	\$ 7,610	\$ 7,408
EXPENSES		
Post-retirement benefit expense	29,342	15,275
Operating Loss	(21,732)	(7,867)
Non-Operating Revenues		
Investment income	16,539	17,990
Change in Net Position	(5,193)	10,123
Net Position - Beginning	(108,482)	(118,605)
Net Position - Ending	\$ (113,675)	\$ (108,482)

See Notes to Financial Statements

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND**
For the Years Ended June 30, 2025 and 2024

	Governmental Activities - Internal Service	
	Postemployment Benefits Fund	
	2025	2024
Cash Flows From Operating Activities		
Cash (payments) receipts for benefits	\$ (11,841)	\$ (16,945)
Cash Flows From Investing Activities		
Investment income	16,539	17,990
Increase in Cash and Cash Equivalents	4,698	1,045
Cash and Cash Equivalents - Beginning	320,893	319,848
Cash and Cash Equivalents - Ending	\$ 325,591	\$ 320,893

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

Operating loss	\$ (21,732)	\$ (7,867)
Adjustments to reconcile Operating loss to Net Cash Used In Operating Activities:		
Deferred outflows from OPEB activity	3,251	3,875
Deferred inflows from OPEB activity	(19,433)	72,498
Prepaid items	(2,859)	
Accounts payable	4,247	(3,715)
Postemployment benefits payable	24,685	(81,254)
Net Cash Used In Operating Activities	\$ (11,841)	\$ (16,463)

See Notes to Financial Statements

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2025**

	<u>Private Purpose Trust</u>
	<u>Scholarship Trust Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 14,234</u>
Net Position, Unrestricted	<u><u>\$ 14,234</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, 2025**

	Private Purpose Trust
	Scholarship Trust Fund
Additions	
Other local and county sources	\$ 32,926
Deductions	
Fiscal and other fixed cost programs	34,436
CHANGE IN NET POSITION	(1,510)
NET POSITION - BEGINNING	15,744
NET POSITION - ENDING	\$ 14,234

See Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

1. Summary of Significant Accounting Policies (Continued)

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)

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

1. Summary of Significant Accounting Policies (Continued)

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, 2025. 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

1. Summary of Significant Accounting Policies (Continued)

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 \$88,375 of the property tax levy collectible in 2025 as revenue to the District in fiscal year 2024-2025. The remaining portion of the taxes collectible in 2025 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, 2025, 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

1. Summary of Significant Accounting Policies (Continued)

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

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Sick leave and vacation is accrued as a liability and recorded as an expense of those funds as the benefits are earned by the employees.

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

1. Summary of Significant Accounting Policies (Continued)

Long-term Obligations

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

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

Interfund Transactions

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

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

Comparative Data

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data has not been presented since the inclusion would not provide meaningful comparisons. Certain amounts in the June 30, 2024 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, 2025, at the individual fund level are summarized below:

Funds	Transfers In	Transfers Out
General Fund	\$	\$ 49,019
Food Service Fund	1,595	
Community Service Fund	47,424	
Totals	\$ 49,019	\$ 49,019

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, 2025, the District's cash and investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 481,271
MSDLAF+ Max Class	7,518,480
MSDLAF+ Liquid Class	378,170
Total cash and investments	8,377,921
Less: Fiduciary fund cash and cash equivalents	(14,234)
Total Cash and Investments Per Statement of Net Position	\$ 8,363,687

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

3. Cash and Investments (Continued)

Custodial Credit Risk

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

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

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

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	5%
MSDLAF+ Max Class	95%

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	\$ 378,170	\$	\$	\$	\$ 378,170
MSDLAF+ Max Class	AAAa	S&P	N/A	7,518,480				7,518,480
Total Investments				<u>\$ 7,896,650</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 7,896,650</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, 2025 are as follows:

Fund	Minnesota Department of Education	Federal Government Through MDE	Other School Districts	Total
General	\$ 671,508	\$ 334,140	\$ 62,100	\$ 1,067,748
Community Service	10,465		118	10,583
Food Service	56,819	57,038		113,857
Debt Service	28,044			28,044
OPEB Debt Service	312			312
	<u>\$ 767,148</u>	<u>\$ 391,178</u>	<u>\$ 62,218</u>	<u>\$ 1,220,544</u>

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

NOTES TO FINANCIAL STATEMENTS

5. Capital Assets

Capital asset activity for the year ended June 30, 2025 was as follows:

Governmental Activities	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	6,737		14,952,560
Site improvements	4,395,261	12,083		4,407,344
Equipment	1,790,933	40,741	10,255	1,821,419
Capital assets, being amortized:				
Leased equipment - right to use	53,591			53,591
Total capital assets, being depreciated	<u>21,185,608</u>	<u>59,561</u>	<u>10,255</u>	<u>21,234,914</u>
Less accumulated depreciation for:				
Buildings	8,427,526	457,373		8,884,899
Site improvements	1,436,438	210,763		1,647,201
Equipment	1,158,009	122,595	10,255	1,270,349
amortization for:				
Leased equipment - right to use	10,718	10,718		21,436
Total accumulated depreciation and amortization	<u>11,032,691</u>	<u>801,449</u>	<u>10,255</u>	<u>11,823,885</u>
Total capital assets, being depreciated, net	<u>10,152,917</u>	<u>(741,888)</u>		<u>9,411,029</u>
Governmental activities capital assets, net	<u>\$ 10,197,290</u>	<u>\$ (741,888)</u>	<u>\$</u>	<u>\$ 9,455,402</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Regular instruction	\$ 283,051
Special education	6,174
Instructional support	170
Pupil support services	46,872
Site, buildings and equipment	<u>465,182</u>
Total depreciation and amortization expense - governmental activities	<u>\$ 801,449</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, 2025 balances is as follows:

	Original Amount of Debt	Range of Interest Rates	Final Maturity	Balance June 30, 2025
General Obligation Bonds:				
Alternative Facilities Bonds 2012A	\$ 965,000	0.50 - 2.10%	2028	\$ 210,000
Alternative Facilities Bonds 2014A	4,420,000	3.00 - 3.50%	2030	2,340,000
OPEB Refunding Bonds 2017A	850,000	2.85%	2029	370,000
Bond discount				(5,070)
Bond premium				34,984
Compensated absences				737,142
Severance payable				28,500
Other Liabilities:				
Lease payable				33,417
Total				<u>\$ 3,748,973</u>

Description of long-term debt

General Obligation Bonds.

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, 2025:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable:					
General Obligation Bonds:					
Alternative Facilities Bond 2010A	\$ 155,000	\$	\$ 155,000	\$	\$
Alternative Facilities Bond 2012A	280,000		70,000	210,000	70,000
Alternative & Capital Facilities Bond 2014A	2,585,000		245,000	2,340,000	410,000
OPEB Refunding Bonds 2017A	455,000		85,000	370,000	90,000
Bond Discount	(4,427)		643	(5,070)	
Bond Premium	41,981		6,997	34,984	
Other Liabilities:					
Lease Payable - Copier/Printers	43,703		10,286	33,417	10,701
Compensated Absences	673,371	63,771		737,142	
Severance Payable	18,500	10,000		28,500	
Governmental Activities Long-term Liabilities	<u>\$ 4,248,128</u>	<u>\$ 73,771</u>	<u>\$ 572,926</u>	<u>\$ 3,748,973</u>	<u>\$ 580,701</u>

* Beginning balance restated as described in footnote 14

Compensated absences are presented as the net change of increases and decreases to arrive at the presentation of the ending balance.

The annual requirements to amortize all long-term debt outstanding as of June 30, 2025, 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>			
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>\$ 2,920,000</u>	<u>\$ 273,648</u>	<u>\$ 3,193,648</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
2026	\$ 10,701	\$ 1,348
2027	11,133	916
2028	11,583	467
Totals	<u>\$ 33,417</u>	<u>\$ 2,731</u>

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

NOTES TO FINANCIAL STATEMENTS

7. Fund Balance

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

7. Fund Balance (Continued)

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 Safe School Levy – Represents the resources available for the Safe School programs.

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

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

Restricted for Teacher Compensation Read Act – Represents the resources available for teacher compensation for Read Act training.

**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, 2025 with comparative totals as of June 30, 2024:

	General	Food Service	Community Service	Debt Service	OPEB Debt Service	2025 Totals	2024 Totals
Nonspendable							
Inventory	\$	\$ 11,301	\$	\$	\$	\$ 11,301	\$ 12,168
Prepaid items	161,453					161,453	55,391
Total nonspendable	161,453	11,301				172,754	67,559
Restricted							
Gifted and talented	18,573					18,573	20,127
Community education			171,338			171,338	140,553
Early childhood and family education			120,767			120,767	75,792
Scholarships	12,439					12,439	13,235
School readiness			117,234			117,234	111,437
Operating capital	713,067					713,067	640,408
Staff development	156,310					156,310	157,421
Safe school	12,113					12,113	
Basic skills	140,215					140,215	263,203
LTFM	40,979					40,979	19,660
Student activities	176,526					176,526	153,565
Literacy incentive	26,959					26,959	35,444
School library aid	29,577					29,577	13,124
Student support	80,000					80,000	40,000
English learner	22,404					22,404	
Literacy aid	23,205					23,205	
Teacher compensation read act	86					86	
Medical assistance	48,529					48,529	40,104
Food service		407,899				407,899	395,074
Community service			86,376			86,376	86,376
Debt service				154,995		154,995	147,298
OPEB debt service					21,592	21,592	22,135
Total restricted	1,500,982	407,899	495,715	154,995	21,592	2,581,183	2,374,956
Assigned							
Student laptop repairs	91,791					91,791	88,033
Milk break assistance	27,929					27,929	25,127
Roof repair	500,000					500,000	500,000
Site improvements	2,500,000					2,500,000	2,500,000
Technology	500,000					500,000	500,000
Athletic fine arts	15,137					15,137	15,027
Total assigned	3,634,857					3,634,857	3,628,187
Unassigned							
	1,311,255					1,311,255	1,480,885
Total Fund Balance	\$ 6,608,547	\$ 419,200	\$ 495,715	\$ 154,995	\$ 21,592	\$ 7,700,049	\$ 7,551,587

**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, 2025	UFARS Balance June 30, 2024
Nonspendable				
Inventory	\$ 11,301	\$	\$ 11,301	\$ 12,168
Prepaid items	161,453		161,453	55,391
Total nonspendable	<u>172,754</u>		<u>172,754</u>	<u>67,559</u>
Restricted				
Gifted and talented	18,573		18,573	20,127
Community education	171,338		171,338	140,553
Early childhood and family education	120,767		120,767	75,792
Scholarships	12,439		12,439	13,235
School readiness	117,234		117,234	111,437
Operating capital	713,067		713,067	640,408
Staff development	156,310		156,310	157,421
Basic skills	140,215		140,215	263,203
LTFM	40,979		40,979	19,660
Student activities	176,526		176,526	153,565
Literacy incentive	26,959		26,959	35,444
School library aid	29,577		29,577	13,124
Student support	80,000		80,000	40,000
English learner	22,404		22,404	
Literacy aid	23,205		23,205	
Teacher compensation read act	86		86	
Safe school	12,113		12,113	(1,231)
Medical assistance	48,529		48,529	40,104
Food service	407,899		407,899	395,074
Community service	86,376		86,376	86,376
Debt service	154,995		154,995	147,298
OPEB debt service	21,592		21,592	22,135
Total restricted	<u>2,581,183</u>		<u>2,581,183</u>	<u>2,373,725</u>
Assigned				
Student laptop repairs	91,791		91,791	88,033
Milk break assistance	27,929		27,929	25,127
Roof repair	500,000		500,000	500,000
Site improvements	2,500,000		2,500,000	2,500,000
Technology	500,000		500,000	500,000
Athletic fine arts	15,137		15,137	15,027
Total assigned	<u>3,634,857</u>		<u>3,634,857</u>	<u>3,628,187</u>
Unassigned				
	1,311,255		1,311,255	1,482,116
Total Fund Balance	<u>\$ 7,700,049</u>	\$	<u>\$ 7,700,049</u>	<u>\$ 7,551,587</u>

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

NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies

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

9. Defined Benefit Pension Plans – Statewide

Plan Description

1. General Employees Retirement Fund (General Plan)

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

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 within one year of eligible employment or elect coverage through the Defined Contribution Plan (DCR) administered by Minnesota State. A teacher employed by Minnesota State and electing DCR plan is not a member of Tra except for purposes of social security coverage.

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. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

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

NOTES TO FINANCIAL STATEMENTS

9. Defined Benefit Pension Plans – Statewide (Continued)

Benefits Provided (Continued)

General Employees Plan requires three years of service to vest. 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 General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2 percent of the highest average salary for each of the first 10 years of service and 1.7 percent for each additional year. Under the Level formula, General Plan members receive 1.7 percent of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25 percent for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

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. The 2024 annual increase was 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.

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 consecutive 60 months of formula service, age and years of formula service credit at termination of service. TRA members belong to either the Basic or Coordinated Plan.

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).

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

NOTES TO FINANCIAL STATEMENTS

9. Defined Benefit Pension Plans – Statewide (Continued)

Benefits Provided (Continued)

Or

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. An early retirement reduction is applied to members retiring prior to age 65. Members who reach age 62 with 30 years of service have a lower (more favorable to the member) reduction rate applied.

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. After July 1, 2024, the age will change to not to exceed 65. An early retirement reduction is applied to members retiring before age 66, but will be age 65 after July 1, 2024. Members who reach age 62 with 30 years of service have a lower (more favorable to the member) early retirement reduction rate applied.

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 the 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 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, 353E, 353G, and 356 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2025 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, 2025 were \$132,374. 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 the fiscal year 2025 for coordinated were 7.75% for the employee and 8.75% for the employer. Basic rates were 11.25% for the employee and 13.75% for the employer. The District's contributions to the TRA Fund for the year ended June 30, 2025 were \$316,104. 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)

Pension Costs

1. General Employees Fund Pension Costs

At June 30, 2025, the District reported a liability of \$770,958 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 \$19,935.

District's proportionate share of net pension liability	\$	770,958
State's proportionate share of the net pension liability associated with the district		<u>19,935</u>
Total	\$	<u>790,893</u>

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 proportionate share 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, 2023 through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0209 percent at the end of the measurement period and 0.0199 percent for the beginning of the period.

For the year ended June 30, 2025, the District recognized pension expense of (\$88,433) for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized \$534 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual \$16 million contribution.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$170.1 million to the General Employees Fund. The State of Minnesota is not included as a non-employer contributing entity in the General Employees Plan pension allocation schedules for the \$170.1 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District's recognized \$3,555 for the year ended June 30, 2025 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the General Employees Fund.

At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 71,656	\$
Changes in actuarial assumptions	3,809	282,047
Net difference between projected and actual investment earnings		218,358
Changes in proportion	41,078	47,520
Employer contributions subsequent to the measurement date	<u>131,453</u>	
Total	<u>\$ 247,996</u>	<u>\$ 547,925</u>

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

NOTES TO FINANCIAL STATEMENTS

9. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (Continued)

The \$131,453 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, 2026. 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
2026	\$ (247,317)
2027	(45,011)
2028	(79,964)
2029	(59,090)

2. TRA Pension Costs

On June 30, 2025, the District reported a liability of \$3,463,105 for its proportionate share of the net pension liability. 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 July 1, 2024. 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 0.0545 percent at the end of the measurement period and 0.0544 percent for the beginning of the year.

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

District's proportionate share of the net pension liability	\$ 3,463,105
State's proportionate share of the net pension liability associated with the district	<u>226,621</u>
Total	<u><u>\$ 3,689,726</u></u>

For the year ended June 30, 2025, the District recognized pension expense of (\$106,297.) It also recognized \$2,772 as a decrease to pension expense for the support provided by direct aid.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$176 million to the Fund. The State of Minnesota is not included as a non-employer contributing entity in the plan pension allocation schedules for the \$176 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District recognized \$3,452 for the year ended June 30, 2025 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Fund.

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

NOTES TO FINANCIAL STATEMENTS

9. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (Continued)

At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 165,145	\$ 44,622
Net difference between projected and actual investment earnings		
Changes in actuarial assumptions		479,387
Changes in proportion	343,498	412,985
Employer contributions subsequent to the measurement date	43,632	35,305
	<u>345,472</u>	
Total	<u>\$ 897,747</u>	<u>\$ 972,299</u>

The \$345,472 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, 2026. Other amounts reported as deferred outflows of resources and (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2026	\$ (204,772)
2027	301,445
2028	(251,464)
2029	(211,956)
2030	(53,277)

Aggregate Pension Costs

Pension expense recognized by the District for the year ended June 30, 2025 is as follows:

General Employees Retirement Fund	\$ (87,899)
TRA	(103,525)
Total	<u>\$ (191,424)</u>

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

NOTES TO FINANCIAL STATEMENTS

9. Defined Benefit Pension Plans – Statewide (Continued)

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100%	

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100%	

Actuarial Methods and Assumptions

1. General Employees Fund Actuarial Methods and Assumptions

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2024, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7%. The 7% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7% is within that range.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Methods and Assumptions (Continued)

- 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 General Employees Plan was last reviewed 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 2024:

Changes in Actuarial Assumptions:

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Change in Plan Provisions:

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

NOTES TO FINANCIAL STATEMENTS

9. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Methods and Assumptions (Continued)

2.TRA Actuarial Methods and Assumptions

The total pension liability in the June 30, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Experience Studies	August 2, 2023 (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:	PubT-2010(A) Employee Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Healthy Retirees:	PubT-2010(A) Retiree Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Beneficiaries:	PubT-2010(A) Contingent Survivor Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Disabled Retirees:	PubT-2010(A) Contingent Survivor Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Methods and Assumptions (Continued)

Changes in TRA actuarial assumptions since the 2022 valuation:

- Mortality tables were updated for active employees, retirees, disabled retirees, and contingent beneficiaries to recently published tables derived from public plan data known as the Pub2010 family.
- Retirement rates were increased for some of the Tier II early retirement ages and some of the unreduced retirement rates were modified for both tiers to better align with actual experience.
- Probability that new female retirees elect either the Straight Life Annuity or 100% Joint & Survivor Annuity were refined to reflect the actual experience.
- Termination rates were reduced in the first 10 years of employment and slightly increased in years 16 to 25 to better match the observed experience.
- Disability rates were decreased beyond age 45 by 15% to reflect the continued lower than expected observations.

Discount Rate

1. General Employees Fund Discount Rate

The discount rate used to measure the total pension liability in 2024 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 7.00 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 2024 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. 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.

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)

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
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	\$ 1,683,897	\$ 770,958	\$ 19,983
TRA Discount Rate	6.00%	7.00%	8.00%
District's proportionate share of the TRA net pension liability	\$ 6,098,730	\$ 3,463,105	\$ 1,293,923

Pension Plan Fiduciary Net Position

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

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

10. Other Postemployment Benefit Plan

The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions for the year ended June 30, 2025.

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

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, 2025 there were 39 active participants and 2 retired participants in the District's group health plan.

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

NOTES TO FINANCIAL STATEMENTS

10. Other Postemployment Benefit Plan (Continued)

Funding Policy

The 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 June 30, 2024, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of June 30, 2023. The components of the total OPEB liability of the District at year-end were as follows:

Total OPEB liability	\$ 389,782
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Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

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

Plan Type	Single Employer
Discount rate	4.10%
20-Year Municipal Bond Yield	4.10%
Inflation rate	2.50%
Salary Increases	See sample rates in actuarial valuation report
Medical Trend Rate	6.25% in 2024 grading to 5.00% over 5 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 discount rate was changed from 3.90% to 4.10%.

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

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

NOTES TO FINANCIAL STATEMENTS

10. Other Postemployment Benefit Plan (Continued)

Changes in Total OPEB Liability

	<u>Total OPEB Liability</u>
Beginning Balance 6/30/2024	\$ 365,097
Changes for the year:	
Service cost	14,690
Interest	14,321
Assumption changes	(3,748)
Plan changes	24,840
Benefit payments	(25,418)
Net Changes	<u>24,685</u>
Balance End of Year 6/30/2025	<u>\$ 389,782</u>

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

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

	<u>Net OPEB Liability</u>
1% decrease in Discount Rate (3.10%)	\$ 410,522
Current Discount Rate (4.10%)	389,782
1% increase in Discount Rate (5.10%)	369,694

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:

	<u>Net OPEB Liability</u>
1% decrease in Trend Rates	\$ 362,782
Current Trend Rates	389,782
1% increase in Trend Rates	422,206

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

NOTES TO FINANCIAL STATEMENTS

10. Other Postemployment Benefit Plan (Continued)

OPEB Related Deferred Outflows/Inflows of Resources

As of the year ended June 30, 2025, 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	\$ 27,513	\$ 50,943
Change in actuarial assumption	13,560	67,310
Contributions paid to OPEB subsequent to the measurement date	28,602	
Total	\$ 69,675	\$ 118,253

The \$69,675 reported as deferred outflows 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, 2026.

11. Severance Pay and Early Retirement Incentive Pay

In accordance with the current contracts, any teacher with 15 years teaching experience in the Fillmore Central School District 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 XVIII 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 XVIII. The severance shall be paid in two equal installments, half on July 20th in the year of retirement and half on July 20th of the following year.

An estimate of the potential obligation to be paid in future years is \$28,500. This amount is included in the financial statements as part of long-term liabilities.

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

NOTES TO FINANCIAL STATEMENTS

12. Flexible Benefit Plan

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

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

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

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

13. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries insurance for employee health, liability, property, and automotive insurance. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There was no reduction in insurance coverage during 2025.

14. Restatement

During the year, the District implemented GASB Statement No. 101, Compensated Absences. This Statement provides guidance on accounting and financial reporting for reporting a liability for certain types of leave (compensated absences). Under this Statement, government organizations are required to recognize a liability for employee’s compensated absences if the leave is attributable to employee’s services already rendered, if the leave accumulates, or if it is more likely than not to be used for time off or paid in cash upon separation. The liability is measured using an employee’s rate of pay at the date of the financial statements. The liability and associated expense are reported in the governmentwide statements. The Statement has been implemented and a liability has been reported on the government-wide financial statements.

<u>Activities</u>	<u>Net Position at June 30, 2024 as Previously Reported</u>	<u>Restatement</u>	<u>Net Position at June 30, 2024 as Restated</u>
Governmental Activities	\$ 9,219,802	\$ (673,371)	\$ 8,546,431

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

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2025

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

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

	Total OPEB Liability							
	2025	2024	2023	2022	2021	2020	2019	2018
Service cost	\$ 14,690	\$ 14,467	\$ 16,543	\$ 21,737	\$ 20,902	\$ 17,977	\$ 19,064	\$ 18,510
Interest	14,321	17,179	10,177	10,227	13,033	16,822	17,577	18,796
Assumption changes	(3,748)	(49,809)	(37,092)	16,055	12,381	(64,442)		
Plan changes	24,840							
Difference between Expected and Actual Experience		(45,453)		49,525				
Benefit payments	(25,418)	(17,628)	(22,638)	(44,918)	(37,914)	(57,163)	(58,340)	(88,824)
Net changes in total OPEB liability	24,685	(81,244)	(33,010)	52,626	8,402	(86,806)	(21,699)	(51,518)
Total OPEB liability - beginning of year	365,097	446,341	479,351	426,725	418,323	505,129	526,828	578,346
Total OPEB liability - end of year	\$ 389,782	\$ 365,097	\$ 446,341	\$ 479,351	\$ 426,725	\$ 418,323	\$ 505,129	\$ 526,828
Total OPEB Liability - End of Year	\$ 389,782	\$ 365,097	\$ 446,341	\$ 479,351	\$ 426,725	\$ 418,323	\$ 505,129	\$ 526,828
Covered-Employee Payroll	#####	#####	#####	#####	#####	#####	\$ 2,867,875	#####
Total OPEB Liability as a Percentage of Covered-Employee Payroll	11.2%	10.8%	13.5%	14.9%	13.9%	14.0%	17.6%	18.9%

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
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%
2025	PERA	132,374	132,374		1,764,987	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
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%
2025	TRA	316,104	316,104		3,612,617	8.75%

**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
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%
2024	0.0209%	770,958	19,935	790,893	1,764,987	45%	89.10%

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
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%
2024	0.0545%	3,463,105	226,621	3,689,726	3,612,617	102%	82.07%

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

SUPPLEMENTARY INFORMATION

JUNE 30, 2025

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
COMPARATIVE BALANCE SHEET
GENERAL FUND
June 30, 2025 and 2024**

	2025	2024
Assets		
Cash and investments	\$ 6,738,912	\$ 6,474,624
Current property taxes receivable	454,379	452,964
Delinquent property taxes receivable	15,913	1,313
Accounts receivable	9,850	12,476
Due from other school districts	62,100	57,003
Due from Minnesota Department of Education	671,508	663,799
Due from Federal through Minnesota Department of Education	334,140	566,617
Prepaid items	161,453	55,391
TOTAL ASSETS	\$ 8,448,255	\$ 8,284,187
Liabilities		
Accounts payable	\$ 37,089	\$ 29,023
Salaries and accrued liabilities payable	750,865	688,602
Due to other school districts	47,750	1,445
Due to other governments	2,444	
Unearned revenue		2,444
TOTAL LIABILITIES	838,148	721,514
Deferred Inflows of Resources		
Unavailable revenue:		
Property taxes levied for subsequent year	985,647	1,000,606
Delinquent property taxes	15,913	1,313
TOTAL DEFERRED INFLOWS OF RESOURCES	1,001,560	1,001,919
Fund Balances		
Nonspendable	161,453	55,391
Restricted	1,500,982	1,396,291
Assigned	3,634,857	3,628,187
Unassigned	1,311,255	1,480,885
TOTAL FUND BALANCES	6,608,547	6,560,754
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 8,448,255	\$ 8,284,187

**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, 2025
With Partial Comparative Data for the Year Ended June 30, 2024

	Budgeted Amounts		2025 Actual	Over (Under) Final Budget	2024 Actual
	Original	Final			
Revenues					
Local sources:					
Property tax levies	\$ 521,855	\$ 285,238	\$ 281,245	\$ (3,993)	\$ 269,990
Investment income	9,600	9,600	12,307	2,707	13,350
State sources	48,586	282,503	281,906	(597)	286,245
TOTAL REVENUES	580,041	577,341	575,458	(1,883)	569,585
Expenditures					
Fiscal and Other Fixed Cost Programs	568,463	568,463	567,761	(702)	561,518
NET CHANGE IN FUND BALANCES	11,578	8,878	7,697	(1,181)	8,067
FUND BALANCE - BEGINNING	147,298	147,298	147,298		139,231
FUND BALANCE - ENDING	\$ 158,876	\$ 156,176	\$ 154,995	\$ (1,181)	\$ 147,298

INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
SUPPLEMENTAL COST SCHEDULES
For the Years Ended June 30, 2025 and 2024
(Unaudited)

	2024 - 2025	Cost Per Adjusted Average Daily Membership (All Funds)
Fiscal Year Ended June 30, 2025	<u>Expenditures</u>	<u></u>
District and school administration	\$ 538,799	\$ 962
District support services	314,683	562
Regular instruction	4,286,844	7,651
Vocational instruction	225,260	402
Special education	1,574,295	2,810
Community education and services	815,027	1,455
Instructional support services	299,219	534
Pupil support services	1,424,558	2,543
Site, buildings, and equipment	920,124	1,642
Fiscal and other fixed cost programs	742,396	1,325
TOTALS	<u><u>\$ 11,141,205</u></u>	<u><u>\$ 19,885</u></u>

2024 - 2025 Adjusted Average Daily Membership - 560.27

	2023 - 2024	Cost Per Adjusted Average Daily Membership (All Funds)
Fiscal Year Ended June 30, 2024	<u>Expenditures</u>	<u></u>
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
TOTALS	<u><u>\$ 10,839,733</u></u>	<u><u>\$ 18,865</u></u>

2023 - 2024 Adjusted Average Daily Membership - 574.61

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

TAXLEVY HISTORY

	24 Pay 25 Fiscal 26	23 Pay 24 Fiscal 25	22 Pay 23 Fiscal 24	21 Pay 22 Fiscal 23	20 Pay 21 Fiscal 22
Tax Levy*					
General	\$ 1,074,022	\$ 1,048,683	\$ 1,018,337	\$ 966,330	\$ 1,022,012
Community Service	81,625	74,846	76,887	76,174	78,180
Debt Redemption (Net)	606,673	619,780	611,370	600,340	619,165
TOTAL TAX LEVY	<u>\$ 1,762,320</u>	<u>\$ 1,743,309</u>	<u>\$ 1,706,594</u>	<u>\$ 1,642,844</u>	<u>\$ 1,719,357</u>

* 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, 2025

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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, 2025, and the related notes to financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated November 21, 2025.

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 over financial reporting and compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith, Schafu and Associates, Ltd.

Rochester, Minnesota
November 21, 2025

**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, 2025. 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, 2025.

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, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 21, 2025, 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, Schafn and Associates, Ltd.

Rochester, Minnesota
November 21, 2025

**INDEPENDENT SCHOOL DISTRICT #2198
PRESTON, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2025**

Federal Grantor/Pass-through Grantor/Program Title	Federal ALN	Federal Expenditures
<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	\$ 34,256
Cash Assistance		
School Breakfast Program (SBP)	10.553	42,873
Summer Food Service Program (SFSP)	10.555	147,517
Summer Food Service Program for Children	10.559	29,896
Total Child Nutrition Cluster		254,542
Child and Adult Care Food Program	10.558	15,423
Subtotal - U.S. Department of Agriculture		269,965 ***
<u>U.S. Department of Treasury</u>		
American Relief Funds	21.019C	11,063
Subtotal - U.S. Department of Treasury		11,063
<u>U.S. Department of Education</u>		
Pass-through from Minnesota Department of Education:		
Title I Grants to Local Educational Agencies	84.010	247,945
Special Education - Grants to States	84.027	148,287
Career and Tech Education - Basic Grants to States (Perkins IV)	84.048A	53,654
Special Education - Preschool Grants (IDEA, Part B)	84.173	6,546
Special Education - Grants for Infants and Families	84.181	2,214
Title V, Part A - Small Rural Ed Achievement Program	84.358	22,188
Supporting Effective Instruction State Grants	84.367	25,711
Student Support and Academic Enrichment Program	84.424	16,402
Elementary and Secondary School Emergency Relief Fund	84.425U	109,464
Subtotal - U.S. Department of Education		632,411
Total Expenditures of Federal Awards		\$ 913,439

*** Major Program

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

NOTES TO SCHEUDLE OF EXPENDITURES OF FEDERAL AWARDS

1. General

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, 2025. 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.

2. Summary of Significant Accounting Principles

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.

3. Food Distribution

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 \$34,256.

4. Indirect Cost Rate

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.

5. Subrecipients

Independent School District #2198 did not have subrecipients for the fiscal year ended June 30, 2025.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2024**

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, 2025**

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

Assistance Listing Number(s)	Name of Federal Program or Cluster
- 10.553, 10.555, 10559	Child Nutrition 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, 2025

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 2025.

FILLMORE CENTRAL SCHOOL DISTRICT #2198

Home of the Falcons

700 Chatfield Street, PO BOX 50

Preston, MN 55965

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

www.fillmorecentral.k12.mn.us

CORRECTIVE ACTION PLAN (CAP):

The Independent School District #2198 respectfully submits the following corrective action plan for the year ended June 30, 2025: Audit period: July 1, 2024 - June 30, 2025.

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, 2025

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Fiscal Compliance Report - 6/30/2025
District: FILLMORE CENTRAL (2198-1)

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$9,202,763	<u>\$9,202,765</u>	(\$2)	Total Revenue	\$0	<u>\$0</u>	\$0
Total Expenditures	\$9,105,951	<u>\$9,105,956</u>	(\$5)	Total Expenditures	\$0	<u>\$0</u>	\$0
Non Spendable:				Non Spendable:			
480 Non Spendable Fund Balance	\$161,453	<u>\$161,453</u>	\$0	480 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
Restricted / Reserved:				Restricted / Reserved:			
401 Student Activities	\$176,526	<u>\$176,526</u>	\$0	407 Capital Projects Levy	\$0	<u>\$0</u>	\$0
402 Scholarships	\$12,439	<u>\$12,439</u>	\$0	413 Funded by COP/FP	\$0	<u>\$0</u>	\$0
403 Staff Development	\$168,310	<u>\$168,310</u>	\$0	467 LTFM	\$0	<u>\$0</u>	\$0
407 Capital Projects Levy	\$0	<u>\$0</u>	\$0	Restricted:			
408 Cooperative Revenue	\$0	<u>\$0</u>	\$0	484 Restricted Fund Balance	\$0	<u>\$0</u>	\$0
412 Literacy Incentive Aid	\$26,959	<u>\$26,959</u>	\$0	Unassigned:			
414 Operating Debt	\$0	<u>\$0</u>	\$0	463 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
416 Levy Reduction	\$0	<u>\$0</u>	\$0				
417 Taconite Building Maint	\$0	<u>\$0</u>	\$0	07 DEBT SERVICE			
420 American Indian Education Aid	\$0	<u>\$0</u>	\$0	Total Revenue	\$575,468	<u>\$575,468</u>	\$0
424 Operating Capital	\$7,13,067	<u>\$7,13,067</u>	\$0	Total Expenditures	\$567,761	<u>\$567,763</u>	(\$2)
426 \$25 Taconite	\$0	<u>\$0</u>	\$0	Non Spendable:			
427 Disabled Accessibility	\$0	<u>\$0</u>	\$0	480 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
428 Learning & Development	\$0	<u>\$0</u>	\$0	Restricted / Reserved:			
434 Area Learning Center	\$0	<u>\$0</u>	\$0	425 Bond Refundings	\$0	<u>\$0</u>	\$0
435 Contracted Alt. Programs	\$0	<u>\$0</u>	\$0	433 Maximum Effort Loan Aid	\$0	<u>\$0</u>	\$0
436 State Approved Alt. Program	\$0	<u>\$0</u>	\$0	451 OZAB Payments	\$0	<u>\$0</u>	\$0
437 Q Comp	\$0	<u>\$0</u>	\$0	467 LTFM	\$0	<u>\$0</u>	\$0
438 Gifted & Talented	\$18,573	<u>\$18,573</u>	\$0	Restricted:			
439 English Learner	\$22,404	<u>\$22,404</u>	\$0	484 Restricted Fund Balance	\$154,895	<u>\$154,894</u>	\$1
440 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	Unassigned:			
441 Basic Skills Programs	\$140,215	<u>\$140,215</u>	\$0	463 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
443 School Library Aid	\$29,577	<u>\$29,577</u>	\$0	08 TRUST			
448 Achievement and Integration	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
449 Safe Schools Levy	\$12,113	<u>\$12,113</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
451 OZAB Payments	\$0	<u>\$0</u>	\$0	Restricted / Reserved:			
452 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	401 Student Activities	\$0	<u>\$0</u>	\$0
453 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	\$0	402 Scholarships	\$0	<u>\$0</u>	\$0
456 READ Act- Literacy Aid	\$23,205	<u>\$23,205</u>	\$0	422 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
457 READ Act- Tohr Training Compensation	\$86	<u>\$86</u>	\$0	18 CUSTODIAL			
459 Basic Skills Extended Time	\$0	<u>\$0</u>	\$0	Total Revenue	\$32,026	<u>\$32,026</u>	\$0
467 LTFM	\$40,979	<u>\$40,979</u>	\$0	Total Expenditures	\$34,436	<u>\$34,436</u>	\$0
471 Student Support Personnel Aid	\$80,000	<u>\$80,000</u>	\$0	Restricted / Reserved:			
472 Medical Assistance	\$48,529	<u>\$48,529</u>	\$0	401 Student Activities	\$10,000	<u>\$10,000</u>	\$0
Restricted:				402 Scholarships	\$4,234	<u>\$4,233</u>	\$1
484 Restricted Fund Balance	\$0	<u>\$0</u>	\$0	448 Achievement and Integration	\$0	<u>\$0</u>	\$0
475 Title VII Impact Aid	\$0	<u>\$0</u>	\$0	484 Restricted Fund Balance	\$0	<u>\$0</u>	\$0
476 Payments in Lieu of Taxes	\$0	<u>\$0</u>	\$0	20 INTERNAL SERVICE			
Committed:				Total Revenue	\$0	<u>\$0</u>	\$0
418 Committed for Separation	\$0	<u>\$0</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
461 Committed Fund Balance	\$0	<u>\$0</u>	\$0	422 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
Assigned:				25 OPEB REVOCABLE TRUST			
462 Assigned Fund Balance	\$3,634,857	<u>\$3,634,857</u>	\$0	Total Revenue	\$24,149	<u>\$24,149</u>	\$0
Unassigned:				Total Expenditures	\$29,342	<u>\$29,342</u>	\$0
422 Unassigned Fund Balance	\$1,311,255	<u>\$1,311,253</u>	\$2	422 Unassigned Fund Balance (Net Assets)	\$113,675	<u>\$113,675</u>	\$0
02 FOOD SERVICES				45 OPEB IRREVOCABLE TRUST			
Total Revenue	\$564,263	<u>\$564,261</u>	\$2	Total Revenue	\$0	<u>\$0</u>	\$0
Total Expenditures	\$553,900	<u>\$553,896</u>	\$4	Total Expenditures	\$0	<u>\$0</u>	\$0
Non Spendable:				422 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
480 Non Spendable Fund Balance	\$11,301	<u>\$11,301</u>	\$0	47 OPEB DEBT SERVICE			
Restricted / Reserved:				Total Revenue	\$98,023	<u>\$98,023</u>	\$0
452 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	Total Expenditures	\$98,566	<u>\$98,566</u>	(\$62)
Restricted:				Non Spendable:			
484 Restricted Fund Balance	\$407,899	<u>\$407,899</u>	\$0	480 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
Unassigned:				Restricted:			
463 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0	425 Bond Refundings	\$0	<u>\$0</u>	\$0
04 COMMUNITY SERVICE				404 Restricted Fund Balance	\$21,592	<u>\$21,591</u>	\$1
Total Revenue	\$849,160	<u>\$849,162</u>	(\$2)	Unassigned:			
Total Expenditures	\$815,027	<u>\$815,028</u>	(\$1)	463 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
Non Spendable:				06 BUILDING CONSTRUCTION			
480 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
Restricted / Reserved:				Total Expenditures	\$0	<u>\$0</u>	\$0
426 \$25 Taconite	\$0	<u>\$0</u>	\$0	Non Spendable:			
431 Community Education	\$171,338	<u>\$171,338</u>	\$0	480 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
432 E.C.F.E	\$120,767	<u>\$120,767</u>	\$0	Restricted / Reserved:			
437 Q Comp	\$0	<u>\$0</u>	\$0	425 Bond Refundings	\$0	<u>\$0</u>	\$0
440 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	404 Restricted Fund Balance	\$21,592	<u>\$21,591</u>	\$1
444 School Readiness	\$117,234	<u>\$117,234</u>	\$0	Unassigned:			
447 Adult Basic Education	\$0	<u>\$0</u>	\$0	463 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
452 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	06 BUILDING CONSTRUCTION			
456 READ Act- Literacy Aid	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
457 READ Act- Tohr Training Compensation	\$0	<u>\$0</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
Restricted:				Non Spendable:			
464 Restricted Fund Balance	\$86,376	<u>\$86,376</u>	\$0	480 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
Unassigned:				Restricted / Reserved:			
463 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0	425 Bond Refundings	\$0	<u>\$0</u>	\$0