

**Independent School District No. 698
Floodwood, Minnesota**

Basic Financial Statements

June 30, 2025

Independent School District No. 698
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Independent School District No. 698
Board of Education and Administration
June 30, 2025

Board of Education	Position	Term Expires
Leanaya Miller	Chairperson	January 1, 2029
Tracy Hutchinson	Vice Chairperson	January 1, 2027
Cory Suonvieri	Clerk	January 1, 2027
Tanya Johnson	Treasurer	January 1, 2029
Kelli Young	Director	January 1, 2029
Dave Rohde	Director	January 1, 2027

Administration

Susan Hoeft	Superintendent
Haley Walsh	Business Manager

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Independent Auditor's Report

To the School Board
Independent School District No. 698
Floodwood, Minnesota

Report on the Audit of the Financial Statements

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 698, Floodwood, Minnesota, as of and for the year ended June 30, 2025, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 698, as of June 30, 2025, and the respective changes in financial position and, and the budgetary comparison for the General Fund and Community Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and 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.

Emphasis of Matter

The District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The management of Independent School District No. 698 is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is 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 GAAS 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 judgment, there are conditions or events considered in the aggregate, which 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, which follows this report letter, and Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by GASB, 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 accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2025, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bergank KDV, Ltd.

St. Cloud, Minnesota
December 18, 2025

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Independent School District 698 Management's Discussion and Analysis

This section of Independent School District 698 (the "District") annual financial report presents its discussion and analysis of the District's financial performance during the year ending June 30, 2025. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

- General Fund revenues and other financing sources exceeded expenditures by \$39,869.
- The unassigned fund balance is \$123,353, an increase of \$92,577 from last year's ending unassigned fund balance amount of \$30,776.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (MD&A), this section, the basic financial statements, required supplementary and supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

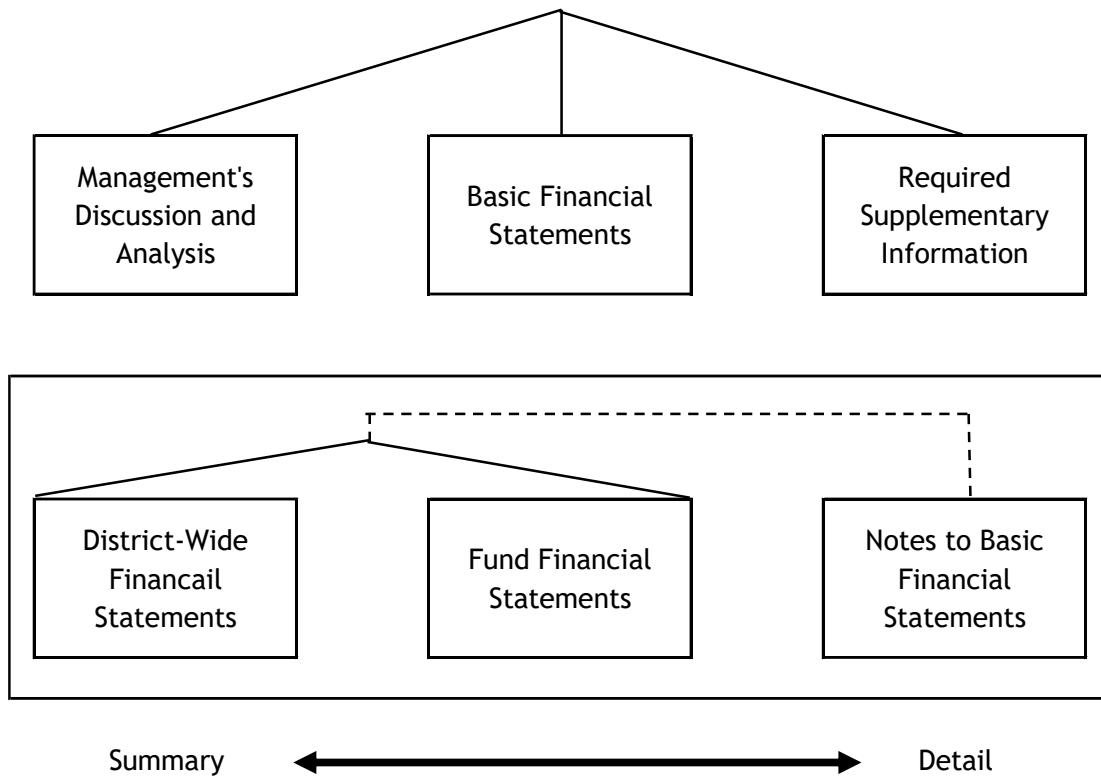
- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The notes are followed by a section of supplementary information that further explains and supports the financial statements. Figure A-1, on the following page, shows how the various parts of this annual report are arranged and related to one another.

**Independent School District 698
Management's Discussion and Analysis**

Overview of the Financial Statements (Continued)

**Figure A-1
Organization of the District's Annual Financial Report**



**Independent School District 698
Management's Discussion and Analysis**

Overview of the Financial Statements (Continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

**Figure A-2
Major Features of the Government-Wide and Fund Financial Statements**

Fund Financial Statements			
	District-Wide Statement	Governemental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	<ul style="list-style-type: none"> ◊ Statement of Net Position ◊ Statement of Activities 	<ul style="list-style-type: none"> ◊ Balance Sheet ◊ Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> ◊ Statement of Fiduciary Net Position ◊ Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow/out Flow Information	All revenues, and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Independent School District 689 Management's Discussion and Analysis

Government-Wide Statements

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

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. These funds are required by state law and by bond covenants. The District establishes these 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 (such as federal grants).

The District has five different funds:

- General Fund (01): Is used to account for all revenues and expenditures of the District not accounted for elsewhere. The General Fund is used to account for educational activities, District instructional and student support programs, expenditures for the Superintendent, District administration, normal operations and maintenance, pupil transportation, capital expenditures, and legal school district expenditures not specifically designated to be accounted for in any other fund. The District may use General Fund balances for capital purposes except when the requirements for a specific categorical revenue state that it may not be used for capital purchases.
- Food Service Fund (02): This fund is used to record financial activities of the District's Food Service Program. Food service includes activities for the purpose of preparation and service of milk, meals, and snacks in connection with the school and community service activities.
- Community Service Fund (04): The Community Service Fund is used to record all financial activities of the Community Service Program. The Community Service Fund is comprised of five components, each with its own fund balance. The five components are community service, community education, early childhood and family education, school readiness, and adult basic education.

**Independent School District 698
Management's Discussion and Analysis**

Fund Financial Statements (Continued)

- **Debt Service Fund (07):** The Debt Service Fund is used to record revenues and expenditures for the District's outstanding bonded indebtedness.
- **Custodial Fund (18):** The Custodial Fund is used to account for revenue received and held by the District to be used in making scholarship awards.

Financial Analysis of the District as A Whole

Net position: Current assets increased by \$194,886, capital assets decreased by \$296,573, and deferred outflows of resources decreased by \$79,544. Liabilities decreased by \$507,934 and deferred inflows of resources increased by \$461,972. The District's combined net position at June 30, 2025, was \$6,096,800 (See Figure A-3).

**Figure A-3
Condensed Statement of Net Position**

	2024	2025	Total Percent Change 2024-2025
Assets			
Current and other assets	\$ 1,414,696	\$ 1,609,582	13.8%
Capital assets	<u>7,673,468</u>	<u>7,376,895</u>	-3.9%
Total assets	<u>\$ 9,088,164</u>	<u>\$ 8,986,477</u>	-1.1%
Deferred Outflows of Resources			
Deferred Outflows	<u>\$ 421,408</u>	<u>\$ 341,864</u>	-18.9%
Liabilities			
Current liabilities	\$ 354,464	\$ 426,499	20.3%
Long-term liabilities	<u>2,029,186</u>	<u>1,449,217</u>	-28.6%
Total liabilities	<u>\$ 2,383,650</u>	<u>\$ 1,875,716</u>	-21.3%
Deferred Inflows of Resources			
Deferred Inflows	<u>\$ 893,853</u>	<u>\$ 1,355,825</u>	51.7%
Net Position			
Net investment in capital assets	\$ 7,539,469	\$ 7,269,052	-3.6%
Restricted	<u>510,498</u>	<u>533,404</u>	4.5%
Unrestricted	<u>(1,817,898)</u>	<u>(1,705,656)</u>	-6.2%
Total net position	<u>\$ 6,232,069</u>	<u>\$ 6,096,800</u>	-2.2%

The District's net position decreased \$135,269 in 2025.

Independent School District 698
Management's Discussion and Analysis

Financial Analysis of the District as A Whole (Continued)

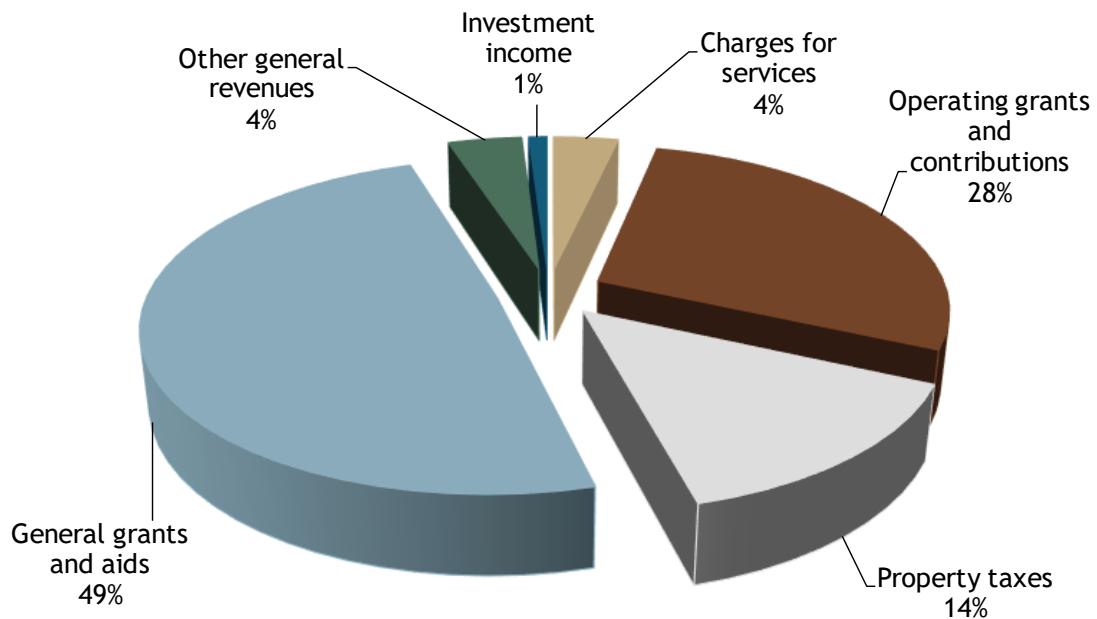
Figure A-4
Change in Net Position from Operating Results
Governmental Funds

	2024	2025	Total Percent Change 2024-2025
Revenues			
Program revenues			
Charges for services	\$ 114,331	\$ 126,183	10.4%
Operating grants and contributions	794,603	1,007,296	26.8%
Capital grants and contributions	653	358	100.0%
General revenues			
Property taxes	664,329	505,038	-24.0%
General grants and aids	1,685,083	1,752,557	4.0%
Other general revenues	20,098	143,609	614.5%
Investment income	41,901	35,651	-14.9%
Gain on sale of assets	750	150	-80.0%
Total revenues	<u>3,321,748</u>	<u>3,570,842</u>	<u>7.5%</u>
Expenses			
Administration	227,677	388,047	70.4%
District support services	178,635	139,818	-21.7%
Elementary and secondary regular instruction	1,117,217	1,251,360	12.0%
Vocational education instruction	31,904	44,361	39.0%
Special education instruction	305,102	296,257	-2.9%
Instructional support services	81,434	116,863	43.5%
Pupil support services	289,952	341,848	17.9%
Sites and buildings	396,880	492,188	24.0%
Fiscal and other fixed cost programs	57,276	70,425	23.0%
Food service	126,928	137,492	8.3%
Community education and services	27,596	64,759	134.7%
Unallocated depreciation	313,115	311,237	-0.6%
Interest and fiscal charges on long-term debt	3,115	8,556	174.7%
Total expenses	<u>3,156,831</u>	<u>3,663,211</u>	<u>16.0%</u>
Change in net position	164,917	(92,369)	-156.0%
Net position - beginning	6,067,152	6,232,069	2.7%
Change in accounting principle	-	(42,900)	-100.0%
Net position - beginning (restated)	<u>6,067,152</u>	<u>6,189,169</u>	<u>2.0%</u>
Net position - ending	<u>\$ 6,232,069</u>	<u>\$ 6,096,800</u>	<u>-2.2%</u>

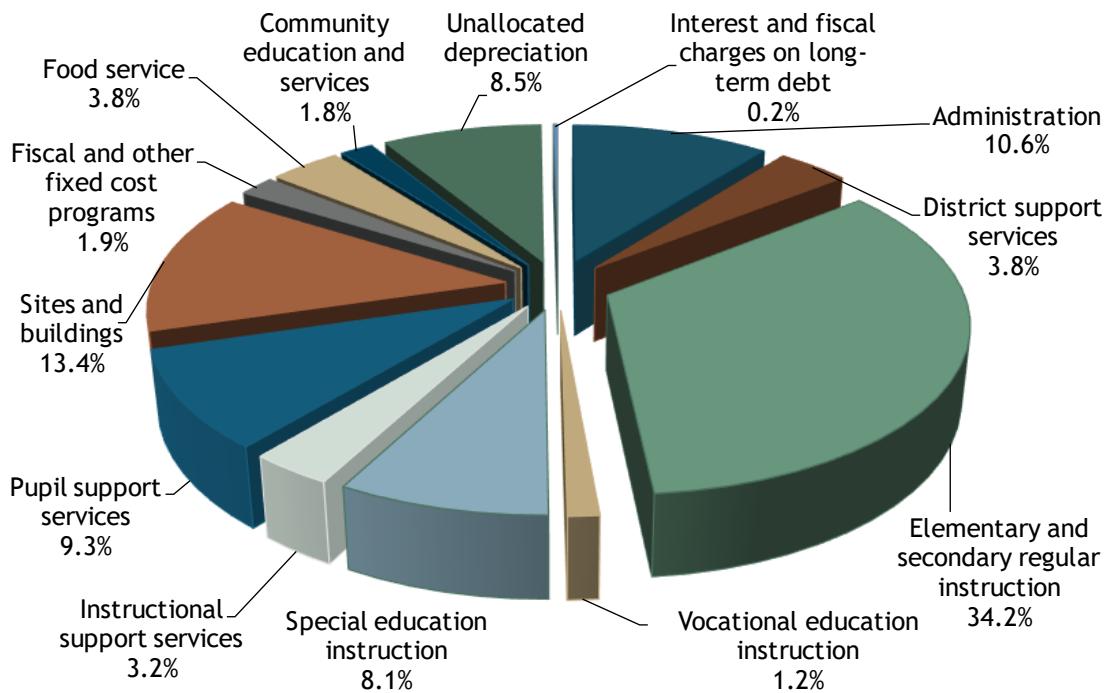
**Independent School District 698
Management's Discussion and Analysis**

Financial Analysis of the District as A Whole (Continued)

**Figure A-5
Sources of Revenues for Year 2025**



**Figure A-6
Expenses for Year 2025**



Independent School District 698 Management's Discussion and Analysis

Governmental Funds

As the District completed the year, the District reported a combined fund balance of \$712,341 an increase of \$16,294 from last year's ending combined fund balance of \$696,047. The General Fund revenues and other financing sources exceeded expenditures by \$39,869. The Food Service fund balance increased by \$4,999. The Community Service fund balance increased by \$1,495. The Debt Service fund balance decreased by \$30,069.

General Fund Budgetary Highlights

The District approved an original budget that contained General Fund revenue and other financing sources of \$3,052,949 that was not revised. The District approved an original budget that contained General Fund expenditures and other financing uses of \$3,063,355 that was not revised. Revenues and other financing sources for 2025 were greater than the budgeted total by \$264,731 due to the receipt of a grant revenue and an increase in state special education revenue. Expenditures were \$214,456 over budget due to the expenditure of grant funds received, additional special education costs and various building improvements.

Capital Asset and Debt Administration

Capital Assets

By the end of 2025, the District had invested \$16,641,937 in capital assets, including land, construction in progress, land improvements, buildings and improvements, equipment, and leased equipment (See Figure A-7). Total depreciation expense for the year was \$369,934. See Note 3 for additional capital asset information.

Figure A-7
Capital Assets (Net of Depreciation)

	2024	2025	Total Percent Change 2024-2025
Land	\$ 128,350	\$ 128,350	0.0%
Construction in progress	-	48,747	
Right-to-use assets	21,037	22,897	8.8%
Land improvements	306,288	306,288	0.0%
Buildings and improvements	15,342,219	15,357,169	0.1%
Equipment	778,486	778,486	0.0%
Less accumulated depreciation/amortization	(8,902,912)	(9,265,042)	4.1%
 Total	 \$ 7,673,468	 \$ 7,376,895	 -3.9%

**Independent School District 698
Management's Discussion and Analysis**

Capital Asset and Debt Administration (Continued)

Long-Term Obligations

The District had \$60,000 in general obligation bonds payable outstanding at year-end. The District also had \$269,627 in compensated absences payable, \$13,872 in lease liabilities, and \$33,971 in finance purchase agreements at June 30, 2025. More detailed information about long-term liabilities can be found in Note 4 to the financial statements.

**Figure A-8
Outstanding Long-Term Debt**

	2024	2025	Total Percent Change 2024-2025
Series 2017A Facilities Maintenance Bonds	\$ 90,000	\$ 60,000	-33.3%
Lease liability	7,920	13,872	75.2%
Finance purchase agreements	36,079	33,971	-5.8%
Severance payable	149,028	-	-100.0%
Compensated absences payable	52,109	269,627	417.4%
 Total	 \$ 335,136	 \$ 377,470	 12.6%

The District reduced its outstanding long-term bonded debt by \$30,000.

Factors Bearing on the District's Future

Enrollment is a critical factor in determining school district revenue. Enrollment increased in the most recent year. Resident students increased 5%. Enrolled students increased approximately 7%. The District enrolls nearly 15% of its students from outside of the District through the enrollment options program.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office, Independent School District 698, 115 W 4th Avenue, Floodwood, Minnesota 55736.

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BASIC FINANCIAL STATEMENTS

Independent School District No. 698
Statement of Net Position
June 30, 2025

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 1,215,738
Current property taxes receivable	163,227
Delinquent property taxes receivable	3,417
Due from Department of Education	183,707
Due from Federal Government through Department of Education	5,265
Due from other Minnesota school districts	23,978
Due from other governments	13,022
Inventory	1,228
Capital assets	
Land	128,350
Construction in progress	48,747
Improvements other than buildings	306,288
Buildings	15,357,169
Furniture and equipment	778,486
Less accumulated depreciation	(9,255,839)
Right-to-use assets	
Equipment	22,897
Less accumulated amortization	(9,203)
Total assets	<u>8,986,477</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	341,308
Deferred outflows of resources related to OPEB	556
Total deferred outflows of resources	<u>341,864</u>
Total assets and deferred outflows of resources	<u>\$ 9,328,341</u>
Liabilities	
Accounts payable	\$ 66,145
Salaries and benefits payable	130,990
Interest payable	644
Due to other Minnesota school districts	46,423
Unearned revenue	9
Bond principal payable, net	
Payable within one year	30,000
Payable after one year	30,000
Lease liability	
Payable within one year	4,299
Payable after one year	9,573
Financed purchases payable	
Payable within one year	2,390
Payable after one year	31,581
Compensated absences payable	
Payable within one year	145,599
Payable after one year	124,028
Total other post employment benefits (OPEB) liability	
Payable after one year	9,243
Net pension liability	<u>1,244,792</u>
Total liabilities	<u>1,875,716</u>
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	650,257
Deferred inflows of resources related to OPEB	37,222
Deferred inflows of resources related to pensions	668,346
Total deferred inflows of resources	<u>1,355,825</u>
Net Position	
Net investment in capital assets	7,269,052
Restricted for	
Debt Service	49,666
Other purposes	483,738
Unrestricted	
Total net position	<u>(1,705,656)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 9,328,341</u>

Independent School District No. 698
 Statement of Activities
 Year Ended June 30, 2025

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
		Governmental Activities			
Governmental activities					
Administration	\$ 388,047	\$ -	\$ -	\$ -	\$ (388,047)
District support services	139,818	-	-	-	(139,818)
Elementary and secondary regular instruction	1,251,360	65,297	223,113	-	(962,950)
Vocational education instruction	44,361	-	4,744	-	(39,617)
Special education instruction	296,257	306	316,296	-	20,345
Instructional support services	116,863	20	76,831	-	(40,012)
Pupil support services	341,848	-	236,692	-	(105,156)
Sites and buildings	492,188	-	-	358	(491,830)
Fiscal and other fixed cost programs	70,425	-	-	-	(70,425)
Food service	137,492	16,657	127,683	-	6,848
Community education and services	64,759	43,903	21,937	-	1,081
Unallocated depreciation	311,237	-	-	-	(311,237)
Interest and fiscal charges on long-term debt	8,556	-	-	-	(8,556)
Total governmental activities	\$ 3,663,211	\$ 126,183	\$ 1,007,296	\$ 358	(2,529,374)
General revenues					
Taxes					
Property taxes, levied for general purposes					505,510
Property taxes, levied for community service					(37)
Property taxes, levied for debt service					(435)
General grants and aids					1,752,557
Other general revenues					143,609
Investment income					35,651
Gain on sale of assets					150
Total general revenues					2,437,005
Change in net position					(92,369)
Net position - beginning					6,232,069
Change in accounting principle (Note 9)					(42,900)
Net position - beginning, as restated					6,189,169
Net position - ending					\$ 6,096,800

Independent School District No. 698
Balance Sheet - Governmental Funds
June 30, 2025

	General	Community Service	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 933,141	\$ 200,307	\$ 82,290	\$ 1,215,738
Current property taxes receivable	152,627	9,071	1,529	163,227
Delinquent property taxes receivable	3,357	60	-	3,417
Due from Department of Education	181,578	2,129	-	183,707
Due from Federal Government through Department of Education	5,265	-	-	5,265
Due from other Minnesota school districts	23,978	-	-	23,978
Due from other governments	13,022	-	-	13,022
Inventory	-	-	1,228	1,228
 Total assets	 <u>\$ 1,312,968</u>	 <u>\$ 211,567</u>	 <u>\$ 85,047</u>	 <u>\$ 1,609,582</u>
Liabilities				
Accounts payable	\$ 66,145	\$ -	\$ -	\$ 66,145
Salaries and benefits payable	119,748	6,130	5,112	130,990
Due to other Minnesota school districts	45,885	538	-	46,423
Unearned revenue	9	-	-	9
 Total liabilities	 <u>231,787</u>	 <u>6,668</u>	 <u>5,112</u>	 <u>243,567</u>
Deferred Inflows of Resources				
Unavailable revenue - delinquent property taxes	3,357	60	-	3,417
Property taxes levied for subsequent year's expenditures	609,426	35,699	5,132	650,257
 Total deferred inflows of resources	 <u>612,783</u>	 <u>35,759</u>	 <u>5,132</u>	 <u>653,674</u>
Fund Balances				
Nonspendable	-	-	1,228	1,228
Restricted	290,045	169,140	73,575	532,760
Assigned	55,000	-	-	55,000
Unassigned	123,353	-	-	123,353
 Total fund balances	 <u>468,398</u>	 <u>169,140</u>	 <u>74,803</u>	 <u>712,341</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 1,312,968</u>	 <u>\$ 211,567</u>	 <u>\$ 85,047</u>	 <u>\$ 1,609,582</u>

Independent School District No. 698
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2025

Total fund balances - governmental funds \$ 712,341

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds:

Cost of capital assets	16,641,937
Less accumulated depreciation/amortization	(9,265,042)

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.

Long-term liabilities at year-end consist of:

Bond principal payable	(60,000)
Lease liability	(13,872)
Financed purchase lease payable	(33,971)
Compensated absences payable	(269,627)
Total OPEB liability	(9,243)
Net pension liability	(1,244,792)

Deferred outflows of resources and deferred inflows of resources are created as a result of differences related to pensions and OPEB that are not recognized in the governmental funds:

Deferred outflows of resources related to pensions	341,308
Deferred outflows of resources related to OPEB	556
Deferred inflows of resources related to pensions	(668,346)
Deferred inflows of resources related to OPEB	(37,222)

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

3,417

Governmental funds do not report a liability for accrued interest on bonds until due and payable.

(644)

Total net position - governmental activities

\$ 6,096,800

Independent School District No. 698
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2025

	General	Community Service	Nonmajor Funds	Total Governmental Funds
Revenues				
Local property taxes	\$ 505,937	\$ 68	\$ 545	\$ 506,550
Other local and county revenues	209,464	43,903	6,624	259,991
Revenue from state sources	2,514,184	21,792	62,284	2,598,260
Revenue from federal sources	61,124	-	65,399	126,523
Sales and other conversion of assets	-	-	10,033	10,033
Interest earnings	26,821	5,921	2,909	35,651
Total revenues	<u>3,317,530</u>	<u>71,684</u>	<u>147,794</u>	<u>3,537,008</u>
Expenditures				
Current				
Administration	358,345	-	-	358,345
District support services	142,110	-	-	142,110
Elementary and secondary regular instruction	1,366,409	-	-	1,366,409
Vocational education instruction	43,509	-	-	43,509
Special education instruction	307,403	-	-	307,403
Instructional support services	112,122	-	-	112,122
Pupil support services	343,231	-	-	343,231
Sites and buildings	515,205	-	-	515,205
Fiscal and other fixed cost programs	70,425	-	-	70,425
Food service	-	-	140,139	140,139
Community education and services	-	70,189	-	70,189
Capital outlay				
Instructional support services	5,686	-	-	5,686
Sites and buildings	1,441	-	-	1,441
Debt service				
Principal	11,918	-	30,000	41,918
Interest and fiscal charges	7	-	2,725	2,732
Total expenditures	<u>3,277,811</u>	<u>70,189</u>	<u>172,864</u>	<u>3,520,864</u>
Excess of revenues over (under) expenditures	39,719	1,495	(25,070)	16,144
Other Financing Sources				
Proceeds from sale of assets	<u>150</u>	-	-	<u>150</u>
Net change in fund balances	39,869	1,495	(25,070)	16,294
Fund Balances				
Beginning of year	<u>428,529</u>	<u>167,645</u>	<u>99,873</u>	<u>696,047</u>
End of year	<u>\$ 468,398</u>	<u>\$ 169,140</u>	<u>\$ 74,803</u>	<u>\$ 712,341</u>

Independent School District No. 698
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement
of Activities - Governmental Funds
ISD No. 698 - Floodwood School District

Net change in fund balances - total governmental funds \$ 16,294

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	73,361
Depreciation/amortization expense	(369,934)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (25,590)

OPEB obligations are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. 11,598

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in net position in the Statement of Activities. 35,820

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 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. 274

The issuance of long-term debt provides current financial resources to governmental funds and has no effect on net position. These amounts are reported in the governmental funds as an other source of financing. These amounts constitute long-term liabilities in the being shown as revenues in the Statement of Activities. (9,664)

Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective. 176,984

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. (1,512)

Change in net position - governmental activities \$ (92,369)

Independent School District No. 698
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended June 30, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 518,800	\$ 518,800	\$ 505,937	\$ (12,863)
Other local and county revenues	62,538	62,538	209,464	146,926
Revenue from state sources	2,316,741	2,316,741	2,514,184	197,443
Revenue from federal sources	107,170	107,170	61,124	(46,046)
Interest earnings	45,000	45,000	26,821	(18,179)
Total revenues	3,050,249	3,050,249	3,317,530	267,281
Expenditures				
Current				
Administration	350,329	350,329	358,345	8,016
District support services	139,785	139,785	142,110	2,325
Elementary and secondary regular instruction	1,392,781	1,392,781	1,366,409	(26,372)
Vocational education instruction	46,560	46,560	43,509	(3,051)
Special education instruction	249,846	249,846	307,403	57,557
Instructional support services	77,604	77,604	112,122	34,518
Pupil support services	316,124	316,124	343,231	27,107
Sites and buildings	403,326	403,326	515,205	111,879
Fiscal and other fixed cost programs	45,000	45,000	70,425	25,425
Capital outlay				
Vocational education instruction	5,000	5,000	-	(5,000)
Instructional support services	12,000	12,000	5,686	(6,314)
Sites and buildings	11,000	11,000	1,441	(9,559)
Debt service				
Principal	14,000	14,000	11,918	(2,082)
Total expenditures	3,063,355	3,063,355	3,277,811	214,456
Excess of revenues over (under) expenditures	\$ (13,106)	\$ (13,106)	39,719	\$ 52,825
Other Financing Sources				
Proceeds from sale of assets	-	-	150	150
Lease proceeds	2,700	2,700	-	(2,700)
Total other financing sources	2,700	2,700	150	(2,550)
Net change in fund balances	\$ (10,406)	\$ (10,406)	39,869	\$ 50,275
Fund Balances				
Beginning of year			428,529	
End of year			\$ 468,398	

Independent School District No. 698
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - Community Service
Year Ended June 30, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 18	\$ 18	\$ 68	\$ 50
Other local and county revenues	17,150	17,150	39,044	21,894
Revenue from state sources	18,201	18,201	26,651	8,450
Interest earnings	-	-	5,921	5,921
Total revenues	35,369	35,369	71,684	36,315
Expenditures				
Current				
Community education and services	15,434	15,434	70,189	54,755
Debt service				
Principal	2,500	2,500	-	(2,500)
Interest and fiscal charges	500	500	-	(500)
Total expenditures	18,434	18,434	70,189	51,755
Excess of revenues over (under) expenditures	\$ 16,935	\$ 16,935	1,495	\$ (15,440)
Fund Balances				
Beginning of year			<u>167,645</u>	
End of year			<u>\$ 169,140</u>	

Independent School District No. 698
Statement of Fiduciary Net Position
June 30, 2025

	<u>Custodial Fund</u>
Assets	
Cash and investments	<u>\$ 8,189</u>
Net Position	
Restricted for scholarships	<u>\$ 8,189</u>
 Statement of Changes in Fiduciary Net Position Year Ended June 30, 2025	
Additions	<u>Custodial Fund</u>
Investment income	<u>\$ 50</u>
Deductions	
Scholarships	<u>2,005</u>
Change in net position	<u>(1,955)</u>
Net Position	
Beginning of year	<u>10,144</u>
End of year	<u>\$ 8,189</u>

**Independent School District No. 698
Notes to Basic 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.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the basic financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

The student activity accounts of the District are under School Board control and are reported in the General Fund.

B. Basic Financial Statement Information

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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 are not included among program revenues; instead, they are properly reported as general revenues. The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available.

**Independent School District No. 698
Notes to Basic Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Custodial Fund is presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, this fund is not incorporated into the government-wide statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

1. 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 as 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 years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned.

**Independent School District No. 698
Notes to Basic Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds:

Major Funds:

General Fund - This fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Community Service Special Revenue Fund - This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood, and family education, or other similar services. The District receives property tax, local, and state revenues in this fund that were received for these specific purposes.

Non-Major Funds:

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

Food Service Special Revenue Fund - This fund is used to account for food service revenues and expenditures. Local, state, and federal revenues are received in this Fund to specifically support the food service program.

Fiduciary Fund:

Custodial Fund - The Custodial Fund is used to account for resources received and held by the District to be used in making scholarship awards.

D. Deposits and Investments

Cash and 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 individual funds based on the average of month-end cash and investment balances.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments held by investment pools are measured at amortized cost.

Cash and investments at June 30, 2025, were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF). The MSDLAF securities are valued at amortized cost, which approximates fair value.

Minnesota Statutes requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

**Independent School District No. 698
Notes to Basic Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days.

In accordance with GASB Statement No. 79, the various MSDLAF securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions.

E. Property Tax Receivable

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represent uncollected taxes for the past six years and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2024, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2025. The remaining portion of the levy will be recognized when measurable and available.

G. Inventory

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

H. 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.

I. Property Taxes

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. St. Louis County is the collecting agency for the levy and remits the collections to the District three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

**Independent School District No. 698
Notes to Basic Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes (Continued)

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.

J. Capital Assets

Capital assets are recorded in the government-wide financial statements but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and for assets with an individual cost of less than \$5,000 but when grouped together are more than \$25,000. Such 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 costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

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 purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 30 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.

K. Right-to-Use Lease Assets/Lease Liabilities

The District recorded right-to-use lease assets as a result of implementing GASB Statement No. 87, Leases. The right-to-use lease assets are initially measured at an amount equal to the initial measurement of the lease liability plus any payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-to-use assets are amortized on a straight-line basis over the life of the related lease.

Key estimates and judgments related to leases include (1) the discount rate, (2) lease term, and (3) lease payments.

The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District determines its estimated borrowing rate based on the applicable State and Local Government Securities rate. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a re-measurement of the leases and will remeasure the right-to-use lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of the lease liability.

**Independent School District No. 698
Notes to Basic Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. The District has two items that qualify for reporting in this category. Deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years. Deferred outflows of resources related to OPEB is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has four types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item, property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. The third item, deferred inflows of resources related to pensions, is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. The fourth item, deferred inflows of resources related to OPEB, is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

M. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, 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.

**Independent School District No. 698
Notes to Basic Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Compensated Absences

The liability for compensated absences reported in the Statement of Net Position consists of leave that has not been used that is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The liability also includes amounts for leave that has been used for time off but has not yet been paid in cash or settled through noncash means and certain other types of leave.

1. Vacation Pay

The District's 12-month employees are entitled to annual vacations. These benefits are reported as liabilities in the district-wide financial statements and as expenditures when taken in the fund financial statements.

2. Sick Pay

Substantially all District employees are entitled to sick leave at various rates. Unused sick leave is a factor in the calculation of an employee's severance pay upon retirement.

3. Other Postemployment Benefits Payable

Under provisions of the various employee and union contracts, the District provides health coverage until the age of 65 if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. All premiums are funded on a pay-as-you-go basis.

4. Severance Payable

Certain bargaining unit members are eligible to be compensated for unused accumulated sick leave upon termination subject to certain conditions. If convertible sick leave payments are owed at year-end, an accrual is made in the governmental fund incurring the liability. The amount of retirement payment is recorded as a liability in the long-term debt as it is earned and when it is probable that it will vest at some point in the future.

At June 30, 2025, the long-term portion of the early retirement incentive and convertible sick leave liability is included as part of long-term liabilities. The liability for compensated absences reported in the Statement of Net Position consists of leave that has not been used that is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The liability also includes amounts for leave that has been used for time off but had not yet been paid in cash or settled through noncash means and certain other types of leave.

O. Pensions

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

**Independent School District No. 698
Notes to Basic Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Pensions (Continued)

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

P. 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; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2025.

Q. Fund Equity

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- **Nonspendable Fund Balances** - These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include amounts set aside for inventory and prepaid items.
- **Restricted Fund Balances** - These are subject to externally enforceable legal restrictions by either a) creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.
- **Committed Fund Balances** - These are amounts used for specific purposes pursuant to constraints imposed by formal action of the School Board. The District's highest level of decision making authority is the School Board. The formal action to establish or modify a commitment is through a resolution.
- **Assigned Fund Balances** - The School Board delegates the Superintendent the power to assign balances for specific purposes. Amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances.
- **Unassigned Fund Balances** - These are amounts that have not been restricted, committed, or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

The District will strive to maintain a minimum unassigned General Fund balance of 8% of the annual budgeted expenditures. The Board of Education will conduct an annual review of the sufficiency of the minimum unassigned General Fund balance level.

**Independent School District No. 698
Notes to Basic Financial Statements**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Net Position

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

S. 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. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

T. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not required for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

Custodial Credit Risk - Deposits: This is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in possession of an outside party. *Minnesota Statutes* § 118A requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by FDIC insurance or corporate surety bonds. The District has a policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding FDIC, SAIF, BIF, or FCUA coverage. As of June 30, 2025, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institutions' trust department or agent in the District's name. The District's deposits had a book balance as follows:

Checking and savings	\$ 14,731
Certificate of deposit	<u>1,198</u>
Total deposits	<u><u>\$ 15,929</u></u>

B. Investments

As of June 30, 2025, the District had the following investments:

Investment	Maturities	Fair Value	S&P Rating
MSDLAF - MAX class	Various	\$ 764,113	AAAm
MSDLAF liquid class	Various	<u>443,885</u>	AAAm
Total investments		<u><u>\$ 1,207,998</u></u>	

Credit Risk: This is the risk an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy requires their investments to be rated "A" or better for any security which is a federal obligation of any state or local government and "AA" or better for any security which is a revenue obligation of any state or local government as required by *Minnesota Statutes* § 118A.04. As of June 30, 2025, the District's investments were rated as shown in the above table.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's policy states the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. As of June 30, 2025, the District was not exposed to concentration of credit risk.

Interest Rate Risk: This is the risk that market value of securities will fall due to changes in market interest rates. The District's investment policy states the District should manage their investments in a manner to attain a market rate of return through various economic and budgetary cycles and taking into account constraints on risk and cash flow requirements.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Custodial Credit Risk - Investments: This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy indicates that all securities purchased by the school district shall be held in third party safe keeping by an institution designated as custodial agent.

The District's investments that are in local government investment pools are quoted at net asset value (NAV).

C. Summary

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 15,929
Investment (Note 3.B.)	<u>1,207,998</u>
Total deposits and investments	<u>\$ 1,223,927</u>

Deposits and investments are presented in the June 30, 2025, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 1,215,738
Statement of Fiduciary Net Position	
Cash and investments	<u>8,189</u>
Total	<u>\$ 1,223,927</u>

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 3 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 128,350	\$ -	\$ -	\$ 128,350
Construction in progress	-	48,747	-	48,747
Total capital assets not being depreciated	<u>128,350</u>	<u>48,747</u>	<u>-</u>	<u>177,097</u>
Capital assets being depreciated/amortized				
Land Improvements	306,288	-	-	306,288
Buildings and Improvements	15,342,219	14,950	-	15,357,169
Equipment	778,486	-	-	778,486
Lease equipment	21,037	9,664	7,804	22,897
Total capital assets being depreciated / amortized	<u>16,448,030</u>	<u>24,614</u>	<u>7,804</u>	<u>16,464,840</u>
Less accumulated depreciation/amortization for				
Land Improvements	198,124	8,540	-	206,664
Buildings and Improvements	8,102,770	316,623	-	8,419,393
Equipment	588,652	41,130	-	629,782
Lease equipment	13,366	3,641	7,804	9,203
Total accumulated depreciation/amortization	<u>8,902,912</u>	<u>369,934</u>	<u>7,804</u>	<u>9,265,042</u>
Total capital assets being depreciated/amortized, net	<u>7,545,118</u>	<u>(345,320)</u>	<u>-</u>	<u>7,199,798</u>
Governmental activities capital assets, net	<u>\$ 7,673,468</u>	<u>\$ (296,573)</u>	<u>\$ -</u>	<u>\$ 7,376,895</u>

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 3 - CAPITAL ASSETS (CONTINUED)

Depreciation and amortization expense for the year ended June 30, 2025, was charged to the following governmental functions:

Administration		\$ 14,872
District Support Services		3,443
Elementary and Secondary Regular Instruction		16,991
Vocational Education Instruction		4,844
Instructional Support Services		2,648
Pupil Support Services		8,505
Sites and Buildings		7,068
Community Education		326
Unallocated		<u>311,237</u>
 Total depreciation and amortization expense		<u>\$ 369,934</u>

NOTE 4 - LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Balance Outstanding	Due Within One Year
Long-term liabilities						
Series 2017A Facilities						
Maintenance	05/18/17	1.4-2.65%	\$ 260,000	02/01/27	\$ 60,000	\$ 30,000
Lease liability					13,872	4,299
Finance purchase agreements					33,971	2,390
Compensated absences payable					<u>269,627</u>	<u>145,599</u>
 Total long-term liabilities					<u>\$ 377,470</u>	<u>\$ 182,288</u>

The District has issued general obligation facilities maintenance bonds to finance the upkeep of capital facilities or refinance previous bond issues. Assets of the Debt Service Fund, together with scheduled future tax levies, are dedicated to the retirement of these bonds. The levies are subject to reduction if fund balance amounts exceed limitation imposed by Minnesota law.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments for Bonds

Minimum annual principal and interest payments required to retire bond liabilities:

Year Ended June 30,	G.O. Bonds		
	Principal	Interest	Total
2026	\$ 30,000	\$ 1,545	\$ 31,545
2027	30,000	795	30,795
Total	\$ 60,000	\$ 2,340	\$ 62,340

C. Changes in Long-Term Liabilities

	Beginning Balance, Restated	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	\$ 90,000	\$ -	\$ 30,000	\$ 60,000
Lease liability	7,920	9,664	3,712	13,872
Finance purchase agreements	36,079	-	2,108	33,971
Compensated absences payable	244,037	25,590	-	269,627
 Total long-term liabilities	 \$ 378,036	 \$ 35,254	 \$ 35,820	 \$ 377,470

D. Lease Liability

The District entered into several lease agreement for equipment. The lease agreements includes monthly principal and interest payments of \$436.

Year Ending June 30,	Lease Liability		
	Principal	Interest	Total
2026	\$ 4,299	\$ 932	\$ 5,231
2027	2,952	656	3,608
2028	2,992	402	3,394
2029	2,123	200	2,323
2030	1,506	43	1,549
 Total	 \$ 13,872	 \$ 2,233	 \$ 16,105

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

E. Financed Purchases from Direct Borrowing

Minimum annual principal and interest payments to retire financed purchases:

Year Ended June 30,	Principal	Interest	Total
2026	\$ 2,390	\$ 869	\$ 3,259
2027	2,502	820	3,322
2028	2,668	770	3,438
2029	2,839	719	3,558
2030	3,015	666	3,681
2031-2035	17,932	2,488	20,420
2036-2040	2,625	751	3,376
Total	\$ 33,971	\$ 7,083	\$ 41,054

On October 1, 2019, the District entered into a finance purchase agreement for solar panels. The purchase agreement obligation totaled \$84,400. The agreement includes varying annual principal and interest payments ranging from \$864 to \$4,405 through May 29, 2038.

NOTE 5 - FUND BALANCE/NET POSITION

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities or as required by other outside parties.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 5 - FUND BALANCE/NET POSITION (CONTINUED)

A. Fund Balance

Fund balances are classified on the following page to reflect the limitations and restrictions of the respective funds.

	General Fund	Community Service	Nonmajor Funds	Total
Nonspendable Inventory	\$ -	\$ -	\$ 1,228	\$ 1,228
Restricted/reserved for				
Staff Development	64,565	-	-	64,565
Literacy Incentive Aid	13,966	-	-	13,966
Operating Capital	92,040	-	-	92,040
Literacy Aid	6,311	-	-	6,311
Teacher Comp for				
Read Act Training	4,432	-	-	4,432
Gifted and Talented	2,818	-	-	2,818
Basic Skills Program	4,207	-	-	4,207
School Library Aid	10,127	-	-	10,127
Student Support				
Personnel Aid	53,929	-	-	53,929
Student Activities	31,285	-	-	31,285
Medical Assistance	1,927	-	-	1,927
Other	4,438	-	-	4,438
Debt Service	-	-	50,310	50,310
Food Service	-	-	23,265	23,265
Community Education	-	73,538	-	73,538
Early Childhood and Family				
Education	-	75,019	-	75,019
School Readiness	-	13,322	-	13,322
Community Service	-	7,261	-	7,261
Total restricted/reserved	<u>290,045</u>	<u>169,140</u>	<u>73,575</u>	<u>532,760</u>
Assigned for				
Technology	<u>55,000</u>	<u>-</u>	<u>-</u>	<u>55,000</u>
Unassigned for				
General Purpose	224,555	-	-	224,555
Long-Term Facilities				
Maintenance	(87,184)	-	-	(87,184)
Safe Schools Levy	(14,018)	-	-	(14,018)
Total unassigned	<u>123,353</u>	<u>-</u>	<u>-</u>	<u>123,353</u>
Total fund balance	<u>\$ 468,398</u>	<u>\$ 169,140</u>	<u>\$ 74,803</u>	<u>\$ 712,341</u>

Nonspendable fund balances represent amounts that have already been spent on inventory and prepaid items.

**Independent School District No. 698
Notes to Basic Financial Statements**

NOTE 5 - FUND BALANCE/NET POSITION (CONTINUED)

A. Fund Balance (Continued)

Restricted/Reserved for Staff Development - This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Code 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (*Minnesota Statutes § 122A.61*, subdivision 1).

Restricted/Reserved for Literacy Incentive Aid - This balance represents the resources available to support implementation of evidence-based reading instruction.

Restricted/Reserved for Operating Capital - This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted/Reserved for Literacy Aid - This balance represents resources available for literacy aid for evidence-based literacy supports for children in prekindergarten through grade 12 based on structured literacy.

Restricted/Reserved for Teacher Compensation for READ Act Training - This balance represents resources available for teacher compensation for Read Act training.

Restricted/Reserved for Gifted and Talented - The part of General Education Aid revenue for the gifted and talented program that is unspent at year end must be restricted in this Balance Sheet account.

Restricted/Reserved for Basic Skills Programs - This balance represents resources available for the basic skills uses listed in Minnesota Statute § 126C.15, subd. 1.

Restricted/Reserved for School Library Aid - This balance represents resources available for the school library aid uses listed in Minnesota Statute § 134.356, subd. 1.

Restricted/Reserved for Student Support Personnel Aid - This balance represents available resources to be used for student support personnel that are in addition to current staff levels.

Restricted/Reserved for Student Activities - This balance represents available resources to be used for the extracurricular activity funds raised by the students.

Restricted/Reserved for Medical Assistance - This balance represents available resources to be used for medical assistance expenditures (*Minnesota Statutes § 125A.21*, subd. 3).

Restricted/Reserved for Debt Service - This balance represents the positive fund balance of the Debt Service Fund.

Restricted/Reserved for Food Service - This balance represents the positive fund balance of the Food Service Fund.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 5 - FUND BALANCE/NET POSITION (CONTINUED)

A. Fund Balance (Continued)

Restricted/Reserved for Community Education - This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, youth development and youth service programming, early childhood and family education, and extended day programs.

Restricted/Reserved for Early Childhood and Family Education - This balance represents the resources available to provide for services for early childhood and family education programming. Balance is negative at year end.

Restricted/Reserved for School Readiness - This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes § 124D.16*). This balance is negative at year end and classified as unassigned.

Assigned for Bus Purchases - This balance represents resources segregated from the unassigned fund balance for bus purchases.

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) - This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes § 123B.595, subd. 12*). This balance is negative at year end and classified as unassigned.

Restricted/Reserved for Safe Schools Revenue - The unspent resources available from the safe schools revenue must be restricted in this account for future use. This balance is negative at year end and classified as unassigned.

B. Net Position

Restricted net position is comprised of the total positive General Fund restricted fund balances plus the positive fund balances of the Food Service, Community Service, and Debt Service Funds plus the effect of the conversion to the government-wide net position.

NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2025, was \$(6,500). The components of pension expense are noted in the following plan summaries.

The General Fund typically liquidates the liability related to the pensions.

Teacher's Retirement Association

A. 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.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)

Teacher's Retirement Association (Continued)

A. Plan Description (Continued)

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 teachers employed by St. Paul Schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined Contribution Retirement Plan (DCR) administered by Minnesota State. A teacher employed by Minnesota State and electing the DCR plan is not a member of TRA except for purposes of social security coverage.

B. 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	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2% per year
	First ten years if service years are July 1, 2006, or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006, or after	1.9% per year

With these provisions:

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

Or

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)

B. Benefits Provided (Continued)

Tier I Benefits (Continued)

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members is applied. For years of service July 1, 2006, and after, a level formula of 1.9% per year for Coordinated members and 2.7% for Basic members applies. An early retirement reduction is applied to members retiring prior to age 65. Members who reach age 62 with 30 years of service have a lower (more favorable to the member) reduction rate applied.

Tier II Benefits

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66. After July 1, 2024, the age will change to not to exceed 65. An early retirement reduction is applied to members retiring before age 66 but will be age 65 after July 1, 2024.

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

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

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

C. Contributions

Per Minnesota Statutes Chapter 354 sets the contribution rates for employees and employers. Rates for the fiscal year 2025 for coordinated were 7.75% for the employee and 8.75% for the employer. Basic rates were 11.25% for the employee and 12.75% for the employer. The District's contributions to TRA for the plan's fiscal year ended June 30, 2025 were \$89,818. The District's contributions were equal to the required contributions for each year as set by state statute.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)

Teacher's Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the July 1, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Experience study	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	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

Mortality Assumptions

Pre-retirement	PubT-2010(A) Employee Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Post-retirement	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.
Disabled retirees	PubNS-2010 Disabled Retiree 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 the actuary.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)

Teacher's Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	33.5 %	5.10 %
International stocks	16.5	5.30
Private markets	25.0	5.90
Fixed income	25.0	0.75
Total	100.0 %	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2024 is six years. The "Difference Between Expected and Actual Experience," "Changes of Assumptions," and "Changes in Proportion" use the amortization period of six years in the schedule presented. The amortization period for "Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments" is five years as required by GASB 68.

Changes in actuarial assumptions since the previous valuation:

- Mortality tables were updated for active employees, retirees, disabled retirees, and contingent beneficiaries to recently published tables derived from public plan data known as the Pub-2010 family.
- Retirement rates were increased for some of the Tier II early retirement ages and some of the unreduced retirement rates were modified for both tiers to better align with actual experience.
- Probability that new female retirees elect either the Straight Life Annuity or 100% Joint and Survivor Annuity were refined to reflect the actual experience.
- Termination rates were reduced in the first 10 years of employment and slightly increased in years 16 to 25 to better match the observed experience.
- Disability rates were decreased beyond age 45 by 15% to reflect the continued lower than expected observations.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)

Teacher's Retirement Association (Continued)

E. Discount Rate

The discount rate used to measure the total pension liability was 7.0%. There was no change in the discount rate since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2024 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Net Pension Liability

On June 30, 2025, the District reported a liability of \$1,029,400 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2024. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.0162% at the end of the measurement period and 0.0175% 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	\$ 1,029,400
State's proportionate share of the net pension liability associated with the District	<u>67,350</u>
Total	<u><u>\$ 1,096,750</u></u>

For the year ended June 30, 2025, the District recognized pension expense of \$(13,243). Included in this amount, the District recognized \$3,702 as pension expense for the support provided by direct aid.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$176 million to the Fund. The State of Minnesota is not included as a non-employer contributing entity in the plan pension allocation schedules for the \$176 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District recognized \$28,539 for the year ended June 30, 2025 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Fund.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)

Teacher's Retirement Association (Continued)

F. Net Pension Liability (Continued)

As of June 30, 2025, 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 experience	\$ 50,645	\$ 15,067
Net difference between projected and actual earnings on plan investments	- 171,929	122,759
Changes of assumptions	131,375	- 184,408
Changes in proportion	- 89,818	- \$ 271,838
Contributions to TRA subsequent to the measurement date	<u>89,818</u>	<u>-</u>
Total	\$ 271,838	\$ 494,163

The \$89,818 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ended June 30, 2026.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>	Pension Expense Amount
2026	\$ (149,161)
2027	71,442
2028	(118,251)
2029	(82,039)
2030	<u>(34,134)</u>
Total	\$ (312,143)

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)

Teacher's Retirement Association (Continued)

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.0% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.0%) and 1 percent higher (8.0%) than the current rate.

Sensitivity of NPL to Changes in the Discount Rate		
1% Decrease in Discount Rate (6.00%)	Current Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
\$ 1,812,834	\$ 1,029,400	\$ 384,616

H. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in a separately issued TRA financial report. That can be obtained at www.minnesotatra.org, or 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.

Public Employees' Retirement Association

A. Plan Description

The District participates in the following cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA's defined benefit pension plan is established and administered in accordance with *Minnesota Statutes Chapters 353, 353D, 353E, 353G, and 356*. *Minnesota Statutes Chapter 356* defines each plan's financial reporting requirements. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

General Employees Retirement 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.

B. 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.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan Benefits

General Employees Plan requires three years of service to vest. Benefits are based on a member's highest average salary for any 5 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 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% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the Level formula, General Plan members receive 1.7% of the 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% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25% 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% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0% and a maximum of 1.5%. The 2024 annual increase was 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

C. Contributions

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

General Employees Fund Contributions

General Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2025 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2025, were \$38,366. The District's contributions were equal to the required contributions as set by state statute.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2025, the District reported a liability of \$215,392 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$5,570.

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2023, through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0058% at the end of the measurement period and 0.0057% for the beginning of the period.

District's proportionate share of net pension liability	\$ 215,392
State of Minnesota's proportionate share of the net pension liability associate with the District	<u>5,570</u>
Total	<u>\$ 220,962</u>

For the year ended June 30, 2025, the District recognized pension expense of \$6,742 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$149 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.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$170.1 million to the General Employees Fund. The State of Minnesota is not included as a non-employer contributing entity in the General Employees Plan pension allocation schedule for the \$170.1 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District recognized \$9,910 for the year ended December 31, 2024 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the General Employees Fund.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

At June 30, 2025, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 20,329	\$ -
Changes in actuarial assumptions	1,210	80,232
Net difference between projected and actual investments earnings	-	54,351
Change in proportion	9,565	39,600
Contributions paid to PERA subsequent to the measurement date	<u>38,366</u>	<u>-</u>
 Total	 <u>\$ 69,470</u>	 <u>\$ 174,183</u>

The \$38,366 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2026	\$ (79,345)
2027	(22,753)
2028	(24,474)
2029	<u>(16,507)</u>
 Total	 <u>\$ (143,079)</u>

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Long-Term Expected Return on Investment

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

Asset Class	Final Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	33.5 %	5.10 %
International stocks	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	100.0 %	

F. Actuarial Methods and Assumptions

The total pension liability for each of the cost-sharing defined plans benefit plans was determined by an actuarial valuation as of June 30, 2024, using the entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0%. The 7.0% assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates considered reasonable by the actuary. An investment return of 7.0% is within that range.

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

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

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

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

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 6 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Actuarial Methods and Assumptions (Continued)

The following changes in actuarial assumptions and plan provisions occurred in 2024:

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

G. Discount Rates

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

H. Pension Liability Sensitivity

The following table 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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
District's proportionate share of the PERA net pension liability	\$ 470,456	\$ 215,392	\$ 5,583

I. Pension Plan Fiduciary Net Position

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

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 7 - POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District's defined benefit OPEB plan provides a single employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical and dental coverage. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. No assets are accumulated in a trust.

B. Benefits Paid

Various employees receive monthly contributions toward medical premiums based on contracts. The District's contribution to employees' 403(b) accounts is deducted from these payments. The General Fund, Food Service Fund, and Community Service Fund typically liquidate the liability related to OPEB.

C. Members

As of June 30, 2023, the following were covered by the benefit terms:

Active employees	15
Total	15

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District. The required contributions are based on projected pay-as-you-go financing requirements. For the fiscal year 2025, the District contributed \$399 to the plan.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 7 - POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Discount Rate	3.97%
Inflation	2.50%
Healthcare cost trend increases	7.6% for FY2024, gradually decreasing over several decades to an ultimate rate of 3.9% in FY2076 and later years.
Mortality Assumption	
Teachers	RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments.
Non-Teachers	Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale, and other adjustments.

The actuarial assumptions used in the June 30, 2023, valuation were based on the results of the TRA actuarial experience study for the period July 1, 2022, to June 30, 2023.

The following changes were made since the prior measurement date:

Assumption Changes

- The discount rate was changed from 3.86% to 3.97%.

The discount rate used to measure the total OPEB liability was 3.86% using the 20-year AA-rated municipal bond yield.

F. Total OPEB Liability

The District's total OPEB liability of \$9,243 was measured as of June 30, 2024, and was determined by an actuarial valuation as of June 30, 2023.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 7 - POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Total OPEB Liability (Continued)

Changes in the total OPEB liability are as follows:

	Total OPEB Liability
Balances at June 30, 2023	<u>\$ 7,541</u>
Changes for the year	
Service cost	1,538
Interest	348
Differences between expected and actual	
Changes in assumptions	(58)
Employer contributions	<u>(126)</u>
Net changes	<u>1,702</u>
Balances at June 30, 2024	<u>\$ 9,243</u>

G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.97% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% Decrease in Discount Rate (2.97%)	Current Discount Rate (3.97%)	1% Increase in Discount Rate (4.97%)
Total OPEB liability (asset)	\$ 9,774	\$ 9,243	\$ 8,733

**H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to OPEB**

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 1% lower and 1% higher than the current healthcare cost trend rates.

	1% Decrease Trend Rate (6.6% Decreasing to 2.9%)	Current Trend Rate (7.6% Decreasing to 3.9%)	1% Increase Trend Rate (8.6% Decreasing to 4.9%)
Total OPEB liability (asset)	\$ 8,281	\$ 9,243	\$ 10,358

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 7 - POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

For the year ended June 30, 2025, the District recognized OPEB expense of \$(11,199). At June 30, 2025, 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
Difference between expected and actual liability	\$ -	\$ 27,648
Changes of assumptions	157	9,574
Subsequent contributions	399	-
Total	\$ 556	\$ 37,222

The \$399 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2025.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in OPEB expense as follows:

Year Ended	Total
June 30,	
2025	\$ (11,452)
2026	(11,609)
2027	(7,336)
2028	(5,162)
2029	(1,506)
Total	\$ (37,065)

NOTE 8 - COMMITMENT

The District had a playground project in process during FY25. Total project amount was for \$97,495 and the expenses paid in FY25 equated to \$48,747.

Independent School District No. 698
Notes to Basic Financial Statements

NOTE 9 - ACCOUNTING CHANGE

Governmental activities beginning net position was restated as a result of the implementation of GASB Statement No. 101, *Compensated Absences*.

Reporting Units Affected by Adjustments to and Restatements of Beginning Balances

	Governmental Activities
6/30/2024, as previously reported	\$ 6,232,069
Accounting change	
GASB Statement No. 101 implementation	<u>(42,900)</u>
6/30/2024, as adjusted or restated	<u>\$ 6,189,169</u>

NOTE 10 - GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 103, *Financial Reporting Model Improvements*. The changes required by this Statement provide clarity, enhance the relevance of information, provide more useful information for decision-making, and provide for greater comparability amongst government entities. This Statement will be effective for the year ending June 30, 2026.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*. The disclosures required by this Statement provide users of the financial statements with essential information about certain types of capital assets. This Statement will be effective for the year ending June 30, 2026.

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 698
Schedule of Changes in Total OPEB Liability
and Related Ratios

	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020
Total OPEB Liability				
Service cost	\$ 10,035	\$ 9,986	\$ 9,474	\$ 6,285
Interest cost	2,486	3,065	2,969	1,930
Differenced between expected and actual experience	-	-	(25,188)	-
Changes of assumptions	(2,301)	(9,770)	(1,491)	2,197
Benefit payments	(8,771)	(9,671)	(4,044)	(1,785)
Net change in total OPEB liability	<u>1,449</u>	<u>(6,390)</u>	<u>(18,280)</u>	<u>8,627</u>
Beginning of year	<u>79,500</u>	<u>80,949</u>	<u>74,559</u>	<u>56,279</u>
End of year	<u>\$ 80,949</u>	<u>\$ 74,559</u>	<u>\$ 56,279</u>	<u>\$ 64,906</u>
Covered payroll	\$ 2,069,172	\$ 2,533,810	\$ 1,881,748	\$ 1,744,852
Total OPEB liability as a percentage of covered payroll	3.91%	2.94%	2.99%	3.72%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2023</u>	<u>June 30, 2024</u>
\$ 7,126	\$ 5,340	\$ 4,525	\$ 1,538
1,724	711	1,411	348
(29,519)	-	(24,721)	-
(8,880)	(3,177)	(6,771)	(58)
(3,367)	(552)	(1,215)	(126)
<u>(32,916)</u>	<u>2,322</u>	<u>(26,771)</u>	<u>1,702</u>
<u>64,906</u>	<u>31,990</u>	<u>34,312</u>	<u>7,541</u>
<u>\$ 31,990</u>	<u>\$ 34,312</u>	<u>\$ 7,541</u>	<u>\$ 9,243</u>
\$ 1,593,758	\$ 1,562,319	\$ 1,592,864	\$ 1,623,762
2.01%	2.20%	0.47%	0.57%

Independent School District No. 698
Schedule of District's and Non-Employer Proportionate Share
of Net Pension Liability - General Employees Retirement Fund
Last Ten Years

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Net Pension Liability	District's Proportionate Share of the State of Minnesota's Net Pension of Liability	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Net Pension of Liability	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
						District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	
2015	0.0107%	\$ 554,530	\$ -	\$ 554,530	\$ 700,213	79.19%	78.19%	
2016	0.0109%	885,026	11,619	896,645	639,307	138.44%	68.91%	
2017	0.0100%	638,393	8,065	646,458	579,400	110.18%	75.90%	
2018	0.0091%	504,831	16,562	521,393	512,093	98.58%	79.53%	
2019	0.0073%	403,601	12,499	416,100	429,413	93.99%	80.23%	
2020	0.0067%	401,696	12,375	414,071	476,787	84.25%	79.06%	
2021	0.0063%	269,038	8,226	277,264	453,707	59.30%	87.00%	
2022	0.0067%	530,642	15,565	546,207	501,387	105.83%	76.67%	
2023	0.0057%	318,738	8,851	327,589	457,067	69.74%	83.10%	
2024	0.0058%	215,392	5,570	220,962	493,107	43.68%	89.08%	

Schedule of District's and Non-Employer Proportionate Share
of Net Pension Liability - TRA Retirement Fund
Last Ten Years

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Net Pension Liability	District's Proportionate Share of the State of Minnesota's Net Pension of Liability	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Net Pension of Liability	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
						District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	
2015	0.0247%	\$ 1,527,939	\$ 187,216	\$ 1,715,155	\$ 1,254,933	121.75%	76.77%	
2016	0.0250%	5,963,097	598,336	6,561,433	1,302,200	457.92%	44.88%	
2017	0.0269%	5,369,728	519,068	5,888,796	1,449,973	370.33%	51.57%	
2018	0.0253%	1,856,683	149,073	2,005,756	1,395,693	133.03%	78.07%	
2019	0.0227%	1,446,903	128,046	1,574,949	1,134,643	127.52%	78.21%	
2020	0.0207%	1,529,344	128,163	1,657,507	1,254,394	121.92%	75.48%	
2021	0.0205%	897,141	75,663	972,804	1,111,759	80.70%	86.63%	
2022	0.0176%	1,409,315	104,465	1,513,780	1,087,410	129.60%	76.17%	
2023	0.0175%	1,444,839	101,069	1,545,908	1,114,234	129.67%	76.42%	
2024	0.0162%	1,029,400	67,350	1,096,750	1,073,634	95.88%	82.07%	

Independent School District No. 698
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered Payroll
2016	\$ 47,948	\$ 47,948	\$ -	\$ 639,307	7.50%
2017	43,455	43,455	-	579,400	7.50%
2018	38,407	38,407	-	512,093	7.50%
2019	32,206	32,206	-	429,413	7.50%
2020	35,759	35,759	-	476,787	7.50%
2021	34,028	34,028	-	453,707	7.50%
2022	37,604	37,604	-	501,387	7.50%
2023	34,280	34,280	-	457,067	7.50%
2024	36,983	36,983	-	493,107	7.50%
2025	38,366	38,366	-	511,547	7.50%

Schedule of District Contributions
TRA Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered Payroll
2016	\$ 97,665	\$ 97,665	\$ -	\$ 1,302,200	7.50%
2017	108,748	108,748	-	1,449,973	7.50%
2018	104,677	104,677	-	1,395,693	7.50%
2019	87,481	87,481	-	1,134,643	7.71%
2020	99,348	99,348	-	1,254,394	7.92%
2021	90,386	90,386	-	1,111,759	8.13%
2022	90,690	90,690	-	1,087,410	8.34%
2023	95,267	95,267	-	1,114,234	8.55%
2024	93,943	93,943	-	1,073,634	8.75%
2025	89,818	89,818	-	1,026,491	8.75%

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Independent School District No. 698
Notes to the Required Supplementary Information

TRA Retirement Fund

2024 Changes

Changes in Actuarial Assumptions

- Mortality tables were updated for active employees, retirees, disabled retirees, and contingent beneficiaries to recently published tables derived from public plan data known as the Pub-2010 family.
- Retirement rates were increased for some of the Tier II early retirement ages and some of the unreduced retirement rates were modified for both tiers to better align with actual experience.
- Probability that new female retirees elect either the Straight Life Annuity or 100% Joint and Survivor Annuity were refined to reflect the actual experience.
- Termination rates were reduced in the first 10 years of employment and slightly increased in years 16 to 25 to better match the observed experience.
- Disability rates were decreased beyond age 45 by 15% to reflect the continued lower than expected observations.

Changes of Benefit Terms

- The Normal Retirement Age (NRA) for active and eligible deferred Tier II members will be 65 effective July 1, 2024.

2023 Changes

Changes in Actuarial Assumptions

- None

2022 Changes

Changes in Actuarial Assumptions

- None

2021 Changes

Changes in Actuarial Assumptions

- The investment return assumption was changed from 7.5% to 7.0%.

2020 Changes

Changes in Actuarial Assumptions

- Assumed termination rates were changed to more closely reflect actual experience.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP 2015 scale.

Independent School District No. 698
Notes to the Required Supplementary Information

TRA Retirement Fund (Continued)

2020 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

2019 Changes

Changes in Actuarial Assumptions

- None

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was increased to 7.5% from 5.12%.
- The cost-of-living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2017 Changes

Changes in Actuarial Assumptions

- The discount rate was increased to 5.12% from 4.66%.
- The cost-of-living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.

Independent School District No. 698
Notes to the Required Supplementary Information

TRA Retirement Fund (Continued)

2017 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes

Changes of Benefit Terms

- The DTRFA was merged into TRA on June 30, 2015.

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

Independent School District No. 698
Notes to the Required Supplementary Information

General Employees Fund

2024 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2023 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2022 Changes

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from scale MP-2020 to scale MP-2021.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2021 Changes

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.5% to 6.5% for financial reporting purposes.
- The mortality improvement scale was changed from scale MP-2019 to scale MP-2020.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.

Independent School District No. 698
Notes to the Required Supplementary Information

General Employees Fund (Continued)

2020 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changes as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023, and 0.0% thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.

Independent School District No. 698
Notes to the Required Supplementary Information

General Employees Fund (Continued)

2018 Changes (Continued)

Changes in Plan Provisions (Continued)

- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. This does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The State's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation was decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

Independent School District No. 698
Notes to the Required Supplementary Information

General Employees Fund (Continued)

2015 Changes (Continued)

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

Independent School District No. 698
Notes to the Required Supplementary Information

Other Post Employment Benefit Plan

2024 Changes

Changes in Actuarial Assumptions

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the PUB-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale to the Pub-2010 Public Retirement Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.
- The discount rate was changed from 3.80% to 3.90%.

2023 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 3.69% to 3.86%.
- The inflation rate was changed from 2.25% to 2.50%.

2022 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 1.92% to 3.69%.

2021 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 2.45% to 1.92% based on the updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience.
- Withdrawal, retirement, mortality, and salary increase rates were updated from the rates used in the 7/1/2019 PERA General Employee Plan and 7/1/2019 Teachers Retirement Association valuations to the rates used in the 7/1/2021 valuations.
- The percent of future retirees assumed to elect coverage at retirement changed from 25% to 20% to reflect recent plan experience.
- The inflation assumption was changed from 2.50% to 2.25% based on an updated historical analysis of inflation rates and forward-looking market expectations.

2020 Changes

Changes in Actuarial Assumptions

- No changes

2019 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 3.13% to 2.45% based on updated 20-year municipal bond rates.

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 3.62% to 3.13% based on updated 20-year municipal bond rates.

Independent School District No. 698
Notes to the Required Supplementary Information

Other Post Employment Benefit Plan

2018 Changes (Continued)

Changes in Actuarial Assumption (Continued)

- Healthcare trend rates were reset to reflect recent updated cost increase expectations, including the repeal of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capital claims costs were updated to reflect recent experience, including an adjustment to reflect age/gender-based risk scores published by the Society of Actuaries.
- Mortality and salary rates were updated from the rates used in the July 1, 2016, PERA General Employees Retirement Plan and July 1, 2016, Teachers Retirement Association valuations to the rates used in the July 1, 2019, valuations.
- The inflation assumption was changed from 2.75% to 2.50/5 based on an updated historical analysis of inflation rates and forward-looking market expectations.

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SUPPLEMENTARY INFORMATION

Independent School District No. 698
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2025

	<u>Food Service</u>	<u>Debt Service</u>	<u>Total Nonmajor Funds</u>
Assets			
Cash and investments	\$ 28,377	\$ 53,913	\$ 82,290
Delinquent property taxes receivable	-	-	-
Inventory	1,228	-	1,228
 Total assets	 <u>\$ 29,605</u>	 <u>\$ 55,442</u>	 <u>\$ 85,047</u>
Liabilities			
Salaries and benefits payable	\$ 5,112	\$ -	\$ 5,112
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	5,132	5,132
Total deferred inflows of resources	<u>-</u>	<u>5,132</u>	<u>5,132</u>
Fund Balances			
Nonspendable	1,228	-	1,228
Restricted	23,265	50,310	73,575
Total fund balances	<u>24,493</u>	<u>50,310</u>	<u>74,803</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 29,605</u>	<u>\$ 55,442</u>	<u>\$ 85,047</u>

Independent School District No. 698
Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2025

	<u>Food Service</u>	<u>Debt Service</u>	<u>Total</u> <u>Nonmajor</u> <u>Funds</u>
Revenues			
Local property taxes	\$ -	\$ 545	\$ 545
Revenue from state sources	62,284	-	62,284
Revenue from federal sources	65,399	-	65,399
Sales and other conversion of assets	10,033	-	10,033
Interest earnings	798	2,111	2,909
Total revenues	145,138	2,656	147,794
Expenditures			
Current			
Food service	140,139	-	140,139
Debt service			
Principal	-	30,000	30,000
Interest and fiscal charges	-	2,725	2,725
Total expenditures	140,139	32,725	172,864
Excess of revenues over (under) expenditures	4,999	(30,069)	(25,070)
Fund Balances			
Beginning of year	19,494	80,379	99,873
End of year	\$ 24,493	\$ 50,310	\$ 74,803

Independent School District No. 698
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - Food Service Fund
Year Ended June 30, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Revenue from state sources	\$ 53,600	\$ 53,600	\$ 62,284	\$ 8,684
Revenue from federal sources	70,000	70,000	65,399	(4,601)
Sales and other conversion of assets	5,250	5,250	10,033	4,783
Total revenues	128,850	128,850	145,138	16,288
Expenditures				
Current				
Food service	135,007	135,007	140,139	5,132
Total expenditures	135,007	135,007	140,139	5,132
Excess of revenues over (under) expenditures	\$ (6,157)	\$ (6,157)	4,999	\$ 11,156
Fund Balances				
Beginning of year				19,494
End of year				\$ 24,493

Independent School District No. 698
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2025

	Audit	UFARS	Audit-UFARS*		Audit	UFARS	Audit-UFARS
01 GENERAL FUND							
Total revenue	\$ 3,317,530	\$ 3,317,528	\$ 2				
Total expenditures	3,277,811	3,277,808	3				
<i>Nonspendable:</i>							
4.60 Nonspendable fund balance	-	-	-				
<i>Restricted/reserved:</i>							
4.01 Student Activities	31,285	31,287	(2)				
4.02 Scholarships	-	-	-				
4.03 Staff Development	64,565	64,565	-				
4.05 Health and Safety	-	-	-				
4.07 Capital Projects Levy	-	-	-				
4.08 Cooperative Programs	-	-	-				
4.12 Literacy Incentive Aid	13,966	13,966	-				
4.13 Building Projects Funded by COP/LP	-	-	-				
4.14 Operating Debt	-	-	-				
4.16 Levy Reduction	-	-	-				
4.17 Taconite Building Maintenance	-	-	-				
4.20 American Indian Education Aid	-	-	-				
4.24 Operating Capital	92,040	92,040	-				
4.26 \$ 25 Taconite	-	-	-				
4.27 Disabled Accessibility	-	-	-				
4.28 Learning and Development	-	-	-				
4.34 Area Learning Center	-	-	-				
4.35 Contracted Alternative Programs	-	-	-				
4.36 State Approved Alternative Learning Program	-	-	-				
4.37 Quality Compensation - Alternative Teacher Professional Pay System	-	-	-				
4.38 Gifted and Talented	2,818	2,818	-				
4.39 English Learner	-	-	-				
4.40 Teacher Development and Evaluation	-	-	-				
4.41 Basic Skills Programs	4,207	4,207	-				
4.43 School Library Aid	10,127	10,127	-				
4.48 Achievement and Integration Revenue	-	-	-				
4.49 Safe Schools Revenue	(14,018)	(14,018)	-				
4.51 QZAB payments	-	-	-				
4.52 OPEB Liabilities not Held in Trust	-	-	-				
4.56 Literacy Aid	6,311	6,311	-				
4.57 Teacher Compensation for Read Act Training	4,432	4,432	-				
4.67 Long-Term Facilities Maintenance	(87,184)	(87,184)	-				
4.71 Student Support Personnel	53,929	53,929	-				
4.72 Medical Assistance	1,927	1,927	-				
4.75 Title VII - Impact Aid	-	-	-				
<i>Restricted:</i>							
4.72 Medical Assistance	-	-	-				
4.64 Restricted fund balance	4,438	4,438	-				
4.75 Title VII - Impact Aid	-	-	-				
4.76 Payments in Lieu of Taxes	-	-	-				
<i>Committed:</i>							
4.18 Committed for retirement benefits	-	-	-				
4.61 Committed fund balance	-	-	-				
<i>Assigned:</i>							
4.62 Assigned fund balance	55,000	55,000	-				
<i>Unassigned:</i>							
4.22 Unassigned fund balance	224,555	224,553	2				
02 FOOD SERVICE FUND							
Total revenue	\$ 145,138	\$ 145,138	\$ -				
Total expenditures	140,139	140,138	1				
<i>Nonspendable:</i>							
4.60 Nonspendable fund balance	1,228	1,228	-				
<i>Restricted/reserved:</i>							
4.52 OPEB liabilities not held in trust	-	-	-				
<i>Restricted:</i>							
4.64 Restricted fund balance	23,265	23,265	-				
<i>Unassigned:</i>							
4.63 Unassigned fund balance	-	-	-				
04 COMMUNITY SERVICE FUND							
Total revenue	\$ 71,684	\$ 71,682	\$ 2				
Total expenditures	70,189	70,188	1				
<i>Nonspendable:</i>							
4.60 Nonspendable Fund Balance	-	-	-				
<i>Restricted/reserved:</i>							
4.26 \$ 25 Taconite	-	-	-				
4.31 Community Education	79,457	79,457	-				
4.32 ECFE	75,019	75,019	-				
4.40 Teacher Development and Evaluation	-	-	-				
4.44 School Readiness	13,322	13,322	-				
4.47 Adult Basic Education	-	-	-				
4.52 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
4.64 Restricted fund balance	1,342	1,342	-				
<i>Unassigned:</i>							
4.63 Unassigned fund balance	-	-	-				
06 BUILDING CONSTRUCTION FUND							
Total revenue	\$ -	\$ -	\$ -				
Total expenditures	-	-	-				
<i>Nonspendable:</i>							
4.60 Nonspendable fund balance	-	-	-				
<i>Restricted/reserved:</i>							
4.07 Capital Projects Levy	-	-	-				
4.09 Alternative Facility Program	-	-	-				
4.13 Building Projects Funded by COP/LP	-	-	-				
4.67 LTFM	-	-	-				
<i>Restricted:</i>							
4.64 Restricted fund balance	-	-	-				
<i>Unassigned:</i>							
4.63 Unassigned fund balance	-	-	-				
07 DEBT SERVICE FUND							
Total revenue	\$ 2,656	\$ 2,655	\$ 1				
Total expenditures	32,725	32,725	-				
<i>Nonspendable:</i>							
4.60 Nonspendable fund balance	-	-	-				
<i>Restricted/reserved:</i>							
4.25 Bond Refundings	-	-	-				
4.33 Maximum effort loan aid	-	-	-				
4.51 QZAB payments	-	-	-				
4.67 LTFM	-	-	-				
<i>Restricted:</i>							
464 Restricted fund balance	50,310	50,309	1				
<i>Unassigned:</i>							
4.63 Unassigned fund balance	-	-	-				
08 TRUST FUND							
Total revenue	\$ -	\$ -	\$ -				
Total expenditures	-	-	-				
<i>Unassigned:</i>							
4.01 Student Activities	-	-	-				
4.02 Scholarships	-	-	-				
4.22 Net position	-	-	-				
18 CUSTODIAL							
Total revenue	\$ 50	\$ 50	\$ -				
Total expenditures	2,005	2,005	-				
<i>Restricted/Reserved:</i>							
4.01 Student Activities	-	-	-				
4.02 Scholarships	8,189	8,190	(1)				
4.48 Achievement and Integration	-	-	-				
4.64 Restricted	-	-	-				
20 INTERNAL SERVICE FUND							
Total revenue	\$ -	\$ -	\$ -				
Total expenditures	-	-	-				
<i>Unassigned:</i>							
4.22 Net position	-	-	-				
25 OPEB REVOCABLE TRUST							
Total revenue	\$ -	\$ -	\$ -				
Total expenditures	-	-	-				
<i>Unassigned:</i>							
4.22 Net position	-	-	-				
45 OPEB IRREVOCABLE TRUST							
Total revenue	\$ -	\$ -	\$ -				
Total expenditures	-	-	-				
<i>Unassigned:</i>							
4.22 Net position	-	-	-				
47 OPEB DEBT SERVICE							
Total revenue	\$ -	\$ -	\$ -				
Total expenditures	-	-	-				
<i>Nonspendable:</i>							
4.60 Nonspendable fund balance	-	-	-				
<i>Restricted:</i>							
4.25 Bond refundings	-	-	-				
4.64 Restricted fund balance	-	-	-				
<i>Unassigned:</i>							
4.63 Unassigned fund balance	-	-	-				

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**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***

Independent Auditor's Report

To the School Board
Independent School District No. 698
Floodwood, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 698, Floodwood, Minnesota, as of and for the year ending June 30, 2025, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 18, 2025.

Report on Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit 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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as Audit Finding 2025-001 to be a material weakness.

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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to the findings identified in our engagement and described in the accompanying Schedule of Findings and Responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

BergankDN, Ltd.

St. Cloud, Minnesota
December 18, 2025



Minnesota Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 698
Floodwood, 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. 698, Floodwood, Minnesota, as of and for the year ended June 30, 2025, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 18, 2025.

In connection with our audit, we noted that the District failed to comply with the provisions of the contracting - bid laws and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the State Auditor pursuant to *Minnesota Statute § 6.65*, insofar as they relate to accounting matters as described in the Schedule of Findings and Responses as Audit Findings 2025-002 and 2025-003. Also, 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 depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, and uniform financial accounting and reporting standards for Minnesota school districts (UFARS) sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, 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.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the legal compliance findings identified in our audit and described in the accompanying Schedule of Findings and Responses. 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.

The purpose of this report is 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.

Bergan KDV, Ltd.

St. Cloud, Minnesota
December 18, 2025

**Independent School District No. 698
Schedule of Findings and Responses**

Material Weakness:

Audit Finding 2025-001 - Lack of Segregation of Duties

The District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Currently, journal entries are not being reviewed before they are posted.

Management and the School Board are aware of this condition and have taken certain steps to compensate for the lack of segregation but due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur. Currently, journal entries are not being reviewed before they are posted.

Views of the Responsible Officials and Planned Corrective Actions:

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

Administration will continually review current segregation of accounting duties to determine if further segregation is possible. However, at this time, the District does not consider it cost beneficial to increase staff in order to further segregate accounting functions.

3. Official Responsible for Ensuring CAP

Susan Hoeft, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

The Superintendent will continually monitor the accounting system and improve controls when possible. Additionally, requirements relating to presumably abandoned property and contracting bid laws will be adhered beginning with the next occurrence of these incidents. The planned completion date for the CAP is ongoing.

5. Plan to Monitor Completion of CAP

The Superintendent will continually monitor the accounting system and improve controls when possible and will ensure requirements relating to presumably abandoned property and contracting bid laws are complied with on all future occurrences.

**Independent School District No. 698
Schedule of Findings and Responses**

Legal Compliance:

Audit Finding 2025-002 - Reporting of Outstanding Checks as Unclaimed Property

Minnesota Statutes 2025, Section 345.41, 345.43 require the holders of property presumed to be abandoned to annually file a report by November 1 describing the presumably abandoned property and to pay or turnover to the state the property described in the report.

The District has written multiple checks in amounts that exceed \$100 and which have not cleared the bank in more than three years. These checks are considered to be presumably abandoned. The District did not file the required annual report nor remit to the state the presumably abandoned funds.

Views of the Responsible Officials and Planned Corrective Actions:

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

The District is in the process of identifying all such items and will file a report and turnover the presumably abandoned property prior to November 1, 2026.

3. Official Responsible for Ensuring CAP

Susan Hoeft, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

The Superintendent will continually monitor the accounting system and improve controls when possible. Additionally, requirements relating to presumably abandoned property and contracting bid laws will be adhered beginning with the next occurrence of these incidents. The planned completion date for the CAP is ongoing.

5. Plan to Monitor Completion of CAP

The Superintendent will continually monitor the accounting system and improve controls when possible and will ensure requirements relating to presumably abandoned property and contracting bid laws are complied with on all future occurrences.

**Independent School District No. 698
Schedule of Findings and Responses**

Legal Compliance:

Audit Finding 2025-003 - Responsible Contractor Verification and Withholding Affidavits

Minnesota Statutes 2025, Section 16C.285 defines the responsible contractor requirement for the State of Minnesota. Furthermore, Minnesota Statutes 2025, Section 270C.66 mandates that state agencies and political subdivisions of the state not finalize contractor payments or settlements until the contractor has shown compliance with Section 290.92

The District did not obtain a responsible contractor verification report for all construction projects in excess of \$50,000. The District also failed to ensure a withholding affidavit was properly filed by obtaining a certificate by the Commissioner of Revenue (Form IC134 or a Contractor's Withholding Affidavit Confirmation).

Views of the Responsible Officials and Planned Corrective Actions:

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

The District will obtain all required documentation on future projects which exceed the established thresholds.

3. Official Responsible for Ensuring CAP

Susan Hoeft, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

The Superintendent will continually monitor the accounting system and improve controls when possible. Additionally, requirements relating to presumably abandoned property and contracting bid laws will be adhered beginning with the next occurrence of these incidents. The planned completion date for the CAP is ongoing.

5. Plan to Monitor Completion of CAP

The Superintendent will continually monitor the accounting system and improve controls when possible and will ensure requirements relating to presumably abandoned property and contracting bid laws are complied with on all future occurrences.