INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2026

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
TABLE OF CONTENTS

ROSTER OF SCHOOL OFFICIALS	**1**
INDEPENDENT AUDITOR'S REPORT	**2**
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis	5
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	12
Statement of Activities	14
Balance Sheet - Governmental Funds	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Notes to Basic Financial Statements	19
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule for the General Fund	42
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	43
Schedule of District Contributions	44
Schedule of District's Share of Net Pension Liability	45
Notes to Required Supplementary Information	46
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet – Nonmajor Governmental Funds	48
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	49
Schedule of Changes in Fund Balances	50
INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE	**51**
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*	**52**

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
TABLE OF CONTENTS

Schedule of Findings 54

Corrective Action Plan 55

SUPPLEMENTARY INFORMATION

Uniform Financial Accounting and Reporting Standards Compliance Table 56

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
ROSTER OF SCHOOL OFFICIALS
June 30, 2026

Rian Hofstad	Co-Chairperson
Ellie Holm	Co-Chairperson
Jon Andres	Clerk
Maria Traut	Treasurer
Lucas Boyd	Director
Randy Hackett	Director
Wayne LePard	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, 2026, 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, 2026, 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 other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Make Every Day Count | www.bradymartz.com

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 judgment 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 judgment 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 October 26, 2026 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, PLLC
GRAND FORKS, NORTH DAKOTA

October 26, 2026

Make Every Day Count | www.bradymartz.com

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, 2026. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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.

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 *governmental activities* comprise of the District's most basic functions such as elementary & secondary regular instructions and special education instruction. Governmental activities are primarily financed by taxes paid by area residents and business and grants from the State of Minnesota and the federal government.
- 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.

Types of Information in the Financial Statements

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, 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

Table A-1
Statement of Net Position

	2026	2025	Total Percentage Change
Current and Other Assets	$ 7,079,964	$ 7,390,709	(4.2) %
Capital Assets	24,695,874	25,451,856	(3.0)
Total Assets	31,775,838	32,842,565	(3.2)
Deferred Outflows of Resources	1,626,058	1,876,483	(13.3)
Long-term Liabilities	20,439,460	22,641,245	(9.7)
Other Liabilities	3,171,396	2,856,910	11.0
Total Liabilities	23,610,856	25,498,155	(7.4)
Deferred Inflows of Resources	4,766,443	4,725,257	0.9
Net Position			
Net Investment in Capital Assets	8,167,463	7,708,262	6.0
Restricted	1,359,813	1,221,591	11.3
Unrestricted	(4,502,679)	(4,434,217)	(1.5)
Total Net Position	$ 5,024,597	$ 4,495,636	11.8 %

Table A-1 shows that as of June 30, 2026, the District’s total net position – assets and deferred outflows minus liabilities and deferred inflows was $5,024,597, an increase of $528,961 or 11.8 % compared with 2025.

Change in Net Position

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

Table A-2
Change in Net Position

	2026	2025	Total Percentage Change
Revenues			
Program Revenues			
Charges for Services	$ 721,720	$ 777,927	(7.2) %
Operating Grants and Contributions	3,642,749	3,822,769	(4.7)
Capital Grants and Contributions	148,699	161,478	(7.9)
General Revenues			
Property Taxes	2,333,553	2,308,256	1.1
Unrestricted State Aid	8,180,102	8,112,982	0.8
Other Sources	298,433	616,347	(51.6)
Total Revenues	15,325,256	15,799,759	(3.0)
Expenses			
Administration	740,953	702,015	5.5
District Support Services	462,132	497,688	(7.1)
Elementary & Secondary Regular Instruction	5,093,905	5,200,555	(2.1)
Vocational Education Instruction	280,117	322,148	(13.0)
Special Education Instruction	1,972,130	1,866,123	5.7
Community Education and Services	555,854	478,357	16.2
Instructional Support Services	677,957	738,804	(8.2)
Pupil Support Services	1,945,776	1,829,180	6.4
Sites and Buildings	2,278,813	2,235,440	1.9
Fixed Costs	138,510	128,379	7.9
Interest on Long-term Debt	650,148	195,541	232.5
Total Expenses	14,796,295	14,194,230	4.2
Change in Net Position	528,961	1,605,529	(67.1)
Net Position - Beginning	4,495,636	3,038,434	
GASB 101 Adjustment		(148,327)	
Net Position - Beginning, Restated	4,495,636	2,890,107	55.6
Net Position - Ending	$ 5,024,597	$ 4,495,636	11.8 %

The District's total revenues were $15,325,256 for the year ended June 30, 2026. Property taxes and unrestricted state aid payments accounted for 68 percent of total revenue for the year. The total cost of all programs and services was $14,796,295. The revenues and expenditures resulted in an increase of net position of $528,961. Various events contributed to this increase in net position; however, the primary factors affecting the change in net position are as follows:

- Increase in capital asset additions of $315,848. See Note 3 for more details.

For the year ended June 30, 2026, 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 $371,499. For the year ended June 30, 2025, 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 $174,090.

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-3
Revenues, Expenditures, and Changes in Fund Balances

	General Fund		Debt Service	
	2026	2025	2026	2025
Total Revenues	$ 12,088,300	$ 12,294,941	$ 1,939,273	$ 2,198,914
Total Expenditures	12,374,246	12,083,703	1,963,730	2,199,303
Excess (Deficiency) of Revenues over Expenditures	(285,946)	211,238	(24,457)	(389)
Other Financing Sources (Uses)				
Debt Issued	-	-	-	16,640,401
Bond Refunding	-	-	-	(16,650,000)
Total other Financing Sources (Uses)	-	-	-	(9,599)
Net change in Fund Balance	(285,946)	211,238	(24,457)	(9,988)
Fund Balance - beginning of period	2,637,486	2,426,248	439,014	449,002
Fund Balances - end of period	$ 2,351,540	$ 2,637,486	$ 414,557	$ 439,014

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.

Total general fund revenue decreased by $206,641 or 1.7% 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.

Total general fund expenditures increased $290,543 or 2.4% from the previous year.

The District saw a decrease in enrollment over the prior year by approximately 12 students. This decrease resulted in less Gen Ed Aid from the state.

The General Fund experienced an increase in expenditures due to an increase in staffing costs.

Debt Service

The Debt Service fund collected levy and State aid allowed by state statute to pay the bonds issued by the District. In the prior year, the District issued refunding bonds of $14,765,000.

Significant Capital Assets and Long-Term Financing Activity

Capital Assets

Note 3 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2026. Overall, the carrying value of capital assets – original cost minus accumulated depreciation – decreased $755,982. Significant changes to capital assets during the year included a batting cage, security cameras, baseball scoreboards, carpet, chromebooks, cooler condenser unit, instruments, and a van. The District disposed of two vans in fiscal year 2026 for $44,552. Depreciation expense accounted for $1,071,830 during the current fiscal year.

Long-Term Liabilities

At year-end, the District had $16,845,503 of long-term debt consisting of bonds, net of premium, leases, and compensated absences. Note 6 to the financial statements presents details of these items.

Currently Known Facts, Decisions, or Conditions

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 2025-2026 school year, K-12 enrollment was 902. It is projected that student enrollment will stay consistent over the next three years. The basic general education formula allowance has increased over the years, with a minimal increase to 2.45% in 2021-2022 and further increases of 4% in 2022-2023, 2% in 2023-2024 and 2024-2025 and 2.75% in 2025-2026. 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.

2026-2027 District Budget

In June of 2026, the District approved its budget for the fiscal year ending June 30, 2027. The budget anticipates an increase in general education aid of 2.7% with an estimated aid of $7,683 per adjusted pupil unit. The budget also anticipates an increase in payroll related costs of $142,900 (4.4%) over the prior year.

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2026

GOVERNMENTAL ACTIVITIES		
ASSETS		
Cash and Investments	$	4,319,045
Property Taxes Receivable		1,401,801
Accounts Receivable		3,859
Due From Department of Education		1,063,929
Due From Federal thru DOE		69,080
Due From Other Governments		1,091
Lease Receivable		81,580
Prepaid Items		134,030
Inventory		5,549
Capital Assets		
Land		16,471
Other Capital Assets, Net of Depreciation/Amortization		24,679,403
TOTAL ASSETS		31,775,838
DEFERRED OUTFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan		1,568,996
Other Post Employment Benefits		57,062
TOTAL DEFERRED OUTFLOWS OF RESOURCES		1,626,058
LIABILITIES		
Accounts Payable		191,511
Due to MN Districts		16,856
Payroll Liabilities		950,089
Interest Payable		356,723
Long-Term Liabilities Due Within One Year		1,656,217
Long-Term Liabilities		
Bonds Payable, Net of Premium		16,514,026
Compensated Absences		317,092
Lease Payable		14,385
Net Pension Liability		4,905,307
Total Other Postemployment Benefit Liability		344,867
Less Amounts Due Within One Year		(1,656,217)
Total Long-Term Liabilities		20,439,460
TOTAL LIABILITIES		23,610,856
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied - Subs. Years		2,518,621
Leases		81,580
Other Post Employment Benefits		144,589
Cost Sharing Defined Benefit Pension Plan		2,021,653
TOTAL DEFERRED INFLOWS OF RESOURCES		4,766,443

See Notes to the Financial Statements

NET POSITION		
Net Investment in Capital Assets		8,167,463
Restricted for:		
Student Activities		285,198
Scholarships		45,594
Gifted and Talented		14,040
Literacy Aid		27,109
Long-Term Facilities Maint.		250,146
Student Support Personnel Aid		40,000
Debt Service		57,837
Food Service		119,198
Community Education		380,970
ECFE		139,721
Unrestricted		(4,502,679)
TOTAL NET POSITION	$	5,024,597

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2026

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					
Administration	$ 740,953	$	$	$	$ (740,953)
District Support Services	462,132				(462,132)
Regular Instruction	5,093,905	301,839	1,040,639	41,156	(3,710,271)
Vocational Education Instruction	280,117	304	3,525		(276,288)
Special Education Instruction	1,972,130		1,425,250		(546,880)
Community Education and Services	555,854	399,138	99,280		(57,436)
Instructional Support Services	677,957		196,154	60,052	(421,751)
Pupil Support Services	1,945,776	20,439	877,901	47,491	(999,945)
Sites and Buildings	2,278,813				(2,278,813)
Fixed Costs	138,510				(138,510)
Interest On Long-Term Debt	650,148				(650,148)
TOTAL GOVERNMENTAL ACTIVITIES	$ 14,796,295	$ 721,720	$ 3,642,749	$ 148,699	(10,283,127)
GENERAL REVENUES					
Taxes					
Property Taxes, Levied for General Purposes					891,178
Property Taxes, Levied for Community Education and Services					30,551
Property Taxes, Levied for Debt Service					1,411,824
Unrestricted State Aid					8,180,102
Unrestricted Investment Earnings					115,421
Gain on Sale of Asset					2,000
Other General Revenue					181,012
TOTAL GENERAL REVENUES					10,812,088
Change in Net Position					528,961
Net Position - Beginning					4,495,636
Net Position - Ending					$ 5,024,597

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2026

	General Fund	Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and Investments	$ 2,599,957	$ 1,142,137	$ 576,951	$ 4,319,045
Current Property Taxes Receivable	386,675	979,924	15,453	1,382,052
Delinquent Property Taxes Receivable	5,505	13,969	275	19,749
Accounts Receivable			3,859	3,859
Due From Department of Education	999,140	52,529	12,260	1,063,929
Due From Federal thru DOE	69,080			69,080
Due From Other Governments	1,091			1,091
Lease Receivable	81,580			81,580
Prepaid Items	134,030			134,030
Inventory			5,549	5,549
TOTAL ASSETS	$ 4,277,058	$ 2,188,559	$ 614,347	$ 7,079,964
LIABILITIES				
Accounts Payable	$ 184,972	$	$ 6,539	$ 191,511
Due to MN Districts	16,856			16,856
Payroll Liabilities	911,422		38,667	950,089
TOTAL LIABILITIES	1,113,250		45,206	1,158,456
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Delinquent Taxes	5,505	13,969	275	19,749
Unavailable Revenue - Lease	81,580			81,580
Property Taxes Levied - Subs. Years	725,183	1,760,033	33,405	2,518,621
TOTAL DEFERRED INFLOWS OF RESOURCES	812,268	1,774,002	33,680	2,619,950
FUND BALANCES				
Fund Balance:				
Nonspendable	134,030		5,549	139,579
Restricted for Student Activities	285,198			285,198
Restricted for Scholarships	45,594			45,594
Restricted for Gifted and Talented	14,040			14,040
Restricted for Literacy Aid	27,109			27,109
Restricted for Long-Term Facilities Maint.	250,146			250,146
Restricted for Student Support Personnel Aid	40,000			40,000
Restricted for Debt Service		414,557		414,557
Restricted for Food Service			113,649	113,649
Restricted for Community Education			380,970	380,970
Restricted for ECFE			139,721	139,721
Assigned for RBI	6,973			6,973
Assigned for Assigned Donations	7,314			7,314
Assigned for Roof Repair	100,000			100,000
Assigned for Care Closet	2,053			2,053
Assigned for Grants	69,993			69,993
Assigned for EM Sprenkle	60,659			60,659
Assigned for PBIS ES	130			130
Unassigned	1,308,301		(104,428)	1,203,873
TOTAL FUND BALANCES	2,351,540	414,557	535,461	3,301,558
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 4,277,058	$ 2,188,559	$ 614,347	$ 7,079,964

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, 2026

Total fund balances - governmental funds	$	3,301,558
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		44,913,097
Less accumulated depreciation/amortization		(20,217,223)
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.		1,626,058
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		(14,775,000)
Bond Premium		(1,739,026)
Compensated Absences payable		(317,092)
Lease Payable		(14,385)
Net Pension Liability		(4,905,307)
Total Other Postemployment Benefit Liability		(344,867)
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.		(2,166,242)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		19,749
Interest Payable		(356,723)
Net position of governmental activities	$	5,024,597

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, 2026

	General Fund	Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds
REVENUES				
Local Property Tax Levies	$ 889,871	$ 1,413,986	$ 39,793	$ 2,343,650
Other Local & County Revenues	523,046		412,084	935,130
Revenue From State Sources	10,453,890	525,287	544,214	11,523,391
Revenue From Federal Sources	155,095		328,132	483,227
Sale/Other Conversion of Asset	66,398		20,438	86,836
TOTAL REVENUES	12,088,300	1,939,273	1,344,661	15,372,234
EXPENDITURES				
Current				
Administration	720,603			720,603
District Support Services	441,160			441,160
Elementary & Secondary				
Regular Instruction	5,447,874			5,447,874
Vocational Education Instruction	275,007			275,007
Special Education Instruction	1,966,715			1,966,715
Community Education and Services			555,855	555,855
Instructional Support Services	628,269			628,269
Pupil Support Services	996,457		851,160	1,847,617
Sites and Buildings	1,399,057			1,399,057
Fixed Costs	138,510			138,510
Debt Service				
Principal	14,006	1,025,000		1,039,006
Interest	587	938,730		939,317
Capital Outlay	346,001		6,849	352,850
TOTAL EXPENDITURES	12,374,246	1,963,730	1,413,864	15,751,840
Net Change in Fund Balances	(285,946)	(24,457)	(69,203)	(379,606)
Fund Balances - Beginning	2,637,486	439,014	604,664	3,681,164
Fund Balances - Ending	$ 2,351,540	$ 414,557	$ 535,461	$ 3,301,558

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, 2026

Total net change in fund balances - governmental funds	$	(379,606)
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		315,848
Depreciation/Amortization expense		(1,071,830)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenues in the governmental funds.		(10,098)
Change in net pension liability		659,781
Change in deferred outflows and inflows of resources related to net pension liability		(288,282)
Change in deferred outflows and inflows of resources related to other postemployment benefit liability		76,787
Payment of principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.		1,039,006
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.		288,582
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.)		
Compensated absences payable		(33,012)
Other postemployment benefits		(68,215)
Change in net position of governmental activities	$	528,961

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 2025, which are not payable until 2026, 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.

Leases - Lessee – 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.

Subscription-Based Information Technology Arrangements (SBITA) – 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.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. 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 - The District accounts for compensated absences using a days-used approach. This approach consists of gathering the historical usage of compensated absences used to determine both a liability related to leave to be used as time off and leave to be settled in cash upon termination of employment. Salary-related employer payments are included in the calculation of the compensated absence liability.

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 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.

Net Position – 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 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.

Net Position Flow Assumption – 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.

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

Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted – 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.

Committed – 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.

G. Change in Accounting Principles

The District implemented GASB Statement No. 103, *Financial Reporting Model Improvements*, in the year ended June 30, 2026. The Statement enhances key components of the financial reporting model, including Management's Discussion and Analysis (MD&A) and required supplementary information. The implementation of this Statement resulted in changes to certain financial statement presentation and disclosure requirements but did not have an effect on the District's beginning net position.

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, 2026 was $115,421.

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

		Governmental Activities
Cash	$	554,696
Investments		3,764,349
Total	$	4,319,045

As of June 30, 2026, the District had the following investments:

Investments	Fair Value (Level 1)
MN Trust	$ 1,846,251
Minnesota School District Liquid Asset Fund	1,918,098
Total	$ 3,764,349

The MnTrust and Minnesota School District Liquid Asset Fund are common law trusts 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 MnTrust and Minnesota School District Liquid Asset Fund are external investment pools 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.

The MnTrust is rated Aaa by Moody’s Investors Services and the Minnesota School District Liquid Asset Fund is rated AAA by Standard & Poor’s.

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, 2026, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Land	$ 16,471	$ -	$ -	$ 16,471
Total capital assets, not being depreciated	16,471	-	-	16,471
Capital Assets, being depreciated/amortized:				
Land Improvements	960,388	-	-	960,388
Buildings	39,567,565	7,501	-	39,575,066
Equipment	3,934,764	308,347	44,552	4,198,559
Leased Asset - Equipment	68,235	-	-	68,235
SBITA Assets	94,378	-	-	94,378
Total capital assets, being depreciated/amortized	44,625,330	315,848	44,552	44,896,626
Less accumulated depreciation/amortization for:				
Land Improvements	762,719	18,392	-	781,111
Buildings	15,184,105	856,847	-	16,040,952
Equipment	3,159,354	162,853	44,552	3,277,655
Leased Asset - Equipment	40,941	13,647	-	54,588
SBITA Assets	42,826	20,091	-	62,917
Total accumulated depreciation/amortization	19,189,945	1,071,830	44,552	20,217,223
Total Capital Assets, being depreciated/amortized, net	25,435,385	(755,982)	-	24,679,403
Governmental Activities Capital Assets, net	$ 25,451,856	$ (755,982)	$ -	$ 24,695,874

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

Administration	$	20,350
District Support Services		20,384
Regular Instruction		27,451
Vocational Education Instruction		1,130
Special Education Instruction		5,415
Instructional Support Services		7,553
Pupil Support Services		98,158
Sites and Buildings		891,389
Total Depreciation/Amortization Expense	$	1,071,830

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). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

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

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

General Employees Plan requires three years of service to vest. Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2 percent of the highest average salary for each of the first 10 years of service and 1.7 percent for each additional year. Under the Level formula, General Plan members receive 1.7 percent of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if

they have three or more years of service. Early retirement benefits are reduced by .25 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25 percent for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. The 2025 annual increase was 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 June 30 before the effective date of the increase will receive a prorated increase.

Contributions – Minnesota Statutes Chapter 353, 353E, 353G, and 356 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2026 and the District was required to contribute 7.50 percent for General Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2026, were $199,852. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2026, the District reported a liability of $900,528 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 to the fund in 2025. 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 $21,700.

District's proportionate share of net pension liability	$	900,528
State of Minnesota's proportionate share of the net pension liability associated with the District		21,700
Total	$	922,228

The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2024, through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0272% at the end of the measurement period and 0.0299% for the beginning of the period.

For the year ended June 30, 2026, the District recognized pension expense of ($10,676) for its proportionate share of General Employee Plan's pension expense. In addition, the District recognized an additional ($3,333) as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

At June 30, 2026, the District reported 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	$ 85,801	$ -
Net difference between projected and actual earnings on pension plan investments	-	358,329
Changes in actuarial assumptions	21,698	207,208
Changes in proportion	31,634	117,621
Employer contributions to PERA subsequent to the measurement	199,852	-
Total	$ 338,985	$ 683,158

The $199,852 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, 2027. 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
2027	$ (132,228)
2028	(142,799)
2029	(153,795)
2030	(115,203)

Long-Term Expected Return on Investments – 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 for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2025, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7%. The 7% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7% is within that range.

- Inflation is assumed to be 2.25% for the General Employees Plan.
- Benefit increases after retirement are assumed to be 1.5% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 11.5 percent after one year of service to 3.0 percent after 27 years of service.

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

Actuarial assumptions for the General Employees Plan are reviewed every four years. The General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2025 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2025:

Changes in Actuarial Assumptions:

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

Discount Rate – The discount rate used to measure the total pension liability in 2025 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%)	Current (7%)	1% Increase (8%)
$ 2,187,241	$ 900,528	$ (143,286)

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

Benefits Provided - TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any consecutive 60 months of formula service, age and years of formula service credit at termination of service. TRA members belong to either the Basic or Coordinated Plan.

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

Tier I 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. An early retirement reduction is applied to members retiring prior to age 65. Beginning June 30, 2025, new reduction

factors will apply, including special factors for members retiring at age 60 or later with at least 30 years of service.

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 65 effective July 1, 2024. An early retirement reduction is applied to members retiring before age 65. Beginning June 30, 2025, new reduction factors will apply, including special factors for members retiring at age 60 or later with at least 30 years of service.

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 the fiscal year 2026 for coordinated were 8.0% for the employee and 9.81% for the employer. Basic rates were 11.25% for the employee and 12.75% for the employer. The District's contributions to TRA for the plan's fiscal year ended June 30, 2026 were $495,944. The District's contributions were equal to the required contributions for each year as set by state statute.

Actuarial Assumptions - The total pension liability in the July 1, 2025, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Experience Studies	August 2, 2023 (demographic 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	PubT-2010(A) Employee Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.

Healthy Retirees	PubT-2010 (A) Retiree Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Beneficiaries	Pub-2010 (A) Contingent Survivor Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.

**The assumptions prescribed are based on the experience study dated August 2, 2023. For GASB 67 purposes, the long-term rate of return assumptions is selected by TRA management in consultation with actuary.*

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 weighing 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%

Changes in actuarial assumptions since the 2023 valuation:

- Liability load for inactive non-vested members changed from 9% to 13% and the liability load for inactive members changed from 7% to 6%.

Discount Rate - 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 year 2025 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability - On June 30, 2026, the District reported a liability of $4,004,779 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2025. 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 0.0699% at the end of the measurement period and 0.0702% 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	$	4,004,779
State's proportionate share of the net pension liability associated with the District	$	248,654

For the year ended June 30, 2026, the District recognized pension expense of $310,915. It also recognized ($6,227) as a decrease to pension expense for the support provided by direct aid.

During the plan year ended June 30, 2025, the State of Minnesota contributed $28.462 million to the Fund. The State of Minnesota is not included as a non-employer contributing entity in the plan pension allocation schedules for the $28.462 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District recognized $26,406 for the year ended June 30, 2026 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Fund.

On June 30, 2026, the District had deferred outflows and inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	$	184,675	$	39,331
Net difference between projected and actual earnings on plan inv.		-		804,137
Changes in actuarial assumptions		226,217		423,630
Changes in proportion		323,175		71,397
District contributions subsequent to the measurement date		495,944		-
Total	$	1,230,011	$	1,338,495

The $495,944 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ending June 30, 2027. Other amounts reported as deferred outflows of resources and inflows of resources will be recognized in pension expense as follows:

Year Ending June 30		Pension Expense Amount
2027	$	284,249
2028		(390,724)
2029		(348,504)
2030		(152,878)
2031		3,429

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%)	Current (7%)	1% Increase (8%)
$ 7,554,127	$ 4,004,779	$ 1,083,688

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.

NOTE 5 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. In as much as the Plan has no assets, reporting another employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-alone report issued.

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, 2026, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	1
Active plan members	145
Total Members	146

Total OPEB Liability – The District's total OPEB liability of $344,867 was measured as of July 1, 2026 and was determined by an actuarial valuation as of July 1, 2025.

Actuarial Assumptions – The total OPEB liability in the July 1, 2025 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
Discount rate	4.90 percent
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-2016 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.

In the July 1, 2025 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 6/30/2025	$ 276,652
Changes for the year:	
Service Cost	47,925
Interest Cost	12,400
Assumption Changes	(17,791)
Diff between Expect and Actual	39,042
Benefit Payments	(13,361)
Net Changes	68,215
Balance at 6/30/2026	$ 344,867

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – 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 (3.9 percent) or one percentage point higher (5.9 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (3.9%)	Current (4.9%)	1% Increase (5.9%)
$ 370,370	$ 344,867	$ 320,741

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – 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 (7.5 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%)
$ 305,309	$ 344,867	$ 391,802

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2026, the District recognized OPEB expense of $7,046.

At June 30, 2026, 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	$ 7,980	$ 29,981
Difference between expected and actual experience	33,464	114,608
Employer contributions paid subsequent to the measurement date	15,618	-
Total	$ 57,062	$ 144,589

The $15,618 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, 2027. 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
2027	$ (34,006)
2028	(34,012)
2029	(20,601)
2030	(20,597)
2031	6,071

NOTE 6 LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended June 30, 2026 are as follows:

Summary of Long-Term Liabilities

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
G.O. Bonds	$ 15,800,000	$ -	$ 1,025,000	$ 14,775,000	$ 1,245,000
Premium on Bonds	1,915,203	-	176,177	1,739,026	176,177
Total Bonds	17,715,203	-	1,201,177	16,514,026	1,421,177
Lease Payable	28,391	-	14,006	14,385	14,385
Compensated Absences	284,080	33,012	-	317,092	220,655
Total Long-Term Liabilities	$ 18,027,674	$ 33,012	$ 1,215,183	$ 16,845,503	$ 1,656,217

Compensated absences are presented net of additions and retirements.

General Obligation Bonds

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2026	Amounts Due in 2026/27 Principal	Amounts Due in 2026/27 Interest
7/27/2016	2.0-2.35%	2/1/2032	$ 2,000,000	$ 140,000	$ 895,000	$ 140,000	$ 19,445
11/5/2024	5.00%	2/1/2036	14,765,000	885,000	13,880,000	1,105,000	694,000
				$ 1,025,000	$ 14,775,000	$ 1,245,000	$ 713,445

Annual debt service requirements to maturity are as follows:

	G.O. Bonds	
Year Ending June 30	Principal	Interest
2027	$ 1,245,000	$ 713,445
2028	1,305,000	655,395
2029	1,360,000	594,495
2030	1,425,000	530,628
2031	1,495,000	463,652
2032-2036	7,945,000	1,209,010
	$ 14,775,000	$ 4,166,625

Lease Payable

The District is a lessee for a noncancellable lease of equipment. The value of the lease liability was $14,385 as of June 30, 2026. The value of the right-to-use lease asset was $68,235 at the end of the fiscal year and had accumulated amortization of $54,588.

The future minimum lease obligations as of June 30, 2026, are as follows:

	Lease Payable	
Year Ending June 30	Principal	Interest
2027	$ 14,385	$ 209

NOTE 7 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, 2026.

NOTE 8 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 9 NEW PRONOUNCEMENTS

GASB Statement No. 105, *Subsequent Events,* defines subsequent events as transactions or other events occurring after the financial statement date but before the statements are available for issuance. Financial statements are considered available for issuance when they are complete in accordance with generally

accepted accounting principles and have received all required approvals. The Statement also requires disclosure of the date through which subsequent events were evaluated and clarifies the distinction between recognized and nonrecognized subsequent events, including related note disclosure requirements. This statement is effective for fiscal years beginning after June 15, 2026. Earlier application is encouraged.

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

NOTE 10 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through October 26, 2026, which is the date these financial statements were available to be issued.

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2026

	Budgeted Amounts		Variance with Original Budget Over (Under)		Variance with Final Budget Over (Under)
	Original	Final	Final Budget	Actual	Actual
REVENUES					
Local Property Tax Levies	$ 849,335	$ 863,343	$ 14,008	$ 889,871	$ 26,528
Other Local & County Revenues	378,213	483,673	105,460	523,046	39,373
Revenue From State Sources	10,940,821	10,755,206	(185,615)	10,453,890	(301,316)
Revenue From Federal Sources	164,000	171,131	7,131	155,095	(16,036)
Sale/Other Conversion of Asset	45,039	49,708	4,669	66,398	16,690
TOTAL REVENUES	12,377,408	12,323,061	(54,347)	12,088,300	(234,761)
EXPENDITURES					
Current					
Administration	733,710	768,300	34,590	720,603	(47,697)
District Support Services	397,179	433,923	36,744	441,160	7,237
Elementary & Secondary Regular Instruction	5,279,903	5,343,610	63,707	5,447,874	104,264
Vocational Education Instruction	338,810	284,387	(54,423)	275,007	(9,380)
Special Education Instruction	1,849,677	2,098,306	248,629	1,966,715	(131,591)
Instructional Support Services	679,322	615,458	(63,864)	628,269	12,811
Pupil Support Services	1,008,249	985,343	(22,906)	996,457	11,114
Sites and Buildings	1,371,494	1,362,372	(9,122)	1,399,057	36,685
Fixed Costs	173,435	139,213	(34,222)	138,510	(703)
Debt Service					
Principal	25,000	25,227	227	14,006	(11,221)
Interest	-	-	-	587	587
Capital Outlay	277,000	267,739	(9,261)	346,001	78,262
TOTAL EXPENDITURES	12,133,779	12,323,878	190,099	12,374,246	50,368
Net Change in Fund Balances	243,629	(817)	(244,446)	(285,946)	(285,129)
Fund Balances - Beginning	2,637,486	2,637,486	-	2,637,486	-
Fund Balances - Ending	$ 2,881,115	$ 2,636,669	$ (244,446)	$ 2,351,540	$ (285,129)

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	2025	2026
Total OPEB Liability									
Service Cost	$ 47,105	$ 48,518	$ 46,687	$ 48,088	$ 51,311	$ 52,850	$ 35,499	$ 36,564	$ 47,925
Interest	15,416	15,813	16,749	12,121	13,248	7,840	8,398	10,564	12,400
Difference Between Expected and Actual Experience	-	-	(118,383)	-	(121,786)	-	(139,671)	-	39,042
Assumption Changes	-	-	(16,570)	-	27,945	-	(25,784)	-	(17,791)
Benefit Payments	(69,577)	(34,657)	(35,327)	(27,575)	(26,588)	(25,866)	(7,617)	(9,487)	(13,361)
Net Change in Total OPEB Liability	(7,056)	29,674	(106,844)	32,634	(55,870)	34,824	(129,175)	37,641	68,215
Total OPEB Liability - Beginning	440,824	433,768	463,442	356,598	389,232	333,362	368,186	239,011	276,652
Total OPEB Liability - Ending	$ 433,768	$ 463,442	$ 356,598	$ 389,232	$ 333,362	$ 368,186	$ 239,011	$ 276,652	$ 344,867
Covered Payroll	$ 4,756,506	$ 4,899,201	$ 5,406,491	$ 5,568,686	$ 5,795,540	$ 5,969,406	$ 6,444,375	$ 6,637,706	$ 7,184,938
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%	4.17%	4.80%

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					
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
2025	184,796	184,796		2,463,943	7.50
2026	199,852	199,852		2,664,681	7.50
TRA					
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
2025	435,722	435,722		4,980,964	8.75
2026	495,944	495,944		5,055,749	9.81

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								
	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	0.0285	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	83.10
	2024	0.0299	1,104,355	28,515	1,132,870	2,531,281	43.63	89.08
	2025	0.0272	900,528	21,700	922,228	2,463,943	36.55	90.78
TRA								
	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
	2024	0.0702	4,460,733	291,784	4,752,517	4,731,843	94.27	82.07
	2025	0.0699	4,004,779	248,654	4,253,433	4,980,964	80.40	84.51

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 ACTUAL BUDGET RESULTS

General Fund

Differences – Original Budget to Final Budget

- The District decreased the final budget for Revenue from State Sources by $185,615, due to less students enrolled.
- The District increased the final budget for Special Education Instruction by $248,629, anticipating an increase in special education costs.

Differences – Final Budget to Actual

- Actual Revenue from State Sources received was less than the final budget by $301,316 due to less special education funding from the state.

NOTE 3 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2026, expenditures exceeded appropriations in the general fund by $50,368.

NOTE 4 DEFINED BENEFIT PLANS

PERA

Changes in Actuarial Assumptions:

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions:

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

TRA

Changes in actuarial assumptions since the 2023 valuation:

- Liability load for inactive non-vested members changed from 9% to 13% and the liability load for inactive members changed from 7% to 6%.

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS

Changes in Actuarial Assumption

- The health care trend rates and mortality tables were updated.
- The salary increase rates for non-teachers were updated to reflect the latest experience study.
- The discount rate was changed from 3.90% to 4.90%.

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2026

	Food Service Fund	Community Service Fund	Total Governmental Funds
ASSETS			
Cash and Investments	$ 114,789	$ 462,162	$ 576,951
Current Property Taxes Receivable	-	15,453	15,453
Delinquent Property Taxes Receivable	-	275	275
Accounts Receivable	-	3,859	3,859
Due From Department of Education	-	12,260	12,260
Inventory	5,549	-	5,549
TOTAL ASSETS	$ 120,338	$ 494,009	$ 614,347
LIABILITIES			
Accounts Payable	$ 1,140	$ 5,399	$ 6,539
Payroll Liabilities	-	38,667	38,667
TOTAL LIABILITIES	1,140	44,066	45,206
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Delinquent Taxes	-	275	275
Property Taxes Levied - Subs. Years	-	33,405	33,405
TOTAL DEFERRED INFLOWS OF RESOURCES		33,680	33,680
FUND BALANCES			
Fund Balance:			
Nonspendable	5,549	-	5,549
Restricted for Food Service	113,649	-	113,649
Restricted for Community Education	-	380,970	380,970
Restricted for ECFE	-	139,721	139,721
Unassigned	-	(104,428)	(104,428)
TOTAL FUND BALANCES	119,198	416,263	535,461
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 120,338	$ 494,009	$ 614,347

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, 2026

	Food Service Fund	Community Service Fund	Total Governmental Funds
REVENUES			
Local Property Tax Levies	$ -	$ 39,793	$ 39,793
Other Local & County Revenues	-	412,084	412,084
Revenue From State Sources	447,514	96,700	544,214
Revenue From Federal Sources	328,132	-	328,132
Sale/Other Conversion of Asset	20,438	-	20,438
TOTAL REVENUES	796,084	548,577	1,344,661
EXPENDITURES			
Current			
Community Education and Services	-	555,855	555,855
Pupil Support Services	851,160	-	851,160
Capital Outlay	6,849	-	6,849
TOTAL EXPENDITURES	858,009	555,855	1,413,864
Revenues Over Expenditures	(61,925)	(7,278)	(69,203)
Fund Balances - Beginning	181,123	423,541	604,664
Fund Balances - Ending	$ 119,198	$ 416,263	$ 535,461

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2026

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	UFARS Balance End of Year	Reclassify	Balance End of Year
General Fund							
Nonspendable	$ 40,250	$	$	$ 93,780	$ 134,030	$	$ 134,030
Restricted for:							
Student Activities	245,006	203,273	163,081		285,198		285,198
Scholarships	37,044	25,750	17,200		45,594		45,594
Gifted and Talented	1,984	12,737	681		14,040		14,040
School Library Aid	6,826	19,794	26,620				
Safe Schools Levy	13,160	35,211	48,371				
Literacy Aid	37,424		10,315		27,109		27,109
Teacher Comp READ Act	14,909		14,909				
Long Term Facilities Maint.	132,713	175,808	58,375		250,146		250,146
Student Support Personnel Aid	40,000	28,136	28,136		40,000		40,000
Medical Assistance	10,675	1,302	11,977				
Assigned for:							
RBI	22,259	1,600	16,886		6,973		6,973
Assigned Donations	8,057	10,000	10,743		7,314		7,314
Roof Repair	100,000				100,000		100,000
Care Closet	2,162	2,340	2,449		2,053		2,053
Grants	2,344	80,466	12,817		69,993		69,993
EM Sprenkle	65,165		4,506		60,659		60,659
PBIS ES	130				130		130
Unassigned	1,857,378	11,491,883	11,947,180	(93,780)	1,308,301		1,308,301
Total General Fund	2,637,486	12,088,300	12,374,246	-	2,351,540	-	2,351,540
Food Service Fund							
Nonspendable	3,305			2,244	5,549		5,549
Restricted for Food Service	177,818	796,084	858,009	(2,244)	113,649		113,649
Total Food Service Fund	181,123	796,084	858,009	-	119,198	-	119,198
Community Service Fund							
Restricted for:							
Community Education	372,566	279,143	270,739		380,970		380,970
ECFE	128,161	63,334	51,774		139,721		139,721
School Readiness	(120,617)	200,313	230,885		(151,189)	151,189	
Community Service	43,431	5,787	2,457		46,761	(46,761)	
Unassigned						(104,428)	(104,428)
Total Community Service Fund	423,541	548,577	555,855	-	416,263	-	416,263
Debt Service Fund							
Restricted for Debt Service	439,014	1,939,273	1,963,730		414,557		414,557
Total Debt Service Fund	439,014	1,939,273	1,963,730	-	414,557	-	414,557
Totals	$ 3,681,164	$ 15,372,234	$ 15,751,840	$ -	$ 3,301,558	$ -	$ 3,301,558

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, 2026, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 26, 2026.

Legal Compliance

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

Purpose of 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, PLLC
GRAND FORKS, NORTH DAKOTA

October 26, 2026

Make Every Day Count | www.bradymartz.com

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, 2026, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 26, 2026.

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 a certain deficiency in internal control, described in the accompanying schedule of findings as item 2026-001 that we consider to be a significant deficiency.

Make Every Day Count | www.bradymartz.com

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 finding 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 other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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, PLLC
GRAND FORKS, NORTH DAKOTA

October 26, 2026

2026-001 FINDING

Criteria
An appropriate system of internal controls requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition
The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. However, the District currently does not prepare financial statements, including accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements.

Cause
The District elected to have the auditor assist with the preparation of the financial statements for efficiency.

Effect
There is an increased risk of material misstatement to the District's financial statements.

Recommendation
We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures. As a compensating control the District should establish an internal control policy to document the annual review of the financial statement disclosure checklist.

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

2026-001 FINDING

Contact Person – Wayne LePard, Superintendent

Corrective Action Plan – Will establish a policy to document review of financial statements and notes.

Completion Date – Ongoing

INDEPENDENT SCHOOL DISTRICT NO. 485
ROYALTON, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2026

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

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	12,088,300	12,088,300	
Total Expenditures	12,374,246	12,374,247	(1)
Non Spendable			
460 Non Spendable Fund Balance	134,030	134,030	
Restricted/Reserved:			
401 Student Activities	285,198	285,197	1
402 Scholarships	45,594	45,594	
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			
426 $25 Taconite			
427 Disabled Accessibility			
428 Learning & Development			
434 Area Learning Center			
435 Contracted Alt Programs			
436 State Approved Alt Program			
438 Gifted & Talented	14,040	14,041	(1)
440 Teacher Development and Eval			
441 Basic Skills Programs			
443 School Library Aid			
448 Achievement and Integration			
449 Safe Schools Levy			
451 QZAB Payments			
452 OPEB Liab Not In Trust			
453 Unfunded Sev & Retiremt Levy			
459 Basic Skills Ext Time			
456 Literacy Aid	27,109	27,109	
457 Teacher Comp READ Act			
467 LTFM	250,146	250,146	
471 Student Support Personnel	40,000	40,000	
472 Medical Assistance			
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	247,122	247,122	
Unassigned:			
422 Unassigned Fund Balance	1,308,301	1,308,302	(1)
Reconciliation of General	26,814,086	26,814,088	(2)
02 FOOD SERVICE			
Total Revenue	796,084	796,085	(1)
Total Expenditures	858,009	858,009	
Non Spendable			
460 Non Spendable Fund Balance	5,549	5,549	
Restricted/Reserved:			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	113,649	113,652	(3)
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Food Service	1,773,291	1,773,295	(4)
04 COMMUNITY SERVICE			
Total Revenue	548,577	548,578	(1)
Total Expenditures	555,855	555,854	1
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
426 $25 Taconite			
431 Community Education	380,970	380,970	
432 E.C.F.E.	139,721	139,722	(1)
440 Teacher Development & Eval			
444 School Readiness	(151,189)	(151,188)	(1)
447 Adult Basic Education			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	46,761	46,763	(2)
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Community Service	1,520,695	1,520,699	(4)

	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	1,939,273	1,939,273	
Total Expenditures	1,963,730	1,963,730	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
425 Bond Refundings			
451 QZAB Payments			
Restricted			
464 Restricted Fund Balance	414,557	414,559	(2)
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Debt Service	4,317,560	4,317,562	(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			