INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2024

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
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INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
ROSTER OF SCHOOL OFFICIALS
June 30, 2024

Rian Hofstad	Chairperson
Randy Hackett	Vice Chairperson
Angela Roering	Clerk
Maria Traut	Treasurer
Lucas Boyd	Director
Tyra Baumann	Director
Dr. Kristine Wehrkamp Herman	Superintendent

BradyMartz

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Independent School District No. 485
Royalton, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 485, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 485, as of June 30, 2024, and the respective changes in financial position 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a 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 generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District’s ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information, schedules, and notes as listed in the table of contents as required supplementary information 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 responses 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 combining statements, schedule of changes in fund balances, and compliance table as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are 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 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 combining statements, schedule of changes in fund balances, and compliance table 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 annual report. The other information comprises the roster of school officials 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 basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2024 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA

December 5, 2024

This section of Independent School District No. 485's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2024. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

The general fund balance decreased $486,494 during the 2023-2024 school year. Expenditures and other financing uses exceeded revenues and other financing sources by $451,805 during the 2022-2023 school year. This is primarily due to an increase in fees for services, specifically special education services through Mid-State Education District and Post Secondary Education expenditures. The total general fund balance as of June 30, 2024 is 19.9% which includes non-spendable, restricted, assigned and unassigned funds. Specifically, the unassigned fund balance ended the year at 15.9%. The District's unassigned fund balance policy requires a minimum of 14-20%.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. 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 financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget for the year, and supplementary information that is presented for additional analysis.

<u>District-wide Statements</u>

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, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. 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, liabilities and deferred inflows/outflows of resources – is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional nonfinancial 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*: All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. 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 (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The District has one kind of fund:

- Governmental funds: 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 you 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, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances to help explain the relationship (or differences) between the governmental funds and governmental activities.

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was $3,038,434 on June 30, 2024 (see details in Table A-1).

Table A-1
Statement of Net Position

	2024	2023	Total Percentage Change
Current and Other Assets	$ 7,102,590	$ 7,115,557	(0.2) %
Capital Assets	26,219,749	27,111,898	(3.3)
Total Assets	33,322,339	34,227,455	(2.6)
Deferred Outflows of Resources	1,785,136	2,466,966	(27.6)
Long-term Liabilities	25,772,470	27,757,430	(7.2)
Other Liabilities	2,830,852	2,543,843	11.3
Total Liabilities	28,603,322	30,301,273	(5.6)
Deferred Inflows of Resources	3,465,719	3,931,640	(11.9)
Net Position			
Net Investment in Capital Assets	6,322,610	5,852,625	8.0
Restricted	976,098	1,172,015	(16.7)
Unrestricted	(4,260,274)	(4,563,132)	6.6
Total Net Position	$ 3,038,434	$ 2,461,508	23.4 %

Change in Net Position

Table A-2 presents the change in net position of the District.

Table A-2
Change in Net Position

	2024	2023	Total Percentage Change
Revenues			
Program Revenues			
Charges for Services	$ 867,346	$ 1,172,941	(26.1) %
Operating Grants and Contributions	3,253,403	2,427,018	34.0
Capital Grants and Contributions	168,951	558,389	(69.7)
General Revenues			
Property Taxes	2,118,775	1,995,504	6.2
Unrestricted State Aid	8,280,405	8,299,260	(0.2)
Other Sources	390,189	297,044	31.4
Total Revenues	15,079,069	14,750,156	2.2
Expenses			
Administration	679,461	772,939	(12.1)
District Support Services	454,803	325,612	39.7
Elementary & Secondary Regular Instruction	4,921,299	3,682,951	33.6
Vocational Education Instruction	311,997	236,798	31.8
Special Education Instruction	1,889,811	1,407,291	34.3
Community Education and Services	563,212	436,612	29.0
Instructional Support Services	701,475	814,668	(13.9)
Pupil Support Services	1,925,039	1,862,962	3.3
Sites and Buildings	2,321,700	1,549,881	49.8
Fixed Costs	90,443	104,952	(13.8)
Interest on Long-term Debt	642,903	773,724	(16.9)
Depreciation - Unallocated		899,556	(100.0)
Total Expenses	14,502,143	12,867,946	12.7
Change in Net Position	576,926	1,882,210	(69.3)
Net Position - Beginning	2,461,508	486,675	
GASB 96 Adjustment		92,623	
Net Position - Beginning, Restated	2,461,508	579,298	324.9
Net Position - Ending	$ 3,038,434	$ 2,461,508	23.4 %

The District’s total revenues were $15,079,069 for the year ended June 30, 2024. Property taxes and state aid payments accounted for 86 percent of total revenue for the year. The total cost of all programs and services was $14,502,143. The District’s expenses are predominantly related to educating and caring for students.

Total revenues surpassed expenses, increasing net position $576,926 over last year. For the year ended June 30, 2024, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by $511,398. For the year ended June 30, 2023, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by $1,469,126.

The net cost of governmental activities is their total costs less program revenues applicable to each category.

Table A-3 presents these net costs.

Table A-3
Net Cost of Governmental Activities

	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2024	2023		2024	2023	
Expenses						
Administration	$ 679,461	$ 772,939	(12.1) %	$ 679,461	$ 772,939	(12.1) %
District Support Services	454,803	325,612	39.7	454,803	306,912	48.2
Elementary & Secondary						
Regular Instruction	4,921,299	3,682,951	33.6	3,607,647	2,411,684	49.6
Vocational Education Instruction	311,997	236,798	31.8	282,992	198,920	42.3
Special Education Instruction	1,889,811	1,407,291	34.3	608,343	449,372	35.4
Community Education and Services	563,212	436,612	29.0	50,748	26,837	89.1
Instructional Support Services	701,475	814,668	(13.9)	427,382	562,660	(24.0)
Pupil Support Services	1,925,039	1,862,962	3.3	1,051,296	892,596	17.8
Sites and Buildings	2,321,700	1,549,881	49.8	2,316,425	1,309,446	76.9
Fixed Costs	90,443	104,952	(13.8)	90,443	104,952	(13.8)
Interest on Long-term Debt	642,903	773,724	(16.9)	642,903	773,724	(16.9)
Depreciation - Unallocated		899,556	(100.0)		899,556	(100.0)
	$ 14,502,143	$ 12,867,946	12.7 %	$ 10,212,443	$ 8,709,598	17.3 %

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Table A-4
Major Funds

	Fund Balance		Increase (Decrease)	Percentage Increase (Decrease)
	2024	2023		
Governmental Funds				
General	$ 2,426,248	$ 2,912,742	$ (486,494)	(16.7) %
Debt Service	449,002	452,132	(3,130)	(0.7)

General Fund

The general fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12, including pupil transportation activities and capital outlay projects.

Table A-5 presents a summary of general fund revenue.

Table A-5
General Fund Revenue

	2024	2023	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	$ 788,165	$ 663,787	$ 124,378	18.7 %
Other Local and County	691,214	705,794	(14,580)	(2.1)
State Sources	9,727,486	9,225,545	501,941	5.4
Federal Sources	377,765	820,435	(442,670)	(54.0)
Other	80,883	114,143	(33,260)	(29.1)
Total General Fund Revenue	$ 11,665,513	$ 11,529,704	$ 135,809	1.2 %

Total general fund revenue increased by $135,809 or 1.2 percent from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including excess levy referendum and the property tax shift, involve 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 change in revenue.

Table A-6 presents a summary of general fund expenditures.

Table A-6
General Fund Expenditures

	2024	2023	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 6,871,879	$ 6,412,479	$ 459,400	7.2 %
Employee Benefits	1,910,867	1,756,061	154,806	8.8
Purchased Services	2,087,989	1,802,645	285,344	15.8
Supplies and Materials	1,027,453	967,565	59,888	6.2
Capital Expenditures	249,440	1,068,331	(818,891)	(76.7)
Debt Service	14,593	14,593		-
Other Expenditures	2,412	28,070	(25,658)	(91.4)
Total General Fund Expenditures	$ 12,164,633	$ 12,049,744	$ 114,889	1.0 %

Total general fund expenditures increased $114,889 or 1.0 percent from the previous year.

General Fund Budgetary Highlights

During the year the District revised its budget.

The District's final budget for the general fund anticipated that revenues and other financing sources would exceed expenditures and other financing uses by $633. The actual results for the year show a $486,494 deficit.

Capital Assets and Debt Administration

Capital Assets

Note 3 to the financial statements presents an analysis of capital and lease asset transactions occurring during the year ended June 30, 2024. Additions totaled $192,115 for a boiler, fence and athletic equipment. The District disposed of the old boiler that was replaced at the elementary school.

Long-Term Debt

At year-end, the District had $19,897,140 of long-term debt consisting of bonds and leases. Note 7 to the financial statements presents details of these items.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- Enrollment is crucial for the District's financial stability. K-12 student enrollment has varied between 892 and 944 over the past decade, In the 2023-2024 school year, K-12 enrollment was 907. It is projected that student enrollment will stay consistent over the next three years. The basic general education formula allowance has increased over the year, with a minimal increase to 2.45% in 2021-2022 and further increases of 4% in 2022-2023 and 2% in 2023-2024. The future allowance will be determined in the upcoming legislative session. Enrollment growth and general education formula increases play a vital role in maintaining the stability of the District's budget. Efforts are ongoing to monitor and track the finances in order to possibly prevent expenditures from exceeding revenues. The District has implemented measures to uphold the financial stability in its budget, adhering to policy on unassigned fund balance, while also continuing to support students, staff, and the community.

- Student needs continue to grow. Increasingly, the District is serving students with significant mental health and special education needs. These students require additional staffing support to be successful, but mental health services are not funded and special education continues to be inadequately funded at the state and federal level, despite the federal government's initial promise to fund 40% of special education.

- State funding continues to be inadequate, a fact supported by a study produced for the Minnesota Center for Public Finance Research and originally commissioned by the Governor of Minnesota. Since 1992, the funding formula has not kept pace with inflation, indicating that in "real" dollars, the District has less money to spend per pupil now than in 1992, before the heightened requirements of the now repealed Profile of Learning, Minnesota State Standards and the Federal NCLB Act. Although some increases in funding have been implemented in recent legislative sessions, until the state fully addresses the inadequacy of the current funding formula, school districts like Royalton will continue to struggle meeting budgetary needs.

- The District's ability to attract and retain highly qualified staff. With the increased accountability standards coupled with the increased needs of the students served, having highly qualified and trained staff is essential. Current and pending teacher shortages mean competition for these staff will become fiercer, and the district's ability to pay well enough to attract and retain staff will lead to higher staffing costs.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, 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 No. 485, 120 S Hawthorn Street, Royalton, MN 56373.

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2024

GOVERNMENTAL ACTIVITIES		
ASSETS		
Cash and Investments	$	4,327,090
Property Taxes Receivable		1,346,709
Accounts Receivable		6,577
Due From Department of Education		1,009,810
Due From Federal thru DOE		45,268
Due From Other MN Districts		280,912
Lease Receivable		28,753
Prepaid Items		53,667
Inventory		3,804
Land		16,471
Depreciable Capital Assets:		
Land Improvements		877,391
Buildings		39,500,427
Equipment		3,785,979
Right to Use Lease Asset		68,235
Right to Use SBITA		96,808
Less Accumulated Depreciation/Amortization		(18,125,562)
Total Capital Assets, Net of Depreciation/Amortization		26,219,749
TOTAL ASSETS		33,322,339
DEFERRED OUTFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan		1,759,683
Other Post Employment Benefits		25,453
TOTAL DEFERRED OUTFLOWS OF RESOURCES		1,785,136
LIABILITIES		
Accounts Payable		71,572
Due to MN Districts		173,204
Payroll Liabilities		854,860
Interest Payable		342,579
Due to Other Governments		40,000
Long-Term Liabilities Due Within One Year		1,348,637
Long-Term Liabilities		
Bonds Payable, Net of Premium		19,855,112
Compensated Absences		18,604
Lease Payable		42,028
Net Pension Liability		6,966,352
Total Other Postemployment Benefit Liability		239,011
Less Amounts Due Within One Year		(1,348,637)
Total Long-Term Liabilities		25,772,470
TOTAL LIABILITIES		28,603,322
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied - Subs. Years		2,490,119
Leases		28,753
Other Post Employment Benefits		249,963
Cost Sharing Defined Benefit Pension Plan		696,884
TOTAL DEFERRED INFLOWS OF RESOURCES		3,465,719

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
STATEMENT OF NET POSITION *(CONTINUED)*
June 30, 2024

NET POSITION	
Net Investment in Capital Assets	6,322,610
Restricted for:	
Student Activities	230,632
Scholarships	37,994
Operating Capital	1,536
Learning & Development	270
Gifted and Talented	7
Safe Schools Levy	4,117
Long-Term Facilities Maint.	7,019
Student Support Personnel Aid	28,297
Medical Assistance	4,222
Debt Service	106,423
Food Service	168,977
Community Education	286,135
ECFE	81,166
Community Service	19,303
Unrestricted	(4,260,274)
TOTAL NET POSITION	$ 3,038,434

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2024

		Program Revenues			Net (Expense)
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					
Administration	$ 679,461	$	$	$	$ (679,461)
District Support Services	454,803				(454,803)
Elementary & Secondary					
Regular Instruction	4,921,299	375,878	863,377	74,397	(3,607,647)
Vocational Education Instruction	311,997		29,005		(282,992)
Special Education Instruction	1,889,811		1,281,468		(608,343)
Community Education and Services	563,212	448,383	64,081		(50,748)
Instructional Support Services	701,475		184,814	89,279	(427,382)
Pupil Support Services	1,925,039	43,085	830,658		(1,051,296)
Sites and Buildings	2,321,700			5,275	(2,316,425)
Fixed Costs	90,443				(90,443)
Interest On Long-Term Debt	642,903				(642,903)
TOTAL GOVERNMENTAL ACTIVITIES	$ 14,502,143	$ 867,346	$ 3,253,403	$ 168,951	(10,212,443)

GENERAL REVENUES	
Taxes	
Property Taxes, Levied for General Purposes	789,555
Property Taxes, Levied for Community Education and Services	43,934
Property Taxes, Levied for Debt Service	1,285,286
Unrestricted State Aid	8,280,405
Unrestricted Investment Earnings	168,954
Other General Revenue	221,235
TOTAL GENERAL REVENUES	10,789,369
Change in Net Position	576,926
Net Position - Beginning	2,461,508
Net Position - Ending	$ 3,038,434

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2024

	General Fund	Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and Investments	$ 2,599,999	$ 1,146,092	$ 580,999	$ 4,327,090
Current Property Taxes Receivable	377,156	939,805	16,497	1,333,458
Delinquent Property Taxes Receivable	2,603	9,325	1,323	13,251
Accounts Receivable	2,922		3,655	6,577
Due From Federal thru DOE	45,268			45,268
Due from Other MN Districts	280,912			280,912
Due From Department of Education	913,279	72,936	23,595	1,009,810
Lease Receivable	28,753			28,753
Prepaid Items	53,667			53,667
Inventory			3,804	3,804
TOTAL ASSETS	$ 4,304,559	$ 2,168,158	$ 629,873	$ 7,102,590
LIABILITIES				
Accounts Payable	$ 63,112	$	$ 8,460	$ 71,572
Due to MN Districts	173,204			173,204
Payroll Liabilities	825,912		28,948	854,860
Due to Other Governments	40,000			40,000
TOTAL LIABILITIES	1,102,228		37,408	1,139,636
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Delinquent Taxes	2,603	9,325	1,323	13,251
Unavailable Revenue - Lease	28,753			28,753
Property Taxes Levied - Subs. Years	744,727	1,709,831	35,561	2,490,119
TOTAL DEFERRED INFLOWS OF RESOURCES	776,083	1,719,156	36,884	2,532,123
FUND BALANCES				
Fund Balance:				
Nonspendable	53,667		3,804	57,471
Restricted for Student Activities	230,632			230,632
Restricted for Scholarships	37,994			37,994
Restricted for Operating Capital	1,536			1,536
Restricted for Learning and Development	270			270
Restricted for Gifted and Talented	7			7
Restricted for Safe Schools Levy	4,117			4,117
Restricted for Long-Term Facilities Maint.	7,019			7,019
Restricted for Student Support Personnel Aid	28,297			28,297
Restricted for Medical Assistance	4,222			4,222
Restricted for Debt Service		449,002		449,002
Restricted for Food Service			165,173	165,173
Restricted for Community Education			286,135	286,135
Restricted for ECFE			81,166	81,166
Restricted for Community Service			19,303	19,303
Assigned	115,775			115,775
Unassigned	1,942,712			1,942,712
TOTAL FUND BALANCES	2,426,248	449,002	555,581	3,430,831
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 4,304,559	$ 2,168,158	$ 629,873	$ 7,102,590

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2024

Total fund balances - governmental funds	$ 3,430,831
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	44,345,311
Less accumulated depreciation/amortization	(18,125,562)
Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	1,785,136
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Bonds Payable	(19,020,000)
Bond Premium	(835,112)
Compensated Absences payable	(18,604)
Lease Payable	(42,028)
Net Pension Liability	(6,966,352)
Total Other Postemployment Benefit Liability	(239,011)
Deferred inflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(946,847)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	13,251
Interest Payable	(342,579)
Net position of governmental activities	$ 3,038,434

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2024

	General Fund	Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds
REVENUES				
Local Property Tax Levies	$ 788,165	$ 1,289,842	$ 44,670	$ 2,122,677
Other Local & County Revenues	691,214		475,064	1,166,278
Revenue From State Sources	9,727,486	729,361	432,275	10,889,122
Revenue From Federal Sources	377,765		367,137	744,902
Sale/Other Conversion of Asset	80,883		43,084	123,967
TOTAL REVENUES	11,665,513	2,019,203	1,362,230	15,046,946
EXPENDITURES				
Current				
Administration	660,512			660,512
District Support Services	432,624			432,624
Elementary & Secondary Regular Instruction	5,358,997			5,358,997
Vocational Education Instruction	305,186			305,186
Special Education Instruction	1,881,015			1,881,015
Community Education and Services			563,213	563,213
Instructional Support Services	509,788			509,788
Pupil Support Services	1,075,787		756,066	1,831,853
Sites and Buildings	1,586,248			1,586,248
Fixed Costs	90,443			90,443
Debt Service				
Principal	13,278	1,275,000		1,288,278
Interest	1,315	747,333		748,648
Capital Outlay	249,440			249,440
TOTAL EXPENDITURES	12,164,633	2,022,333	1,319,279	15,506,245
Revenues Over (Under) Expenditures	(499,120)	(3,130)	42,951	(459,299)
OTHER FINANCING SOURCES				
Insurance Recovery	12,626			12,626
TOTAL OTHER FINANCING SOURCES	12,626			12,626
Net Change in Fund Balances	(486,494)	(3,130)	42,951	(446,673)
Fund Balances - Beginning	2,912,742	452,132	512,630	3,877,504
Fund Balances - Ending	$ 2,426,248	$ 449,002	$ 555,581	$ 3,430,831

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2024

Total net change in fund balances - governmental funds	$	(446,673)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital outlays		192,115
Depreciation/Amortization expense		(1,084,264)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenues in the governmental funds.		(3,902)
Change in net pension liability		439,661
Change in deferred outflows and inflows of resources related to net pension liability		71,737
Change in deferred outflows and inflows of resources related to other postemployment benefit liability		(107,263)
The District recognized pension expense and grant revenue for the District's proportionate share of the State of Minnesota's contribution to the PERA and TRA.		
Payment of principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.		1,288,278
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 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.		104,430
In the statement of activities, certain expenses 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 paid.)		
Severance payable		(6,368)
Other postemployment benefits		129,175
Change in net position of governmental activities	$	576,926

See Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a six member board elected by the voters of the District to serve four-year terms.

A. Basis of Presentation

The financial statements of Independent School District No. 485 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.

B. Reporting Entity

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separated entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

C. 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 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.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

Separate fund financial statements are provided for governmental funds. All individual governmental funds are reported in separate columns in the fund financial statements.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for advance amounts recognized in accordance with a statutory "tax shift". Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

Revenue Recognition – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.

Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

Governmental Funds

Major Funds:

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds including pupil transportation and capital outlay activities, which were previously (prior to July 1, 1996) accounted for in separate special revenue funds.

Debt Service Fund –This fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O) bond principal, interest, and related costs.

Nonmajor Funds:

Special Revenue Funds – Accounts for proceeds of specific revenue sources (other than permanent fund and major capital projects) that are legally restricted to expenditures for specified purposes. The District's special revenue funds and their purposes are as follows:

Food Service – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities.

Community Service – Accounts for the resources designated for programs other than those for elementary and secondary students.

GASB No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

E. Specific Account Information

Cash and Investments – Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are carried at fair value. The District considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. This statement requires that assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data
Level 3: Unobservable market inputs that are not corroborated by market data

Taxes Receivable – Taxes receivable represents taxes levied in 2023, which are not payable until 2024, net of the amount received prior to June 30.

Property Taxes – Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following 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 property on the following January 1. The county generally remits taxes to the District at periodic intervals as the taxes are collected.

A portion of property taxes levied is paid by the State of Minnesota through various 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 unavailable revenue (property taxes levied for subsequent years).

The majority of the revenue in the general fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

Taxes, which 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 in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

Inventory – Inventory is recorded using the consumption method of accounting and consists of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standardized costs, as determined by the Department of Agriculture.

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 acquisition value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. 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. Useful lives vary from 5 to 25 years for land improvements, 10 to 50 years for buildings, and 5 to 20 years for equipment.

Capital assets not being depreciated include land and construction in progress, if any.

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

Leases - Lessor – The District is a lessor for lease of a portion of a building. The District recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term.

Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources initially measured at the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgements include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses its estimated incremental borrowing rate as the discount rate for leases. The District has made an accounting policy election to use a risk free rate based on US Treasury T-bill rate as of the lease commencement.

<u>Leases - Lessee</u> – The determination of whether an arrangement contains a lease is made at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the District has control of the right to use asset. Control includes the right to obtain present service capacity and the right to determine the nature and manner of use of the underlying asset, as specified in the contract.

Leases with an initial lease term of more than 12 months, or that contain an option to purchase that the District is reasonably certain to exercise, are recognized based on the present value of lease payments over the lease term discounted using the interest rate implicit in the lease. In cases where the implicit rate is not readily determinable, the District uses its incremental borrowing rate based on the information available at the lease commencement date. The District accounts for lease agreements with lease and non-lease components together as a single lease component for all underlying classes of assets. Short term leases have a term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the District is reasonably certain to exercise.

<u>Subscription-Based Information Technology Arrangements (SBITA)</u> – Subscription-Based Information Technology Arrangements (SBITA) are contracts that conveys control of the right to use another party's IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The determination of whether a SBITA asset and liability are to be recorded in the financial statements is made at inception by evaluating the maximum possible term of the SBITA.

A SBITA contract with an initial term of more than 12 months, or that contain an option to extend the contract more than 12 months that is reasonably expected to be exercised by the District, are recognized based on the present value of subscription payments over the contract term discounted using the interest rate implicit in the lease. In cases where the implicit rate is not readily determinable, the District uses its incremental borrowing rate based on the information available at the SBITA contract commencement date. The District has made an accounting policy election to use a risk free rate based on US Treasury T-bill rate as of the SBITA contract commencement.

The District continues to recognize short-term SBITA subscription payments as outflows of resources (expenditure) based on the payment provision of the SBITA contract. Short-term SBITA contracts have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.

The amortizable life of SBITA assets are limited to the shorter of the expected agreement term or the useful life of the underlying asset.

<u>Long-Term Obligations</u> – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued in the future, bond premiums and discounts will be deferred and amortized over the life of the bonds using the effective interest method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs will be expensed in the period incurred.

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

Compensated Absences and Severance - The Superintendent earns 25 days of vacation a year. The Superintendent is also entitled to payment for 30% of unused sick leave days earned and accrued.

Royalton Educated Support Professionals (RESP) who have completed 20 years of continuous service and have attained the minimum age of 55 shall be eligible to receive 25% of their accumulated and unused sick leave hours as severance pay. Employees hired after July 1, 2012, are no longer eligible for this benefit.

After 3 years of service a principal shall receive 25% of the principal's daily rate of pay for accumulated and unused sick leave days when leaving employment, unless discharged for cause. After 6 years of service they shall receive 30% and after 20 years they shall receive 50%.

Teachers hired before July 1, 1994, and who have completed 15 years of service and who have attained the minimum age of 55 years shall be eligible to receive a maximum of 83 days times $300 per day as severance pay.

Non-union employees who have completed 20 years of continuous service with the District and who have attained the minimum age of 55 or any employee who has completed 25 years of service with the District will receive one-third of their accumulated sick leave hours as severance pay upon leaving the District. Any employee who has completed 30 years of continuous service with the District will receive one-half of their accumulated sick leave hours as severance pay upon leaving the District.

Post Employment Severance and Health Benefits - Employees retiring before they are eligible for Medicare may remain on the District's health care plan until they are eligible. Employees must pay their own health insurance premiums.

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 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 merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of Duluth Teacher's Retirement Fund Association (DTRFA) in 2015.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* and *Other*

Postemployment Benefits which represents actuarial differences within PERA and TRA pension plans and other postemployment benefit plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has four types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources, property taxes and leases. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The items, *property taxes levied – subs. years* and *leases,* are reported as a deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent property tax revenue levied for a subsequent period and leases. The last items, *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits*, represent actuarial differences within PERA and TRA pension plans and other postemployment benefits.

<u>Net Position</u> – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital and lease assets, net of accumulated depreciation/amortization, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

<u>Net Position Flow Assumption</u> – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

<u>Fund Balance</u> –The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

> <u>Nonspendable</u> – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
>
> <u>Restricted</u> – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.
>
> <u>Committed</u> – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management. The Board of Education delegates the power to assign fund balances to the superintendent.

Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order; 1) committed, 2) assigned and 3) unassigned.

The District will strive to maintain a minimum unassigned general fund balance of 14-20% percent of the annual expenditure budget.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Ultimate results could differ from those estimates.

NOTE 2 DEPOSITS AND INVESTMENTS

The District maintains a cash account at its depository bank. The District considers certificates of deposit to be cash.

The District's interest income for the year ended June 30, 2024 was $168,954.

The pooled cash and investment account is comprised of the following:

	Governmental Activities
Cash	$ 377,040
Investments	3,950,050
Total	$ 4,327,090

As of June 30, 2024, the District had the following investments:

Investments	Fair Value (Level 1)
Minnesota School District Liquid Asset Fund	$ 3,950,050

The Minnesota School District Liquid Asset Fund is a common law trust organized and existing under the laws of the State of Minnesota, in accordance with the provisions of the Minnesota Joint Powers Act. The general objective of the Fund is to provide a high yield for the participants while maintaining liquidity and preserving capital by investing only in instruments authorized by Minnesota Statutes, which govern the temporary investment of School District monies. In addition, the fixed rate/fixed term portion of the program is also structured with safety of principal as the major objective.

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under 2a7. The fair value of the position is the same as the value of the pool shares.

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

Credit Risk – The District may invest idle funds as authorized in Minnesota Statutes, as follows:

(a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
(b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.
(c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
(d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
(e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
(f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member 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.
(g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC’s issued by Minnesota banks.
(h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Deposits – The District does not have a policy for custodial credit risk. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

NOTE 3 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Land	$ 16,471	$	$	$ 16,471
Construction in Process	82,450		82,450	
Total capital assets, not being depreciated	98,921		82,450	16,471
Capital Assets, being depreciated:				
Land Improvements	867,111	10,280		877,391
Buildings	39,318,611	252,300	70,484	39,500,427
Equipment	3,778,179	7,800		3,785,979
Right-To-Use Leased Equipment	68,235			68,235
Right-To-Use SBITA	92,623	4,185		96,808
Total capital assets, being depreciated	44,124,759	274,565	70,484	44,328,840
Less accumulated depreciation for:				
Land Improvements	729,048	16,132		745,180
Buildings	13,500,210	875,552	70,484	14,305,278
Equipment	2,850,188	160,243		3,010,431
Right-To-Use Leased Equipment	13,647	13,647		27,294
Right-To-Use SBITA	18,689	18,690		37,379
Total accumulated depreciation	17,111,782	1,084,264	70,484	18,125,562
Total Capital Assets, being depreciated, net	27,012,977	(809,699)		26,203,278
Governmental Activities Capital Assets, net	$ 27,111,898	$ (809,699)	$ 82,450	$ 26,219,749

In the statement of activities, depreciation/amortization expense was charged to the following governmental functions:

Administration	$ 18,949
District Support Services	20,864
Elementary & Secondary	
Regular Instruction	23,944
Vocational Education Instruction	1,129
Special Education Instruction	8,796
Instructional Support Services	13,142
Pupil Support Services	93,186
Sites and Buildings	904,254
Total Depreciation/Amortization Expense	$ 1,084,264

NOTE 4 DEFINED BENEFIT PENSION PLANS- STATEWIDE

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

Disclosures relating to these plans follow:

A. Public Employees Retirement Association

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

General Employees Retirement Plan

The General Employees Retirement Plan covers certain full-time and part-time employees of the District. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Benefits Provided – 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.

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

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

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2024 and the District was required to contribute 7.50 percent for Coordinated Plan members. The

District's contributions to the General Employees Fund for the year ended June 30, 2024, were $189,847. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2024, the District reported a liability of $1,632,831 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 $45,004.

The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's 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, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0292% at the end of the measurement period and 0.0293% for the beginning of the period.

District's proportionate share of net pension liability	$	1,632,831
State of Minnesota's proportionate share of the net pension liability associated with the District		45,004
Total	$	1,677,835

For the year ended June 30, 2024, the District recognized pension expense of $291,694 for its proportionate share of General Employee Plan's pension expense. In addition, the District recognized $202 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual $16 million contribution.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 53,314	$ 9,824
Difference between projected and actual investment earnings		6,238
Changes in actuarial assumptions	231,920	447,545
Changes in proportion	115,120	5,995
Contributions paid to PERA subsequent to the measurement date	189,847	
Total	$ 590,201	$ 469,602

$189,847 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 ending June 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		Pension Expense Amount
2025	$	82,913
2026		(160,418)
2027		43,680
2028		(35,423)

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	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Equity	16.50%	5.30%

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

Inflation is assumed to be 2.25 percent and benefit increases after retirement are assumed to be 1.25 percent.

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

Mortality rates are based on the Pub-2010 General Employee Mortality Table.

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

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

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.0 percent.

Changes in Plan Provisions:

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

Discount Rate – The discount rate used to measure the total pension liability in 2023 was 7.0%. 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.

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:

Sensitivity Analysis - NPL at Different Discount Rates

1% Decrease (6.0%)	Current (7.0%)	1% Increase (8.0%)
$ 2,888,610	$ 1,632,831	$ 599,906

Pension Plan Fiduciary Net Position – Detailed information about each defined benefit pension plan'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.

B. Teachers Retirement Association

Plan Description - The Teachers Retirement Association (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 schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined Contribution Plan (DCR) administered by the State of Minnesota.

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

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

Tier I Benefits:

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

With these provisions:

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

or

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

Tier II Benefits:

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of 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.

Contribution Rate - Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal years ended June 30, 2022, June 30, 2023, and June 30, 2024 were:

	June 30, 2022		June 30, 2023		June 30, 2024	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.00%	12.34%	11.00%	12.55%	11.25%	12.75%
Coordinated	7.50%	8.34%	7.50%	8.55%	7.75%	8.75%

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

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

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

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2023
Measurement Date	June 30, 2023
Experience Study	June 28, 2019 (demographic and economic 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	1.00% for January 2019 through January 2023, then increasing by 0.10% each year up to 1.50% annually

Mortality Assumption

Pre-retirement	RP-2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP-2015 scale.

Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

The 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 rate 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 (Geometric Mean)
Domestic Equity	33.50%	5.10%
International Equity	16.50%	5.30%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2023 is 6 years. The “Difference Between Expected and Actual Experience” and “Changes of Assumptions” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is 5 years as required by GASB 68.

<u>Changes in actuarial assumptions since the 2022 valuation:</u>

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

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

The 2024 Omnibus Pensions and Retirement Bill:

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

<u>Discount Rate</u> - The discount rate used to measure the total pension liability was 7.00 percent. There was no change in 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 2022 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

Net Pension Liability - On June 30, 2024, the District reported a liability of $5,333,521 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.0646% at the end of the measurement period and 0.0643% for the beginning of the year.

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

District's proportionate share of net pension liability	$	5,333,521
State's proportionate share of the net pension liability associated with the District	$	373,470

For the year ended June 30, 2024, the District recognized pension expense of $(213,333). It also recognized $52,587 as an increase to pension expense for the support provided by direct aid.

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

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	$	53,756	$	77,662
Net difference between projected and actual earnings on plan inv.		2,080		
Changes in actuarial assumptions		608,885		
Changes in proportion		90,724		149,620
Contributions paid to TRA subsequent to the measurement date		414,037		
Total	$	1,169,482	$	227,282

$414,037 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 ending June 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30		Pension Expense Amount
2025	$	40,899
2026		(49,605)
2027		586,510
2028		(43,967)
2029		(5,674)

Pension Liability Sensitivity - The following presents the net pension liability calculated using the discount rate of 7.00 percent as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage higher (8.00 percent) than the current rate.

Sensitivity Analysis - NPL at Different Discount Rates		
1% Decrease (6.0%)	Current (7.0%)	1% Increase (8.0%)
$ 8,506,573	$ 5,333,521	$ 2,735,991

The District's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis, and Minneapolis School District.

Pension Plan Fiduciary Net Position - Detailed information about the plan'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, Suite 400, St. Paul, MN, 55103-4000; or by calling (651)-296-2409 or (800)-657-3669.

The District recognized total pension expense of $78,361 for all of the pension plans in which it participates.

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions, and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups.

Benefits Provided – The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan.

Funding Policy - Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The District provides postemployment healthcare benefits to qualifying retirees.

Employees Covered by Benefit Term – At June 30, 2024, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	1
Active plan members	142
Total Members	143

Total OPEB Liability – The District's total OPEB liability of $239,011 was measured as of July 1, 2023 and was determined by an actuarial valuation as of July 1, 2023.

Actuarial Assumptions – The total OPEB liability in the July 1, 2023 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	Rates vary by group

Medical Trend Rates	6.50 percent decreasing to 5.0 percent over 6 years then to 4.0 percent over the next 48 years.

Mortality rates were based on the Pub-2010 Public Retirement Plans Headcount- Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.

The discount rate is based on the estimated yield of 20-year municipal bonds. The overall single discount rate is 3.90%.

In the July 1, 2023 actuarial valuation, the entry age, level percentage of pay actuarial cost method was used.

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 6/30/2023	$ 368,186
Changes for the year:	
Service Cost	35,499
Interest Cost	8,398
Assumption Changes	(25,784)
Diff between Expect and Actual	(139,671)
Benefit Payments	(7,617)
Net Changes	(129,175)
Balance at 6/30/2024	$ 239,011

<u>Sensitivity of the Total OPEB Liability to Changes in the Discount Rate</u> – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.9 percent) or one percentage point higher (4.9 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (2.9%)	Current (3.9%)	1% Increase (4.9%)
$ 256,672	$ 239,011	$ 222,164

<u>Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates</u> – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.5 percent decreasing to 4.0 percent over 6 years) or one percentage point higher (7.2 percent decreasing to 6.0 percent over 6 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.5% decreasing to 4.0%)	(6.5% decreasing to 5.0%)	(7.5% decreasing to 6.0%)
$ 210,365	$ 239,011	$ 273,089

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2024, the District recognized OPEB expense of $12,425. At June 30, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 15,966	$ 26,830
Difference between expected and actual experience		223,133
Employer contributions paid subsequent to the measurement date	9,487	
Total	$ 25,453	$ 249,963

$9,487 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	OPEB Expense Amount
2025	$ (56,322)
2026	(56,315)
2027	(37,042)
2028	(37,048)
2029	(23,637)
Thereafter	(23,633)

NOTE 7 LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended June 30, 2024 are as follows:

Summary of Long-Term Liabilities

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
G.O. Bonds	$ 20,295,000	$	$ 1,275,000	$ 19,020,000	$ 1,335,000
Premium on Bonds	908,967		73,855	835,112	
Total Bonds	21,203,967		1,348,855	19,855,112	1,335,000
Lease Payable	55,306		13,278	42,028	13,637
Compensated Absences	12,236	6,368		18,604	
Total Long-Term Liabilities	$ 21,271,509	$ 6,368	$ 1,362,133	$ 19,915,744	$ 1,348,637

The District's interest expense on long-term debt for the year ended June 30, 2024 was $642,903. Compensated absences and leases payable are generally liquidated by the general fund.

General Obligation Bonds

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2024	Amounts Due in 2024/25 Principal	Amounts Due in 2024/25 Interest
6/24/2015	3.0 - 5.0%	2/1/2036	$ 25,260,000	$ 1,145,000	$ 17,850,000	$ 1,200,000	$ 657,463
7/27/2016	2.0 - 3.0%	2/1/2032	2,000,000	130,000	1,170,000	135,000	27,695
				$ 1,275,000	$ 19,020,000	$ 1,335,000	$ 685,158

Annual debt service requirements to maturity are as follows:

G.O. Bonds		
Year Ending June 30	Principal	Interest
2025	$ 1,335,000	$ 685,158
2026	1,400,000	621,107
2027	1,465,000	553,907
2028	1,510,000	511,357
2029	1,550,000	465,801
2030-2034	8,245,000	1,533,296
2035-2036	3,515,000	198,936
	$ 19,020,000	$ 4,569,562

Lease Payable

The District is a lessee for a noncancellable lease of equipment. The value of the lease liability was $55,306 as of June 30, 2024. The value of the right-to-use lease asset was $68,235 at the end of the fiscal year and had accumulated amortization of $13,647.

The future minimum lease obligations as of June 30, 2024, are as follows:

Lease Payable		
Year Ending June 30	Principal	Interest
2025	$ 13,637	$ 956
2026	14,006	587
2027	14,385	209
	$ 42,028	$ 1,752

NOTE 8 SEVERANCE PAY

The District has a severance pay plan for employees. The plan calls for employees to be paid for unused portions of their sick leave upon termination of employment. At June 30, 2024, the estimated liability under this plan was $18,604.

NOTE 9 CONTINGENCIES

The District receives significant financial assistance from numerous federal, state and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2024.

NOTE 10 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; 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.

NOTE 11 NEW PRONOUNCEMENTS

GASB Statement No. 101, *Compensated Absences,* updates the recognition and measurement guidance for compensated absences through aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The standard is effective for fiscal years beginning after December 15, 2023.

GASB Statement No. 102, *Certain Risk Disclosures,* requires entities to disclose critical information about their exposure to risks due to certain concentrations or limitations that could lead to financial distress or operational challenges. This statement is effective for fiscal years beginning after June 15, 2024.

GASB Statement No. 103, *Financial Reporting Model Improvements,* revises the requirements for management's discussion and analysis with the goal of making it more readable and understandable, requires unusual or infrequent items to be presented separately, defines operating and nonoperating revenues, includes a new section for noncapital subsidies for proprietary funds' statement of revenues, expenses and changes in net position, removes the option to disclose major component information in the notes and requires them to be shown individually or in combined financial statements following the fund financial statements and requires budgetary comparisons to be presented as RSI with new columns for variances between original-to-final budget and final budget-to-actual results. This statement is effective for fiscal years beginning after June 15, 2025.

GASB Statement No. 104, *Disclosure of Certain Capital Assets,* establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note. These items include disclosing separately lease assets, intangible right-to-use assets, subscription assets and intangible assets. In addition, additional disclosures will be required for capital assets held for sale. This statement is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

Management has not yet determined the effect these statements will have on the District's financial statements.

NOTE 12 SUBSEQUENT EVENT

On November 5, 2024, the District issued G.O. School Building Refunding Bonds, Series 2024A in the amount of $14,765,000.

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2024

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
REVENUES				
Local Property Tax Levies	$ 670,365	$ 769,936	$ 788,165	$ 18,229
Other Local & County Revenues	701,105	472,553	691,214	218,661
Revenue From State Sources	9,641,139	9,847,672	9,727,486	(120,186)
Revenue From Federal Sources	240,999	170,440	377,765	207,325
Sale/Other Conversion of Asset	78,384	72,910	80,883	7,973
TOTAL REVENUES	11,331,992	11,333,511	11,665,513	332,002
EXPENDITURES				
Current				
Administration	782,881	702,658	660,512	(42,146)
District Support Services	318,258	442,725	432,624	(10,101)
Elementary & Secondary				
Regular Instruction	4,630,378	4,936,059	5,358,997	422,938
Vocational Education Instruction	197,667	303,846	305,186	1,340
Special Education Instruction	1,402,625	1,520,817	1,881,015	360,198
Instructional Support Services	348,731	358,844	509,788	150,944
Pupil Support Services	1,032,763	1,042,799	1,075,787	32,988
Sites and Buildings	1,651,904	1,652,257	1,586,248	(66,009)
Fixed Costs	166,929	125,673	90,443	(35,230)
Debt Service				
Principal			13,278	13,278
Interest	734		1,315	1,315
Capital Outlay	328,629	247,200	249,440	2,240
TOTAL EXPENDITURES	10,861,499	11,332,878	12,164,633	831,755
Revenues Over (Under) Expenditures	470,493	633	(499,120)	(499,753)
OTHER FINANCING SOURCES				
Insurance Recovery			12,626	12,626
TOTAL OTHER FINANCING SOURCES			12,626	12,626
Net Change in Fund Balances	470,493	633	(486,494)	(487,127)
Fund Balances - Beginning	2,912,742	2,912,742	2,912,742	
Fund Balances - Ending	$ 3,383,235	$ 2,913,375	$ 2,426,248	$ (487,127)

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 Years

	2018	2019	2020	2021	2022	2023	2024
Total OPEB Liability							
Service Cost	$ 47,105	$ 48,518	$ 46,687	$ 48,088	$ 51,311	$ 52,850	$ 35,499
Interest	15,416	15,813	16,749	12,121	13,248	7,840	8,398
Difference Between Expected and Actual Experience			(118,383)		(121,786)		(139,671)
Assumption Changes			(16,570)		27,945		(25,784)
Benefit Payments	(69,577)	(34,657)	(35,327)	(27,575)	(26,588)	(25,866)	(7,617)
Net Change in Total OPEB Liability	(7,056)	29,674	(106,844)	32,634	(55,870)	34,824	(129,175)
Total OPEB Liability - Beginning	440,824	433,768	463,442	356,598	389,232	333,362	368,186
Total OPEB Liability - Ending	$ 433,768	$ 463,442	$ 356,598	$ 389,232	$ 333,362	$ 368,186	$ 239,011
Covered Payroll	$ 4,756,506	$ 4,899,201	$ 5,406,491	$ 5,568,686	$ 5,795,540	$ 5,969,406	$ 6,444,375
District's Total OPEB Liability as a Percentage of a Covered Payroll	9.12%	9.46%	6.60%	6.99%	5.75%	6.17%	3.71%

The District implemented GASB No. 75 for the fiscal year ended June 30, 2018. Information from prior years is not available.

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST 10 YEARS

Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
PERA					
2015	$ 112,987	$ 112,987	$	$ 1,506,493	7.50 %
2016	119,091	119,091		1,587,880	7.50
2017	129,845	129,845		1,731,267	7.50
2018	136,473	136,473		1,819,640	7.50
2019	136,338	136,338		1,817,840	7.50
2020	138,337	138,337		1,844,493	7.50
2021	137,822	137,822		1,837,627	7.50
2022	158,923	158,923		2,118,973	7.50
2023	174,587	174,587		2,327,830	7.50
2024	189,847	189,847		2,531,281	7.50
TRA					
2015	$ 243,379	$ 243,379	$	$ 3,245,053	7.50 %
2016	259,164	259,164		3,455,520	7.50
2017	271,676	271,676		3,622,347	7.50
2018	282,379	282,379		3,765,053	7.50
2019	298,524	298,524		3,871,907	7.71
2020	304,544	304,544		3,845,253	7.92
2021	307,748	307,748		3,785,338	8.13
2022	335,552	335,552		4,023,405	8.34
2023	352,794	352,794		4,112,557	8.58
2024	414,037	414,037		4,731,843	8.75

The amounts presented for each fiscal year were determined as of the District's year end which is June 30th.

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
LAST 10 YEARS

Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA							
2014	0.0242 %	$ 1,136,795	$	$ 1,136,795	$ 1,272,303	89.35 %	78.70 %
2015	0.0261	1,352,637		1,352,637	1,506,493	89.79	78.19
2016	0.0256	2,078,593	27,111	2,105,704	1,587,880	130.90	68.90
2017	0.0269	1,717,278	21,572	1,738,850	1,731,267	99.19	75.90
2018	0.0271	1,503,397	49,334	1,552,731	1,819,640	82.62	79.53
2019	0.0257	1,420,895	44,165	1,465,060	1,817,840	78.16	80.23
2020	0.0259	1,552,823	47,886	1,600,709	1,844,493	84.19	79.06
2021	0.0255	1,088,964	33,282	1,122,246	1,837,627	59.26	87.00
2022	0.0293	2,257,209	66,094	2,323,303	2,118,973	106.52	76.67
2023	0.0292	1,632,831	45,004	1,677,835	2,327,830	70.14	0.83
TRA							
2014	0.0673 %	$ 3,101,136	$ 218,056	$ 3,319,192	$ 3,070,329	101.00 %	81.50 %
2015	0.0639	3,952,847	484,598	4,437,445	3,245,053	121.81	76.80
2016	0.0664	15,837,984	1,590,486	17,428,470	3,455,520	458.34	44.88
2017	0.0673	13,434,301	1,298,551	14,732,852	3,622,347	370.87	51.57
2018	0.0981	4,277,317	401,877	4,679,194	3,765,053	113.61	78.07
2019	0.0682	4,347,082	384,520	4,731,602	3,871,907	112.27	78.21
2020	0.0662	4,890,945	409,603	5,300,548	3,845,253	127.19	75.48
2021	0.0633	2,770,197	233,504	3,003,701	3,785,338	73.18	86.63
2022	0.0643	5,148,804	382,004	5,530,808	4,023,405	127.97	76.17
2023	0.0646	5,333,521	373,470	5,706,991	4,112,557	129.69	76.42

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

See Notes to the Required Supplementary Information

NOTE 1 BUDGETARY DATA

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. 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. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the District.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the District unless the District has a deficit fund balance, which exceeds 2.5% of expenditures.

NOTE 2 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2024, expenditures exceeded appropriations in the general fund by $831,755.

NOTE 3 DEFINED BENEFIT PLANS

PERA

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.0 percent.

Changes in Plan Provisions:

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

TRA

Changes in actuarial assumptions since the 2023 valuation:

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

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

The 2024 Omnibus Pensions and Retirement Bill:

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

NOTE 4 OTHER POSTEMPLOYMENT BENEFITS

Plan Changes: None

Assumption Changes:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.
- The inflation rate was changed from 2.00% to 2.50%.
- The discount rate was changed from 2.10% to 3.90%.

Method Changes: None

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2024

	Food Service Fund	Community Service Fund	Total Governmental Funds
ASSETS			
Cash and Investments	$ 155,767	$ 425,232	$ 580,999
Current Property Taxes Receivable		16,497	16,497
Delinquent Property Taxes Receivable		1,323	1,323
Accounts Receivable		3,655	3,655
Due From Department of Education	15,196	8,399	23,595
Inventory	3,804		3,804
TOTAL ASSETS	$ 174,767	$ 455,106	$ 629,873
LIABILITIES			
Accounts Payable	$ 1,988	$ 6,472	$ 8,460
Payroll Liabilities	3,802	25,146	28,948
TOTAL LIABILITIES	5,790	31,618	37,408
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Delinquent Taxes		1,323	1,323
Property Taxes Levied - Subs. Years		35,561	35,561
TOTAL DEFERRED INFLOWS OF RESOURCES		36,884	36,884
FUND BALANCES			
Fund Balance:			
Nonspendable	3,804		3,804
Restricted for Food Service	165,173		165,173
Restricted for Community Education		286,135	286,135
Restricted for ECFE		81,166	81,166
Restricted for Community Service		19,303	19,303
TOTAL FUND BALANCES	168,977	386,604	555,581
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 174,767	$ 455,106	$ 629,873

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2024

	Food Service Fund	Community Service Fund	Total Governmental Funds
REVENUES			
Local Property Tax Levies	$	$ 44,670	$ 44,670
Other Local & County Revenues	228	474,836	475,064
Revenue From State Sources	376,171	56,104	432,275
Revenue From Federal Sources	367,137		367,137
Sale/Other Conversion of Asset	43,084		43,084
TOTAL REVENUES	786,620	575,610	1,362,230
EXPENDITURES			
Current			
Community Education and Services		563,213	563,213
Pupil Support Services	756,066		756,066
TOTAL EXPENDITURES	756,066	563,213	1,319,279
Revenues Over Expenditures	30,554	12,397	42,951
Fund Balances - Beginning	138,423	374,207	512,630
Fund Balances - Ending	$ 168,977	$ 386,604	$ 555,581

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2024

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	Insurance Recovery	UFARS Balance End of Year	Reclassify	Balance End of Year
General Fund								
Nonspendable	$ 244,627	$	$	$ (190,960)	$	$ 53,667	$	$ 53,667
Restricted for:								
Student Activities	221,054	178,115	168,587	50		230,632		230,632
Scholarships	34,544	17,650	14,200			37,994		37,994
Learning and Development		206,408	206,138			270		270
Operating Capital	145,543	218,823	362,830			1,536		1,536
Basic Skills		362,128	378,262	16,134				
Basic Skills Extended Time	16,134			(16,134)				
Gifted and Talented	5,931	12,888	18,812			7		7
Safe Schools Levy	71,770	34,844	102,497			4,117		4,117
Long Term Facilities Maint.	3,192	191,813	187,986			7,019		7,019
Student Support Personnel Aid		40,000	11,703			28,297		28,297
Medical Assistance	82,239	36,587	114,604			4,222		4,222
Assigned	270,000	32,410	16,635	(170,000)		115,775		115,775
Unassigned	1,817,708	10,333,847	10,582,379	360,910	12,626	1,942,712		1,942,712
Total General Fund	2,912,742	11,665,513	12,164,633		12,626	2,426,248		2,426,248
Food Service Fund								
Nonspendable	6,161			(2,357)		3,804		3,804
Restricted for Food Service	132,262	786,620	756,066	2,357		165,173		165,173
Total Food Service Fund	138,423	786,620	756,066			168,977		168,977
Community Service Fund								
Nonspendable	1,499			(1,499)				
Restricted for:								
Community Education	288,924	239,988	242,777			286,135		286,135
ECFE	50,771	51,763	21,368			81,166		81,166
School Readiness	1,159	276,378	298,876			(21,339)	21,339	
Community Service	31,854	7,481	192	1,499		40,642	(21,339)	19,303
Total Community Service Fund	374,207	575,610	563,213			386,604		386,604
Debt Service Fund								
Restricted for Debt Service	452,132	2,019,203	2,022,333			449,002		449,002
Total Debt Service Fund	452,132	2,019,203	2,022,333			449,002		449,002
Totals	$ 3,877,504	$ 15,046,946	$ 15,506,245	$	$ 12,626	$ 3,430,831	$	$ 3,430,831

BradyMartz

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Education
Independent School District No. 485
Royalton, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 485 as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2024.

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 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 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 the Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA

December 5, 2024

BradyMartz

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 No. 485
Royalton, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 485, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2024.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as item 2024-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.*

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
THIEF RIVER FALLS, MINNESOTA

December 5, 2024

2024-001 FINDING

Criteria
A proper system of internal control has the proper segregation of duties between authorization, custody, record keeping, and reconciliation.

Condition
There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keepings, and reconciliation.

Cause
The District is subject to size and budget constraints limiting the number of personnel within the accounting department.

Effect
The design of internal control over financial reporting that could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation
We recommend the District review their internal controls over the accounting functions to determine if additional procedures can be implemented that are cost effective. The Board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will review on an annual basis.

2024-001 FINDING

Contact Person – Superintendent

Corrective Action Plan – The following steps are being taken to mitigate the risk: the Superintendent will review and approval all journal entries, the Board of Education will approve checks, and the Superintendent will review all bank statements before turning the statements over to the business office for reconciliation.

Completion Date – Ongoing

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2024

District Name: INDEPENDENT SCHOOL DISTRICT NO. 485 **District Number:** 485

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	11,665,513	11,665,512	1
Total Expenditures	12,164,633	12,164,634	(1)
Non Spendable			
460 Non Spendable Fund Balance	53,667	53,667	
Restricted/Reserved:			
401 Student Activities	230,632	230,631	1
402 Scholarships	37,994	37,994	
403 Staff Development			
407 Capital Projects Levy			
408 Cooperative Revenue			
412 Literacy Incentive Aid			
414 Operating Debt			
416 Levy Reduction			
417 Taconite Building Maintenance			
420 American Indian Ed Aid			
424 Operating Capital	1,536	1,535	1
426 $25 Taconite			
427 Disabled Accessibility			
428 Learning & Development	270	270	
434 Area Learning Center			
435 Contracted Alt Programs			
436 State Approved Alt Program			
438 Gifted & Talented	7	7	
440 Teacher Development and Eval			
441 Basic Skills Programs			
443 School Library Aid			
448 Achievement and Integration			
449 Safe Schools Levy	4,117	4,117	
451 QZAB Payments			
452 OPEB Liab Not In Trust			
453 Unfunded Sev & Retiremt Levy			
459 Basic Skills Ext Time			
467 LTFM	7,019	7,018	1
471 Student Support Personnel	28,297	28,297	
472 Medical Assistance	4,222	4,222	
Restricted			
464 Restricted Fund Balance			
475 Title VII Impact Aid			
476 Payment in Lieu of Taxes (PILT)			
Committed			
418 Committed for Separation			
461 Committed			
Assigned			
462 Assigned Fund Balance	115,775	115,775	
Unassigned:			
422 Unassigned Fund Balance	1,942,712	1,942,714	(2)
Reconciliation of General	26,256,394	26,256,393	1
02 FOOD SERVICE			
Total Revenue	786,620	786,620	
Total Expenditures	756,066	756,066	
Non Spendable			
460 Non Spendable Fund Balance	3,804	3,804	
Restricted/Reserved:			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	165,173	165,173	
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Food Service	1,711,663	1,711,663	
04 COMMUNITY SERVICE			
Total Revenue	575,610	575,610	
Total Expenditures	563,213	563,212	1
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
426 $25 Taconite			
431 Community Education	286,135	286,135	
432 E.C.F.E.	81,166	81,167	(1)
440 Teacher Development & Eval			
444 School Readiness	(21,339)	(21,339)	
447 Adult Basic Education			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	40,642	40,641	1
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Community Service	1,525,427	1,568,104	(42,677)

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
407 Capital Projects Levy			
413 Projects Funded By COP			
467 Long Term Fac. Maint. (LTFM)			
Restricted			
464 Restricted Fund Balance			
467 LTFM			
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Building Construction			
07 DEBT SERVICE			
Total Revenue	2,019,203	2,019,203	
Total Expenditures	2,022,333	2,022,333	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
425 Bond Refundings			
451 QZAB Payments			
Restricted			
464 Restricted Fund Balance	449,002	449,004	(2)
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Debt Service	4,490,538	4,490,540	(2)
08 TRUST			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Trust			
20 INTERNAL SERVICE			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Internal Service			
25 OPEB REVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Revocable Trust			
45 OPEB IRREVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Irrevocable Trust			
47 OPEB DEBT SERVICE FUND			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted			
425 Bond Refundings			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of OPEB Debt Service			