# Independent School District No. 876
# Annandale, Minnesota

# Basic Financial Statements

# June 30, 2024

**Independent School District No. 876**
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**Independent School District No. 876**
**Board of Education and Administration**
**June 30, 2024**

| Board of Education | Position | Term Expires |
|---|---|---|
| Katie Jones | Chairperson | December 31, 2024 |
| Jon Scheer | Vice Chairperson | December 31, 2024 |
| Gena Jacobson | Clerk | December 31, 2026 |
| Melissa Muehring-Paulson | Treasurer | December 31, 2026 |
| Dillon Dougherty | Director | December 31, 2024 |
| Jennifer Mealey | Director | December 31, 2026 |

| Administration | |
|---|---|
| Tim Prom | Superintendent |
| Rick Pullen | Director of Business Services |

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## Independent Auditor's Report

To the School Board
Independent School District No. 876
Annandale, 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. 876, Annandale, Minnesota, as of and for the year ended June 30, 2024, 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. 876, Annandale, Minnesota, as of June 30, 2024, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter - Implementation Guidance Update - 2021**
The District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Implementation Guidance Update - 2021, grouped assets. Our opinion is not modified with respect to this matter.

**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 Independent School District No. 876, Annandale, Minnesota, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Responsibilities of Management for the Financial Statements**
The management of Independent School District No. 876 is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic 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 the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (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. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also 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 and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***
In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BergankDV, Ltd.

St. Cloud, Minnesota
November 25, 2024

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**Independent School District No. 876**
**Management's Discussion and Analysis**

This section of the Independent School District No. 876's (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2024. Please read it in conjunction with the District's financial statements, which immediately follow this section. Certain comparative information between the current year (2023-2024) and the prior year (2022-2023) is required to be presented in the MD&A.

## Financial Highlights

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

- Net position increased by $1,155,059 from June 30, 2023.

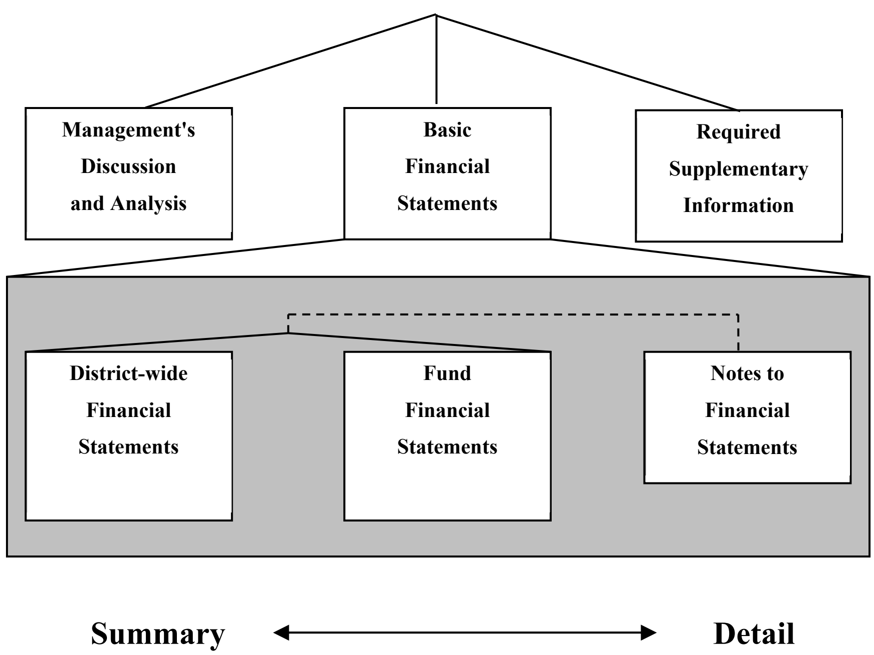
- Overall General Fund revenues were $27,660,617 as compared to $28,637,314 of expenditures and other financing sources of $1,073.

- General Fund balance decreased $975,624 from the prior year.

The financial statements include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1**
**Annual Report Format**



## Overview of the Financial Statements

The financial section of the annual report consists of four parts: Independent Auditor's Report, Required Supplementary Information, which includes the MD&A, the basic financial statements, and supplemental information. The basic financial statements include two kinds of reports that present different views of the District:

- The first two reports are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

- The remaining reports 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.

Figure A-2 summarizes the major features of the District's financial statements. This includes the portion of the District's activities they address 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.

## Overview of the Financial Statements (Continued)

### Figure A-2 Major Features of the District-Wide and Fund Financial Statements

| Type of Statements | District-Wide Statements | Fund Financial Statements |
|---|---|---|
| | | Governmental Funds |
| Scope | Entire District (except Fiduciary Funds) | The activities of the District are not proprietary or fiduciary. |
| Required Financial Statements | * Statement of Net Position | * Balance Sheet |
| | * Statement of Activities | * Statement of Revenues, Expenditures, and Changes in Fund Balances |
| Accounting Basis and Measurement Focus | Accrual accounting and economic resources focus. | Modified accrual accounting and current financial resources focus. |
| Type of Asset/Liability Information | All assets and liabilities both financial and capital, short-term and long-term. | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included. |
| Type of Inflow/Outflow 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 payment is due during the year or soon thereafter. |

***District-Wide Statements***

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

## Overview of the Financial Statements (Continued)

### *District-Wide Statements (Continued)*

The two district-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and deferred outflows of resources; and 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.

- To assess the overall health of the District, additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings will also need to be considered.

  In the district-wide financial statements, the District's expenditures are shown in one category:

- Governmental Activities – All of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Revenue from property taxes and state aids support most of these expenditures.

### *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 revenue and expenditures on particular programs:

- Some funds are required by state law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show it is properly using certain revenues.

The District has one type of fund:

- Governmental Funds – The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

## Financial Analysis of the District as a Whole

### *Net Position*

The District's combined net position was $9,312,961 on June 30, 2024, this was an increase of 14.16% from the prior year (see Table A-1).

**Table A-1**
**Net Position of the District**

| | Governmental Activities | | Percentage |
|---|---|---|---|
| | 2024 | 2023 | Change |
| **Assets** | | | |
| Current and other assets | $ 13,413,877 | $ 14,559,848 | -7.87% |
| Capital assets | 36,378,758 | 36,147,441 | 0.64% |
| Total assets | $ 49,792,635 | $ 50,707,289 | -1.80% |
| **Deferred Outflows of Resources** | $ 5,038,153 | $ 6,439,700 | -21.76% |
| **Liabilities** | | | |
| Current liabilities | $ 4,981,997 | $ 4,593,041 | 8.47% |
| Long-term liabilities | 33,386,630 | 35,473,215 | -5.88% |
| Total liabilities | $ 38,368,627 | $ 40,066,256 | -4.24% |
| **Deferred Inflows of Resources** | $ 7,149,200 | $ 8,922,831 | -19.88% |
| **Net Position** | | | |
| Net investment in capital assets | $ 20,711,519 | $ 18,672,565 | 10.92% |
| Restricted amounts | 2,120,408 | 2,700,390 | -21.48% |
| Unrestricted amounts | (13,518,966) | (13,215,053) | 2.30% |
| Total net position | $ 9,312,961 | $ 8,157,902 | 14.16% |

The decrease in deferred outflows of resources is due to the changes in the net pension liability. The decrease in deferred inflows of resources is associated with the net change in pension liability.

## Financial Analysis of the District as a Whole (Continued)

### *Net Position (Continued)*

Typically, the District does not include in an analysis of all governmental funds a breakout of expenses as depicted in Table A-2 on the following page. To do so distorts the latitude available to the District to allocate resources to instruction. All governmental funds are included; not only funds received for the general operation of the District, which are used for classroom instruction, but also resources from the entrepreneurial type funds of food service and community education and from resources for fiscal service transactions. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received in food service or community education or for fiscal services to enhance classroom instruction resources. The District cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction. In Minnesota, that is not an option. Therefore, a more accurate analysis of resources allocated to instruction should be limited to an analysis of resources received for the general operation of the District. This analysis (see Figure A-4) shows that 53.8% of available resources are spent on instruction.

The District's total revenues were $30,053,551 for the year ended June 30, 2024. The total cost of all programs and services was $32,245,254. Total revenues exceeded expenses which increased net position $1,155,059 (including a change in accounting principle) over the prior year. (see Table A-2).

Property taxes and state formula aid accounted for 63.5% of total revenue for the year. Restricted operating state and federal aids and grants make up the operating grants and contributions shown as 29.0% of the District's total revenue sources. The other 7.5% came from other general revenues combined with investment earnings and the remainder from program revenues (see Figure A-3).

The District's expenses are predominately related to educating and caring for students (70.8%) (See Figure A-4). The remaining expenses are made up of Food Service and Community Education expenses (11.0%), Debt and Other payments (6.0%), Maintenance (7.7%), and Administration costs (4.5%).

## Independent School District No. 876
## Management's Discussion and Analysis

### Financial Analysis of the District as a Whole (Continued)

**Table A-2 Change in Net Position**

| | Governmental Activities for the Fiscal Year Ended June 30, 2024 | Governmental Activities for the Fiscal Year Ended June 30, 2023 | Total Percentage Change |
|---|---|---|---|
| **Revenues** | | | |
| Program revenues | | | |
| Charges for services | $ 1,644,673 | $ 2,150,533 | -23.52% |
| Operating grants and contributions | 9,599,622 | 6,833,360 | 40.48% |
| Capital grants and contributions | 475,116 | 432,686 | 9.81% |
| General revenues | | | |
| Property taxes | 5,823,774 | 5,685,295 | 2.44% |
| Unrestricted state aid | 15,154,940 | 14,673,339 | 3.28% |
| Investment income | 142,825 | 156,455 | -8.71% |
| Other | 212,601 | 229,458 | -7.35% |
| Total revenues | 33,053,551 | 30,161,126 | 9.59% |
| **Expenses** | | | |
| Administration | 1,444,620 | 1,305,576 | 10.65% |
| District support services | 956,164 | 1,065,312 | -10.25% |
| Elementary and secondary regular instruction | 12,749,940 | 11,136,898 | 14.48% |
| Vocational education instruction | 544,552 | 373,460 | 45.81% |
| Special education instruction | 4,041,883 | 3,664,048 | 10.31% |
| Instructional support services | 1,734,240 | 1,203,635 | 44.08% |
| Pupil support services | 2,805,369 | 2,473,004 | 13.44% |
| Sites and buildings | 2,474,203 | 1,768,680 | 39.89% |
| Fiscal and other fixed cost programs | 320,202 | 267,993 | 19.48% |
| Food service | 1,931,326 | 1,626,463 | 18.74% |
| Community education and services | 1,623,948 | 1,480,838 | 9.66% |
| Unallocated depreciation | 1,311,378 | 1,304,876 | 0.50% |
| Interest and fiscal charges on long-term debt | 307,429 | 369,529 | -16.81% |
| Total expenses | 32,245,254 | 28,040,312 | 15.00% |
| Increase in net position | 808,297 | 2,120,814 | 9.91% |
| Beginning net position | 8,157,902 | 6,037,088 | |
| Change in accounting principle | 346,762 | - | |
| Ending net position | $ 9,312,961 | $ 8,157,902 | |

## Financial Analysis of the District as a Whole (Continued)

**Figure A-3**
**Sources of District's Revenues for 2024**

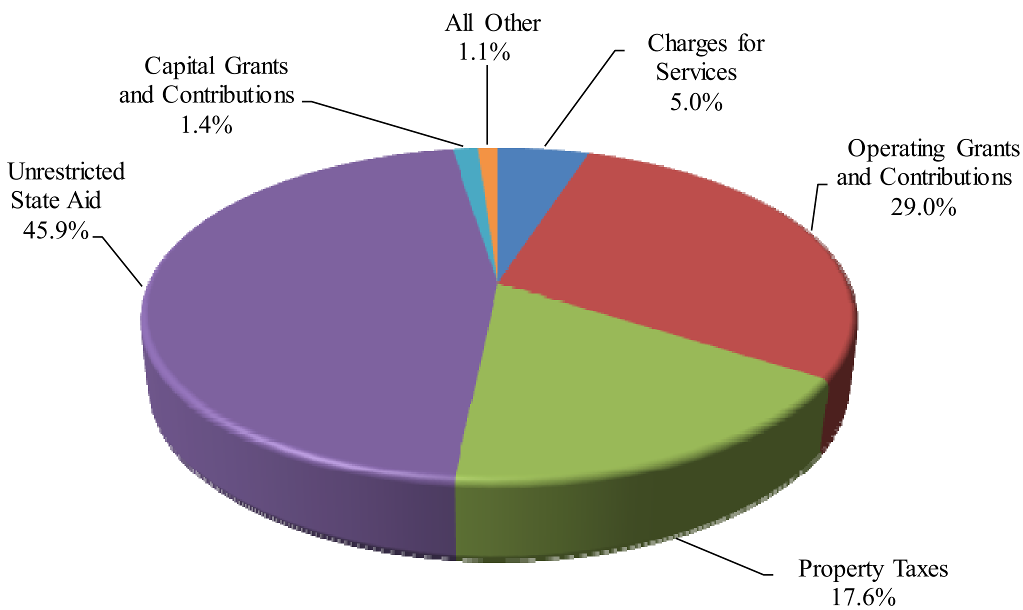
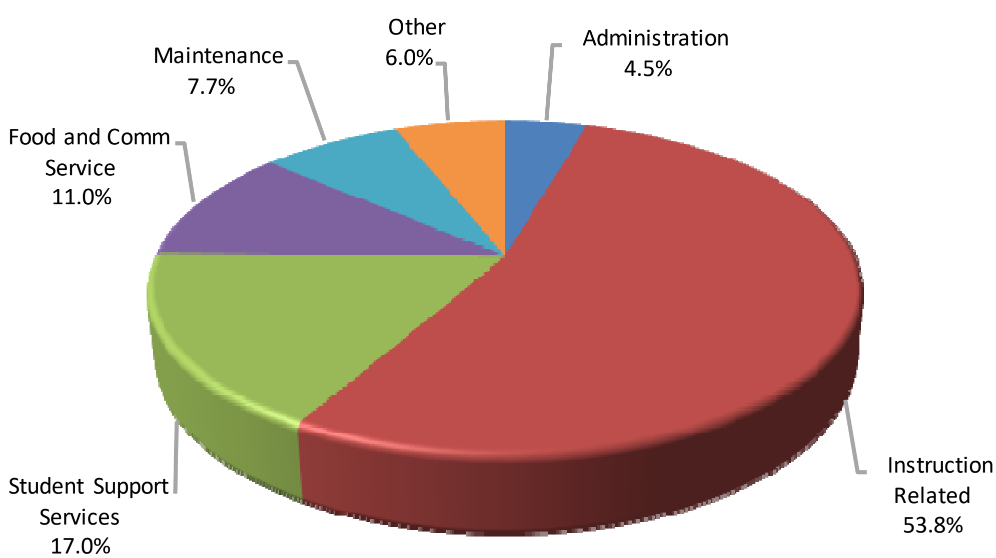



**Figure A-4**
**District Expenses for 2024**



### Financial Analysis of the District as a Whole (Continued)

Table A-3 presents the total cost for each major District activity. The table also shows each activity's net cost (total cost less fees generated by the activities and aid provided for specific programs.) The net cost shows the financial burden placed on the District's taxpayers for each activity.

- The cost of all governmental activities this year was $32,245,254.
- Some of the cost was financed by the users of the District's programs $1,644,673 (Table A-2).
- The federal and state governments subsidized certain programs with grants and contributions $10,074,738.
- Most of the District's costs were financed by taxpayers of the State of Minnesota $15,154,940 and to a smaller scale, local property taxpayers $5,823,774.

**Table A-3**
**Net Cost of Governmental Activities**

| | Total Cost of Services | | Percentage | Net Cost of Services | | Percentage |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | Change | 2024 | 2023 | Change |
| Administration | $ 1,444,620 | $ 1,305,576 | 10.65% | $ 1,350,339 | $ 1,244,499 | 8.50% |
| District Support Services | 956,164 | 1,065,312 | -10.25% | 956,164 | 1,065,312 | -10.25% |
| Elementary and Secondary Regular Instruction | 12,749,940 | 11,136,898 | 14.48% | 10,567,360 | 9,281,706 | 13.85% |
| Vocational Education Instruction | 544,552 | 373,460 | 45.81% | 544,552 | 371,417 | 46.61% |
| Special Education Instruction | 4,041,883 | 3,664,048 | 10.31% | 476,404 | 653,988 | -27.15% |
| Instructional Support Services | 1,734,240 | 1,203,635 | 44.08% | 1,528,959 | 1,029,445 | 48.52% |
| Pupil Support Services | 2,805,369 | 2,473,004 | 13.44% | 651,096 | 1,305,792 | -50.14% |
| Sites and Buildings (including unallocated depreciation) | 3,785,581 | 3,073,556 | 23.17% | 3,320,440 | 2,641,950 | 25.68% |
| Fiscal and other fixed cost programs | 320,202 | 267,993 | 19.48% | 320,202 | 267,993 | 19.48% |
| Food Service | 1,931,326 | 1,626,463 | 18.74% | 142,450 | 171,351 | -16.87% |
| Community Education and Services | 1,623,948 | 1,480,838 | 9.66% | 360,448 | 220,751 | 63.28% |
| Interest and fiscal charges on Long-term debt | 307,429 | 369,529 | -16.81% | 307,429 | 369,529 | -16.81% |
| Total | $ 32,245,254 | $ 28,040,312 | 15.00% | $ 20,525,843 | $ 18,623,733 | 10.21% |

### Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $4,493,654 which was $1,591,622 under last year's ending fund balance of $6,085,276.

### General Fund

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

**General Fund (Continued)**

Approximately 97% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local School Board having no meaningful authority to determine the level of resources available to the District. This includes special education state aid that is based upon a cost reimbursement model providing revenue to support approximately 69% of personnel expenditures. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

**Table A-5**
**General Fund Revenues**

| Fund | Year Ended June 30, 2024 | Year Ended June 30, 2023 | Amount of Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|
| Local sources | | | | |
| Local property taxes | $ 3,716,250 | $ 3,583,655 | $ 132,595 | 3.7% |
| Other local and county revenues | 1,242,403 | 1,030,231 | 212,172 | 20.6% |
| State sources | 21,850,421 | 19,963,272 | 1,887,149 | 9.5% |
| Federal sources | 851,543 | 517,682 | 333,861 | 64.5% |
| Total general fund revenue | $ 27,660,617 | $ 25,094,840 | $ 2,565,777 | 10.2% |

Total General Fund revenue increased by $2,565,777 or 10.2%, from 2023 to 2024. Basic general education revenue is determined by multiple state formulas, largely enrollment driven and consists of an equalized mix of property tax and state aid revenue. Other state authorized revenue including operating levy referendum and the property tax shift involve an equalized mix of property tax and state aid revenue. Therefore, the proportion of property tax and state aid can change significantly from year-to-year without any net change on total revenue.

**Table A-6**
**Summary of Governmental Funds Revenues and Expenditures**

| Fund | Revenue and Other Sources | Expenditures | Fund Balance Increase/(Decrease) |
|---|---|---|---|
| General | $ 27,660,617 | $ 28,637,314 | $ (976,697) |
| Debt service | 2,070,911 | 2,085,388 | (14,477) |
| Other nonmajor funds | 3,246,845 | 3,851,423 | (604,578) |
| Total | $ 32,978,373 | $ 34,574,125 | $ (1,595,752) |

## General Fund (Continued)

Fund balance is the single best measure of overall financial health. It is the goal of the School Board to maintain one and a half months of General Fund expenditures (excluding capital projects) as a fund balance. With a fund balance of $1,648,098, the District was short of its target fund balance of $3,323,591.

## Enrollment

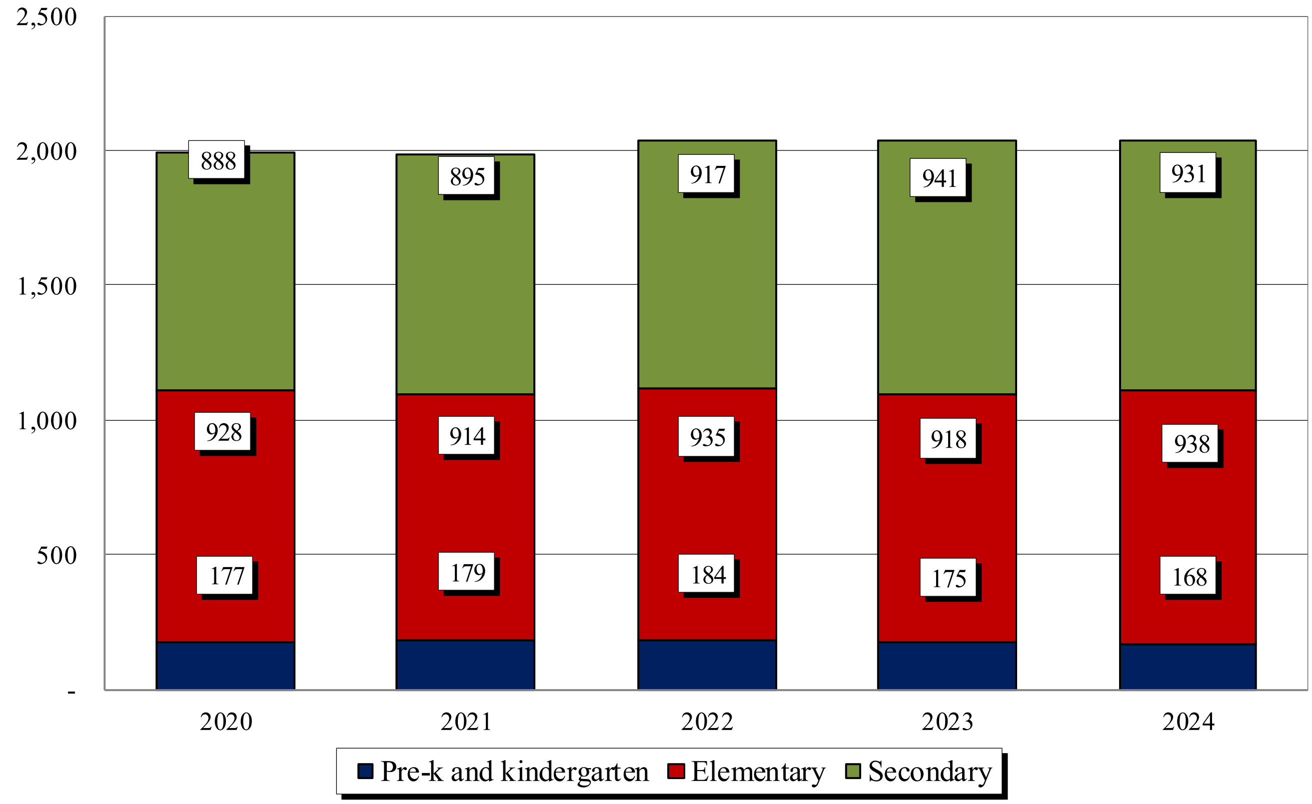
Enrollment is a critical factor in determining revenue with approximately 91% of General Fund revenue being determined by enrollment. Table A-4 and the accompanying graph show the number of students in the District has fluctuated over the last five years.

**Table A-4**
**Five Year Enrollment Trend**
**Adjusted Average Daily Membership (ADM)**

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| Pre-k and kindergarten | 177 | 179 | 184 | 175 | 168 |
| Elementary | 928 | 914 | 935 | 918 | 938 |
| Secondary | 888 | 895 | 917 | 941 | 931 |
| Total students for aid | 1,994 | 1,988 | 2,036 | 2,034 | 2,037 |
| Percentage change | | -0.30% | 2.42% | -0.10% | 0.12% |

## Enrollment (Continued)

**Student Enrollment (ADM)**




Over the last five years, the District has experienced an increase in ADM by 43 students, or 2.1%. This increase is a result of larger class sizes across all grade levels.

## Capital Asset and Debt Administration

***Capital Assets***
By the end of 2024, the District had invested just over $36 million in a broad range of capital assets; including school buildings, athletic facilities, copiers and other equipment (more detailed information about capital assets can be found in Note 3 to the financial statements). Total depreciation expense for the year was $1,547,080.

***Long-Term Liabilities***
At year-end, the District had $15,535,839 in G.O. bonds outstanding and other long-term liabilities, a decrease of 10.2% from last year (see Note 4 to financial statements for more detail).

**Factors Bearing on the District's Future**
With the exception of the voter approved operating referendum, the District is dependent on the State of Minnesota for revenue to run its programs and services.

Recent experience demonstrates legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

**Contacting the District's Financial Management**
This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office, Independent School District No. 876, 125 Cherry Avenue North, P.O. Box 190, Annandale, Minnesota 55302.

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## BASIC FINANCIAL STATEMENTS

**Independent School District No. 876**
**Statement of Net Position**
**June 30, 2024**

| | Governmental Activities |
|---|---|
| **Assets** | |
| Cash and investments | |
| (including cash equivalents) | $ 7,093,685 |
| Current property taxes receivable | 2,727,960 |
| Delinquent property taxes receivable | 41,236 |
| Accounts receivable | 1,800 |
| Interest receivable | 847 |
| Due from Department of Education | 2,385,132 |
| Due from Federal Government through Department of Education | 758,779 |
| Due from other Minnesota school districts | 5,430 |
| Due from other governmental units | 37,032 |
| Inventory | 13,715 |
| Prepaid items | 41,646 |
| Equity interest in joint venture | 306,615 |
| Capital assets not being depreciated | |
| Land | 1,021,636 |
| Construction in progress | 20,698 |
| Capital assets being depreciated | |
| Land improvements | 7,138,061 |
| Buildings and improvements | 47,701,088 |
| Machinery and equipment | 2,706,347 |
| Less accumulated depreciation | (22,209,072) |
| Total assets | 49,792,635 |
| **Deferred Outflows of Resources** | |
| Deferred outflows of resources related to pensions | 4,778,767 |
| Deferred outflows of resources related to OPEB | 259,386 |
| Total deferred outflows of resources | 5,038,153 |
| Total assets and deferred outflows of resources | $ 54,830,788 |
| **Liabilities** | |
| Accounts and contracts payable | $ 549,379 |
| Salaries and benefits payable | 2,397,522 |
| Interest payable | 181,058 |
| Due to other Minnesota school districts | 87,965 |
| Due to other governmental units | 345 |
| Unearned revenue | 49,728 |
| Bond principal payable (net of premium) | |
| Payable within one year | 1,645,000 |
| Payable after one year | 13,760,374 |
| Compensated absences payable | |
| Payable within one year | 71,000 |
| Payable after one year | 59,465 |
| Total OPEB liability | 1,455,551 |
| Net pension liability | 18,111,240 |
| Total liabilities | 38,368,627 |
| **Deferred Inflows of Resources** | |
| Property taxes levied for subsequent year's expenditures | 5,487,433 |
| Deferred amount on refunding | 261,865 |
| Deferred inflows of resources related to pensions | 1,100,466 |
| Deferred inflows of resources related to OPEB | 299,436 |
| Total deferred inflows of resources | 7,149,200 |
| **Net Position** | |
| Net investment in capital assets | 20,711,519 |
| Restricted for | |
| Debt service | 303,300 |
| Other purposes | 1,817,108 |
| Unrestricted | (13,518,966) |
| Total net position | 9,312,961 |
| Total liabilities, deferred inflows of resources, and net position | $ 54,830,788 |

See notes to basic financial statements.

**Independent School District No. 876**
**Statement of Activities**
**For the Year Ended June 30, 2024**

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenues and Changes in Net Position: Governmental Activities |
|---|---|---|---|---|---|
| Governmental activities | | | | | |
| Administration | $ 1,444,620 | $ 20,079 | $ 74,202 | $ - | $ (1,350,339) |
| District support services | 956,164 | - | - | - | (956,164) |
| Elementary and secondary regular instruction | 12,749,940 | 315,939 | 1,866,066 | 575 | (10,567,360) |
| Vocational education instruction | 544,552 | - | - | - | (544,552) |
| Special education instruction | 4,041,883 | 58,500 | 3,506,979 | - | (476,404) |
| Instructional support services | 1,734,240 | - | 204,881 | 400 | (1,528,959) |
| Pupil support services | 2,805,369 | - | 2,154,273 | - | (651,096) |
| Sites and buildings | 2,474,203 | - | - | 465,141 | (2,009,062) |
| Fiscal and other fixed cost programs | 320,202 | - | - | - | (320,202) |
| Food service | 1,931,326 | 121,863 | 1,667,013 | - | (142,450) |
| Community education and services | 1,623,948 | 1,128,292 | 126,208 | 9,000 | (360,448) |
| Unallocated depreciation | 1,311,378 | - | - | - | (1,311,378) |
| Interest and fiscal charges on long-term debt | 307,429 | - | - | - | (307,429) |
| Total governmental activities | $ 32,245,254 | $ 1,644,673 | $ 9,599,622 | $ 475,116 | (20,525,843) |
| General revenues | | | | | |
| Taxes | | | | | |
| Property taxes, levied for general purposes | | | | | 3,714,734 |
| Property taxes, levied for community service | | | | | 171,509 |
| Property taxes, levied for debt service | | | | | 1,937,531 |
| State aid-formula grants | | | | | 15,154,940 |
| Other general revenues | | | | | 208,471 |
| Investment income | | | | | 142,825 |
| Gain of sale of assets | | | | | 4,130 |
| Total general revenues | | | | | 21,334,140 |
| Change in net position | | | | | 808,297 |
| Net position - beginning | | | | | 8,157,902 |
| Change in accounting principle (Note 10) | | | | | 346,762 |
| Net position - beginning, restated | | | | | 8,504,664 |
| Net position - ending | | | | | $ 9,312,961 |

See notes to basic financial statements.

**Independent School District No. 876**
**Balance Sheet - Governmental Funds**
**June 30, 2024**

| | General | Debt Service | Other Nonmajor Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and investments | $ 4,853,027 | $ 1,551,555 | $ 689,103 | $ 7,093,685 |
| Current property taxes receivable | 1,634,483 | 1,005,505 | 87,972 | 2,727,960 |
| Delinquent property taxes receivable | 25,238 | 14,750 | 1,248 | 41,236 |
| Accounts receivable | 1,800 | - | - | 1,800 |
| Interest receivable | - | - | 847 | 847 |
| Due from Department of Education | 2,217,586 | 10,586 | 156,960 | 2,385,132 |
| Due from Federal Government through Department of Education | 657,335 | - | 101,444 | 758,779 |
| Due from other Minnesota school districts | - | - | 5,430 | 5,430 |
| Due from other governmental units | 37,032 | - | - | 37,032 |
| Inventory | 2,197 | - | 11,518 | 13,715 |
| Prepaid items | 41,646 | - | - | 41,646 |
| Total assets | $ 9,470,344 | $ 2,582,396 | $ 1,054,522 | $ 13,107,262 |
| **Liabilities** | | | | |
| Accounts and contracts payable | $ 523,528 | $ - | $ 25,851 | $ 549,379 |
| Salaries and benefits payable | 2,282,349 | - | 115,173 | 2,397,522 |
| Due to other Minnesota school districts | 87,965 | - | - | 87,965 |
| Due to other governmental units | 345 | - | - | 345 |
| Unearned revenue | 9,658 | - | 40,070 | 49,728 |
| Total liabilities | 2,903,845 | - | 181,094 | 3,084,939 |
| **Deferred Inflows of Resources** | | | | |
| Unavailable revenue - property taxes levied for subsequent year's expenditures | 3,195,840 | 2,098,038 | 193,555 | 5,487,433 |
| Unavailable revenue - delinquent property taxes | 25,238 | 14,750 | 1,248 | 41,236 |
| Total deferred inflows of resources | 3,221,078 | 2,112,788 | 194,803 | 5,528,669 |
| **Fund Balances** | | | | |
| Nonspendable | 43,843 | - | 11,518 | 55,361 |
| Restricted | 1,137,235 | 469,608 | 667,107 | 2,273,950 |
| Committed | 326,636 | - | - | 326,636 |
| Assigned | 189,609 | - | - | 189,609 |
| Unassigned | 1,648,098 | - | - | 1,648,098 |
| Total fund balances | 3,345,421 | 469,608 | 678,625 | 4,493,654 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 9,470,344 | $ 2,582,396 | $ 1,054,522 | $ 13,107,262 |

**Independent School District No. 876**
**Reconciliation of the Balance Sheet to**
**the Statement of Net Position - Governmental Funds**
**June 30, 2024**

| | |
|---|---|
| Total fund balances - governmental funds | $ 4,493,654 |
| 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 | 58,587,830 |
| Less accumulated depreciation | (22,209,072) |
| Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current financial assets. | |
| Equity interest in joint venture - Wright Technical Center | 306,615 |
| 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. | |
| Bond principal payable | (13,945,000) |
| Deferred amount on refunding | (261,865) |
| Premium on bonds payable | (1,460,374) |
| Compensated absences payable | (130,465) |
| Total OPEB liability | (1,455,551) |
| Net pension liability | (18,111,240) |
| Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions and OPEB that are not recognized in the governmental funds. | |
| Deferred outflows of resources related to pensions | 4,778,767 |
| Deferred inflows of resources related to pensions | (1,100,466) |
| Deferred outflows of resources related to OPEB | 259,386 |
| Deferred inflows of resources related to OPEB | (299,436) |
| Delinquent property tax receivables 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. | 41,236 |
| Governmental funds do not report a liability for accrued interest on bonds until due and payable. | (181,058) |
| Total net position - governmental activities | $ 9,312,961 |

See notes to basic financial statements.

**Independent School District No. 876**
**Statement of Revenues, Expenditures, and**
**Changes in Fund Balances - Governmental Funds**
**Year Ended June 30, 2024**

| | General | Debt Service | Other Nonmajor Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Revenues** | | | | |
| Local property taxes | $ 3,716,250 | $ 1,937,531 | $ 171,509 | $ 5,825,290 |
| Other local and county revenues | 1,242,403 | 27,518 | 1,161,182 | 2,431,103 |
| Revenue from state sources | 21,850,421 | 105,862 | 1,043,920 | 23,000,203 |
| Revenue from federal sources | 851,543 | - | 748,468 | 1,600,011 |
| Sales and other conversion of assets | - | - | 121,766 | 121,766 |
| Total revenues | 27,660,617 | 2,070,911 | 3,246,845 | 32,978,373 |
| **Expenditures** | | | | |
| Current | | | | |
| Administration | 1,500,980 | - | - | 1,500,980 |
| District support services | 907,055 | - | - | 907,055 |
| Elementary and secondary regular instruction | 13,490,082 | - | - | 13,490,082 |
| Vocational education instruction | 565,052 | - | - | 565,052 |
| Special education instruction | 4,149,407 | - | - | 4,149,407 |
| Instructional support services | 1,759,201 | - | - | 1,759,201 |
| Pupil support services | 2,829,316 | - | - | 2,829,316 |
| Sites and buildings | 2,419,192 | - | - | 2,419,192 |
| Fiscal and other fixed cost programs | 320,202 | - | - | 320,202 |
| Food service | - | - | 1,870,199 | 1,870,199 |
| Community education and services | - | - | 1,621,927 | 1,621,927 |
| Capital outlay | | | | |
| District support services | 20,844 | - | - | 20,844 |
| Elementary and secondary regular instruction | 149,978 | - | - | 149,978 |
| Instructional support services | 14,097 | - | - | 14,097 |
| Sites and buildings | 459,098 | - | - | 459,098 |
| Food service | - | - | 355,521 | 355,521 |
| Community education and services | - | - | 3,776 | 3,776 |
| Debt service | | | | |
| Principal | 46,529 | 1,585,000 | - | 1,631,529 |
| Interest and fiscal charges | 6,281 | 500,388 | - | 506,669 |
| Total expenditures | 28,637,314 | 2,085,388 | 3,851,423 | 34,574,125 |
| Excess of revenues under expenditures | (976,697) | (14,477) | (604,578) | (1,595,752) |
| **Other Financing Sources** | | | | |
| Proceeds from sale of capital assets | 1,073 | - | 3,057 | 4,130 |
| Net change in fund balances | (975,624) | (14,477) | (601,521) | (1,591,622) |
| **Fund Balances** | | | | |
| Beginning of year | 4,321,045 | 484,085 | 1,280,146 | 6,085,276 |
| End of year | $ 3,345,421 | $ 469,608 | $ 678,625 | $ 4,493,654 |

**Independent School District No. 876**
**Reconciliation of the Statement of Revenues,**
**Expenditures and Changes in Fund Balances to the**
**Statement of Activities - Governmental Funds**
**Year Ended June 30, 2024**

| | |
|---|---|
| Net change in fund balances - total governmental funds | $ (1,591,622) |
| 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 | 1,431,635 |
| Depreciation expense | (1,547,080) |
| Compensated absences payable and OPEB payable are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. | 77,218 |
| Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on the change in net position in the Statement of Activities. | 1,585,000 |
| Net gain (loss) from equity interest in joint venture does not involve current financial resources and is not reported in the funds. | 37,819 |
| 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. | 23,132 |
| Governmental funds report the effect of bond premiums and deferred amounts on refunding when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. | 222,637 |
| Governmental Funds recognized 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. | 571,074 |
| Delinquent property tax receivables 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. | (1,516) |
| Change in net position - governmental activities | $ 808,297 |

**Independent School District No. 876**
**Statement of Revenues, Expenditures, and**
**Changes in Fund Balances -**
**Budget and Actual - General Fund**
**Year Ended June 30, 2024**

| | Budgeted Amounts | | Actual | Variance with Final Budget - |
|---|---|---|---|---|
| | Original | Final | Amounts | Over (Under) |
| **Revenues** | | | | |
| Local property taxes | $ 3,672,204 | $ 3,685,373 | $ 3,716,250 | $ 30,877 |
| Other local and county revenues | 729,500 | 884,500 | 1,242,403 | 357,903 |
| Revenue from state sources | 20,892,231 | 21,961,396 | 21,850,421 | (110,975) |
| Revenue from federal sources | 775,936 | 775,936 | 851,543 | 75,607 |
| Total revenues | 26,069,871 | 27,307,205 | 27,660,617 | 353,412 |
| **Expenditures** | | | | |
| Current | | | | |
| Administration | 1,413,811 | 1,496,186 | 1,500,980 | 4,794 |
| District support services | 1,066,946 | 1,086,109 | 907,055 | (179,054) |
| Elementary and secondary regular instruction | 12,954,372 | 13,662,325 | 13,490,082 | (172,243) |
| Vocational education instruction | 576,475 | 554,974 | 565,052 | 10,078 |
| Special education instruction | 4,019,769 | 4,376,836 | 4,149,407 | (227,429) |
| Instructional support services | 1,177,216 | 1,328,650 | 1,759,201 | 430,551 |
| Pupil support services | 2,384,472 | 2,617,789 | 2,829,316 | 211,527 |
| Sites and buildings | 2,121,312 | 2,269,289 | 2,419,192 | 149,903 |
| Fiscal and other fixed cost programs | 316,000 | 316,000 | 320,202 | 4,202 |
| Capital outlay | | | | |
| District support services | 22,000 | 20,500 | 20,844 | 344 |
| Elementary and secondary regular Instruction | 158,644 | 153,193 | 149,978 | (3,215) |
| Instructional support services | 29,350 | 13,870 | 14,097 | 227 |
| Sites and buildings | 838,973 | 371,638 | 459,098 | 87,460 |
| Debt service | | | | |
| Principal | - | 55,000 | 46,529 | (8,471) |
| Interest and fiscal charges | - | 5,000 | 6,281 | 1,281 |
| Total expenditures | 27,079,340 | 28,327,359 | 28,637,314 | 309,955 |
| Excess of revenues over (under) expenditures | (1,009,469) | (1,020,154) | (976,697) | 43,457 |
| **Other Financing Sources** | | | | |
| Proceeds from sale of capital assets | - | - | 1,073 | 1,073 |
| Net change in fund balances | $ (1,009,469) | $ (1,020,154) | (975,624) | $ 44,530 |
| **Fund Balances** | | | | |
| Beginning of year | | | 4,321,045 | |
| End of year | | | $ 3,345,421 | |

See 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.

#### 1. Joint Ventures

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 9.

### 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.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Basic Financial Statement Information (Continued)

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

Major individual governmental funds are reported as separate columns in the fund financial 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. 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 interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

The District applies resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned, and unassigned, not including operating capital.

**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.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (Continued)**

**Description of Funds: (Continued)**

Major Funds: (Continued)

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

Nonmajor Funds:

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures.

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.

Capital Project Fund – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

**D. Deposits and Investments**

Cash and investments include balances from all funds and 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, 2024, were comprised of deposits, and various investments as outlined in Note 2.B.

*Minnesota Statutes* requires all deposits be protected by federal depository insurance, corporate surety bonds, and 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.

*Minnesota Statutes* authorizes the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, share 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.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D. Deposits and Investments (Continued)

In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF or MNTrust Investment Shares Portfolio. Monthly withdrawals are available on the third Wednesday of each month upon at least two weeks notice for the MNTrust Limited Term Duration.

### 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 fiscal 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 2023, less various components, and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2024. The remaining portion of the levy will be recognized when measurable and available.

### G. Inventories

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. Meeker, Stearns, and Wright Counties are the collecting agencies for the levy and remit 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.

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.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### J. Capital Assets (Continued)

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 or aggregate items with a cost greater than $50,000 and an estimated useful life in excess of three years. 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 its 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 half year convention 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 improvements and 3 to 20 years for machinery and equipment.

Capital assets not being depreciated include land and the construction in progress. 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. 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, and deferred outflows of resources related to OPEB are reported in the government-wide Statement of Net Position. 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.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### K. Deferred Outflows/Inflows of Resources (Continued)

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 five 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 is 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. Deferred inflows of resources related to pensions and OPEB are recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. Finally, a deferred amount on refunding is recorded on the government-wide Statement of Net Position for the difference between the reacquisition price and the net carrying value of the refunded debt. This amount will be amortized over the life of the new debt.

### L. 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 effective interest 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 another financing source. Premiums received on debt issuances are reported as other financing source while discounts on debt issuances are reported as another financing use. Issuance costs, whether or not withheld or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### M. Compensated Absences, Severance, and Early Retirement Incentive Benefits Payable

#### 1. Compensated Absences

This is accrued vacation payable earned by certain District employees at varying increments that has not been used by year-end. The vacation liability is recorded as compensated absences payable in the government-wide financial statements.

#### 2. Early Retirement Incentive Benefits Compensated Absences

The District maintains various early retirement incentive payment plans for some of its employee groups. Each employee group plan contains benefit formulas based on years of service and/or minimum age requirements. In addition, certain bargaining unit members are eligible to be compensated for unused accumulated sick leave upon termination subject to certain conditions.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### N. Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger 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.

### O. 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, 2024.

### P. Fund Equity

#### 1. Classifications

In the fund financial statements, governmental funds report fund classifications that compromise a hierarchy based primarily on the extent to which the District is bound to honor the constraints on the specific purpose for which amounts in these 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 items that are inherently unspendable, such as, but not limited to, inventories and prepaid items.

- Restricted Fund Balances – These are amounts that are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

- Committed Fund Balances – These are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by majority vote of the School Board.

- Assigned Fund Balances – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. The School Board, by a majority vote, may assign balances. The School Board also delegates authority to assign fund balances to the Superintendent or Business Manager.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### P. Fund Equity (Continued)

#### 1. Classifications (Continued)

- Unassigned Fund Balances – These are amounts that are the residual amounts in the General Fund not reported in any other classification. Unassigned amounts in the General Fund are technically available for expenditure for any purpose. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

#### 2. Minimum Fund Balance

Minimum Fund Balance Policy – The District shall strive to maintain a General Fund unassigned fund balance of one and a half months of operating expenditures.

### Q. 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.

### R. 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.

### S. 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, Special Revenue, Capital Project, and Debt Service Funds and are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
4. 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 District's School Board.

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a policy in place to address custodial credit risk for deposits, stating all deposits must be in compliance with *Minnesota Statutes* § 118A. The District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by pledging financial institutions trust department or agent and in the District's name.

As of June 30, 2024, the District had the following pooled deposits:

| | |
|---|---|
| Checking | $ 3,388,215 |
| Savings | 191,762 |
| Certificates of deposit | 969,378 |
| Total deposits | $ 4,549,355 |

### B. Investments

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

| Investment | Fair Value | Maturities 0-1 Year | Rating |
|---|---|---|---|
| Pooled | | | |
| MSDLAF | $ 2,050 | $ 2,050 | AAA |
| Negotiable CDs | 248,523 | 248,523 | N/A |
| MN Trust Limited Term Duration | 1,123,927 | 1,123,927 | N/A |
| MN Trust Flex SDA | 445,429 | 445,429 | N/A |
| MN Trust Investment Shares Portfolio | 724,001 | 724,001 | AAA |
| Total pooled investments | $ 2,543,930 | $ 2,543,930 | |

Credit Risk: This is the risk an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* §§ 118A.04 and 118A.05 limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy limits its investments to those specified in these Statutes. Investments are rated as indicated in the table on the previous page.

## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

### B. Investments (Continued)

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of a District's investment in a single issuer. The District's investment policy states the District will attempt to diversify their investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The policy states investment maturities shall be scheduled to coincide with projected District cash flow needs. Portfolio maturities shall be staggered to avoid undue concentration of assets and a specific maturity sector. The policy does not state the maximum percentage of the District's investment portfolio that may be invested in a single type of investment instrument. Investments in Connexus Credit Union (7.19%) exceeded 5% of pooled investments at June 30, 2024.

Interest Rate Risk: This is the risk that the market value of securities in a portfolio would decrease due to changes in market interest rates. The District's investments policy states the District shall manage investments in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

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 of securities that are in the possession of an outside party. The District's investment policy states all investments shall be held in third party safekeeping by an institution designated as custodial agent.

The District has the following recurring fair value measurements as of June 30, 2024:

- $248,523 are valued using a matrix pricing model (Level 2 inputs)

### C. Deposits and Investments

Summary of total cash, deposits, and investments as of June 30, 2024:

| | |
|---|---|
| Petty Cash | $ 400 |
| Deposits - pooled (Note 2.A.) | 4,549,355 |
| Deposits - nonpooled (Note 2.A.) | - |
| Investments - pooled (Note 2.B.) | 2,543,930 |
| Total deposits and investments | $ 7,093,685 |

Cash and investments are presented in the June 30, 2024, basic financial statements as follows:

| | |
|---|---|
| Statement of Net Position | |
| Cash and investments | $ 7,093,685 |

## NOTE 3 – CAPITAL ASSETS

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

| | Beginning Balance | Accounting Change | Increases | Decreases | Ending Balance |
|---|---|---|---|---|---|
| Governmental activities | | | | | |
| Capital assets not being depreciated | | | | | |
| Land | $ 1,021,636 | $ - | $ - | $ - | $ 1,021,636 |
| Construction in progress | 387,008 | - | 455,676 | 821,986 | 20,698 |
| Total capital assets not being depreciated | 1,408,644 | - | 455,676 | 821,986 | 1,042,334 |
| Capital assets being depreciated | | | | | |
| Land improvements | 6,063,672 | - | 1,074,389 | - | 7,138,061 |
| Buildings and improvements | 47,597,642 | - | 103,446 | - | 47,701,088 |
| Machinery and equipment | 1,799,196 | 346,762 | 620,110 | 59,721 | 2,706,347 |
| Total capital assets being depreciated | 55,460,510 | 346,762 | 1,797,945 | 59,721 | 57,198,734 |
| Less accumulated depreciation for | | | | | |
| Land improvements | 2,041,481 | - | 284,440 | - | 2,325,921 |
| Buildings and improvements | 17,529,931 | - | 1,079,399 | - | 18,609,330 |
| Machinery and equipment | 1,150,301 | - | 183,241 | 59,721 | 1,273,821 |
| Total accumulated depreciation | 20,721,713 | - | 1,547,080 | 59,721 | 22,209,072 |
| Total capital assets being depreciation, net | 34,738,797 | 346,762 | 250,865 | - | 34,989,662 |
| Governmental activities, capital assets, net | $ 36,147,441 | $ 346,762 | $ 706,541 | $ 821,986 | $ 36,031,996 |

Depreciation expense of $1,547,080 for the year ended June 30, 2024, was charged to the following governmental functions:

| | |
|---|---|
| Administration | $ 2,377 |
| Elemementary/Secondary Ed | 99,309 |
| Instructional Support Services | 2,661 |
| Food Service | 37,971 |
| Sites and Buildings | 93,384 |
| Unallocated | 1,311,378 |
| Total depreciation expense | $ 1,547,080 |

## NOTE 4 – LONG-TERM DEBT

### A. Components of Long-Term Liabilities

| | Issue Date | Interest Rates | Original Issue | Final Maturity | Principal Outstanding | Due Within One Year |
|---|---|---|---|---|---|---|
| G.O. Bonds | | | | | | |
| 2016A School Building Bonds | 02/18/16 | 2.00%-2.50% | $ 3,905,000 | 02/01/30 | $ 2,260,000 | $ 370,000 |
| 2020A Building Refundings Bonds | 11/05/20 | 2.00%-4.00% | 15,400,000 | 02/01/32 | 11,685,000 | 1,275,000 |
| Total G.O. Bonds | | | | | 13,945,000 | 1,645,000 |
| Bond Premium | | | | | 1,460,374 | - |
| Total G.O. Bonds, net of unamortized premium | | | | | 15,405,374 | 1,645,000 |
| Compensated absences | | | | | 130,465 | 71,000 |
| Total long-term liabilities | | | | | $ 15,535,839 | $ 1,716,000 |

The long-term bond liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. Bond principal will be repaid from the Debt Service Fund and compensated absences will be paid from the General Fund.

### B. Minimum Debt Payments for Bonds

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

| Year Ending June 30, | G.O. Bonds Principal | G.O. Bonds Interest | G.O. Bonds Total |
|---|---|---|---|
| 2025 | $ 1,645,000 | $ 439,888 | $ 2,084,888 |
| 2026 | 1,705,000 | 380,563 | 2,085,563 |
| 2027 | 1,760,000 | 318,925 | 2,078,925 |
| 2028 | 1,825,000 | 255,263 | 2,080,263 |
| 2029 | 1,855,000 | 189,175 | 2,044,175 |
| 2030-2032 | 5,155,000 | 217,850 | 5,372,850 |
| Total | $ 13,945,000 | $ 1,801,664 | $ 15,746,664 |

### C. Changes in Long-Term Liabilities

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Long-term liabilities | | | | |
| Bonds payable | $ 15,530,000 | $ - | $ 1,585,000 | $ 13,945,000 |
| Bonds premium | 1,645,601 | - | 185,227 | 1,460,374 |
| Compensated absences | 118,033 | 140,857 | 128,425 | 130,465 |
| Long term liabilities | $ 17,293,634 | $ 140,857 | $ 1,898,652 | $ 15,535,839 |

## NOTE 5 – FUND BALANCES/NET POSITION

Certain portions of fund balance are reserved 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.

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

| | General Fund | Debt Service | Other Nonmajor Funds | Total |
|---|---|---|---|---|
| Nonspendable for | | | | |
| Inventory | $ 2,197 | $ - | $ 11,518 | $ 13,715 |
| Prepaid items | 41,646 | - | - | 41,646 |
| Total nonspendable | 43,843 | - | 11,518 | 55,361 |
| Restricted/Reserved for | | | | |
| Student Activities | 274,783 | - | - | 274,783 |
| Scholarships | 280,301 | - | - | 280,301 |
| Student Support Personnel | 40,000 | - | - | 40,000 |
| Area Learning Center | 21,684 | - | - | 21,684 |
| Operating Capital | 1,330 | - | - | 1,330 |
| Literacy Incentive Aid | 112,772 | - | - | 112,772 |
| Long-Term Facilities Maintenance | 406,365 | - | - | 406,365 |
| Community Education | - | - | 262,517 | 262,517 |
| School Readiness | - | - | 170,663 | 170,663 |
| Fund Purpose | - | 469,608 | 233,927 | 703,535 |
| Total restricted/ reserved | 1,137,235 | 469,608 | 667,107 | 2,273,950 |
| Committed for | | | | |
| Separation Benefits | 326,636 | - | - | 326,636 |
| Assigned for | | | | |
| Q-Compensation | 189,609 | - | - | 189,609 |
| Unassigned for | | | | |
| General Purpose | 1,648,098 | - | - | 1,648,098 |
| Total fund balance | $ 3,345,421 | $ 469,608 | $ 678,625 | $ 4,493,654 |

Nonspendable for Inventory – This balance represents the portion of fund balance that is not available as amounts have already been spent on inventory.

**NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)**

**Fund Equity (Continued)**
Nonspendable for Prepaid Items – This balance represents the portion of fund balance that is not available as the amounts have already been spent by the District on items for the next year.

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 Literacy Incentive Aid – This balance represents the resources available to support implementation of evidence-based reading instruction.

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 Scholarships – This balance represents available resources for the scholarship funds.

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, subd.1).

Restricted/Reserved for Area Learning Center – This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to the sum of 1) at least 90 and no more than 100% of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to *Minnesota Statutes* § 126C.10, subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved area learning center, plus (2) the amount of basic skills revenue generated by pupils attending the area learning center. The amount restricted may only be spent on program costs associated with the area learning center.

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 Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the ten year plan (*Minnesota Statutes* § 123B.595, subd. 12).

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 School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* § 124D.16).

**NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)**

**Fund Equity (Continued)**
Restricted for Fund Purpose – This balance represents the accumulation of the activity to provide the food service program, debt service costs and construction costs.

Committed for Separation Benefits – This balance represents the resources set aside for the payment of retirement benefits.

Assigned for Q-Compensation – This balance represents resources set aside for payments required through the teachers' Q-Compensation Program.

**Net Position**
Net position restricted for other purposes on the Statement of Net Position is comprised of the total positive restricted net position of the General Fund, Food Service, and Community Service Funds.

**NOTE 6 – COMMITMENTS**

As of June 30, 2023, the District had outstanding commitments totaling $161,409 for various projects.

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

The District participates in various pension plans. Total pension expense for the year ended June 30, 2023, was ($1,005,471). The components of pension expense are noted in the following plan summaries.

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

**Teachers' 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.

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 Plan (DCP) administered by Minnesota State.

**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 five consecutive years of allowable service, age and a formula multiplier based on years of credit at termination of service.

## NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

### Teachers' Retirement Association (Continued)

**B. Benefits Provided (Continued)**
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

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. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under *Minnesota Statute*. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

*Tier II Benefits (Continued)*
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. Contribution Rate**
Per *Minnesota Statutes* Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2022, June 30, 2023, and June 30, 2024, were:

| | June 30, 2022 | | June 30, 2023 | | June 30, 2024 | |
|---|---|---|---|---|---|---|
| | Employee | Employer | Employee | Employer | Employee | Employer |
| Basic | 11.0 % | 12.34 % | 11.0 % | 12.55 % | 11.3 % | 12.75 % |
| Coordinated | 7.5 | 8.34 | 7.5 | 8.55 | 7.8 | 8.75 |

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

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

## NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

### Teachers' Retirement Association (Continued)

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

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

| | |
|---|---|
| **Actuarial Information** | |
| Valuation date | July 1, 2023 |
| Measurement date | June 30, 2023 |
| Experience study | June 28, 2019 (demographic and economic assumptions) |
| Actuarial cost method | Entry Age Normal |
| Actuarial assumptions | |
| Investment rate of return | 7.00% |
| Price inflation | 2.50% |
| Wage growth rate | 2.85% before July 1, 2028, and 3.25% after June 30, 2028. |
| Projected salary increase | 2.85% to 8.85% before July, 1, 2028, and 3.25% to 9.25% after June 30, 2028. |
| Cost of living adjustment | 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually. |
| **Mortality Assumptions** | |
| Pre-retirement | RP 2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP 2015 scale. |
| Post-retirement | RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale. |
| Post-disability | RP 2014 disabled retiree mortality table, without adjustment. |

## NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

### Teachers' 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 table below:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic equity | 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 % | |

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2023 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 2022 valuation:

The 2023 Tax Finance and Policy Bill effective July 1, 2025:
- The employer contribution rate will increase from 8.75% to 9.5% on July 1, 2025.
- The employee contribution rate will increase from 7.75% to 8% on July 1, 2025.
- The pension adjustment rate for school districts and the base budgets for Minnesota State, Perpich Center for Arts Education, and Minnesota Academics will increase to reflect the 0.75% employer contribution rate increase.

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

## NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

### Teachers' 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 2023 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

**F. Net Pension Liability**
On June 30, 2024, the District reported a liability of $15,315,296 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.1855% at the end of the measurement period and 0.1818% 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 | $ 15,315,296 |
| State's proportionate share of the net pension liability associated with the District | 1,072,847 |

For the year ended June 30, 2024, the District recognized pension expense of ($518,512). Included in this amount, the District recognized $151,065 as pension expense for the support provided by direct aid.

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability (Continued)**

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 141,393 | $ 216,932 |
| Net collective difference between projected and actual earnings on plan investment | 28,756 | - |
| Changes of assumptions | 1,692,626 | - |
| Changes in proportion | 852,712 | - |
| Contributions to TRA subsequent to the measurement date | 1,110,944 | - |
| Total | $ 3,826,431 | $ 216,932 |

The $1,110,944 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025.

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

| Year Ended June 30, | Pension Expense Amount |
|---|---|
| 2025 | $ 471,562 |
| 2026 | 241,125 |
| 2027 | 1,860,693 |
| 2028 | (96,180) |
| 2029 | 21,355 |
| Total | $ 2,498,555 |

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' 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.

| District Proportionate Share of NPL | | |
|---|---|---|
| 1% Decrease in Discount Rate (6.0%) | Current Discount Rate (7.0%) | 1% Increase in Discount Rate (8.0%) |
| $ 24,426,770 | $ 15,315,296 | $ 7,856,444 |

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

**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 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

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

**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.

## NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

### Public Employees' Retirement Association (Continued)

### B. Benefits Provided (Continued)

General Employees Plan Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase 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%. Recipients that have been receiving the annuity or benefit for at least a full year as of June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

### C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2024 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, 2024, were $314,189. The District's contributions were equal to the required contributions as set by state statute.

### D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2024, the District reported a liability of $2,795,944 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $19,052.

## NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

### Public Employees' Retirement Association (Continued)

### D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.05% at the end of the measurement period and 0.0483% for the beginning of the period.

| | |
|---|---|
| School's proportionate share of net pension liability | $ 2,795,944 |
| State of Minnesota's proportionate share of the net pension liability associated with the School | 19,052 |
| Total | $ 2,814,996 |

For the year ended June 30, 2024, the District recognized pension expense of $486,959 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $347 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

At June 30, 2024, the District reported its proportionate share of 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 | $ 91,070 | $ 18,336 |
| Changes in actuarial assumptions | 431,151 | 766,345 |
| Net collective difference between projected and actual investments earnings | - | 95,855 |
| Change in proportion | 115,926 | 2,998 |
| Contributions paid to PERA subsequent to the measurement date | 314,189 | - |
| Total | $ 952,336 | $ 883,534 |

## NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

### Public Employees' Retirement Association (Continued)

### D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

The $314,189 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30, | Pension Expense Amount |
|---|---|
| 2025 | $ 95,061 |
| 2026 | (366,560) |
| 2027 | 86,764 |
| 2028 | (60,652) |
| Total | $ (245,387) |

### 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 | 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 % | |

## NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

### Public Employees' Retirement Association (Continued)

### F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.5%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.5% was deemed to be within that range of reasonableness for financial reporting purposes.

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.

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

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

General Employees Fund:
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% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

### G. Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position 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.

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**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 | $ 4,946,250 | $ 2,795,944 | $ 1,027,236 |

**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.

**NOTE 8 – 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. The plan offers medical, dental, and life coverage. Medical and dental coverage is administered by Health Partners and life insurance coverage is administered by ReliaStar. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees. No assets are acclimated in a trust.

**B. Benefits Provided**
Teachers hired prior to July 1, 2012, who apply for early retirement shall remain eligible to receive certain health insurance benefits until the teacher becomes Medicare eligible. Full vesting of such amounts occurs upon attaining 55 years of age and 3 years of service. The General Fund typically liquidates the Liability related to OPEB.

Additionally, the District provides certain classes of employees retiring at age 55 with 3 years of service, a contribution to a Health Care Savings Plan account in the amount of $150 to $300 per year of service.

Principals receive full single dental coverage and full life insurance premium for face value of $150,000 until Medicare eligible.

## NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

### C. Members

As of July 1, 2023, the following were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 13 |
| Active employees | 199 |
| Total | 212 |

### 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, based on the contract terms. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2024, the District contributed $127,640 to the plan.

### E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2023, using the Entry Age Actuarial Cost Method and 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 | 3.90% |
| Salary increases | Service graded table |
| Inflation | 2.50% |
| Healthcare cost trend increases | 6.50% decreasing to 5.00% over 6 years and then to 4.00% over the next 54 years. |
| Dental trend rate | N/A |
| Mortality Assumption | Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale. |

The actuarial assumptions used in the July 1, 2023, measurement date were based on the results of an actuarial experience study for the period July 1, 2021, through June 30, 2022.

Assumption Changes

- The health care trend rates were changed to better anticipate short term and long-term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.
- The percentage of future retirees not eligible for a subsidy who are assumed to continue on the District’s medical plan post-employment was reduced from 50% to 30%.
- The discount rate was changed from 3.80% to 3.90%.
- These changes decreased the liability $75,798

## NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

### F. Total OPEB Liability

The District's total OPEB liability of $1,455,551 was measured as of July 1, 2023, and was determined by an actuarial valuation as of July 1, 2022.

Changes in the total OPEB liability are as follows:

| | Total OPEB Liability |
|---|---|
| Balances at July 1, 2023 | $ 1,446,623 |
| Changes for the year | |
| Service cost | 68,075 |
| Interest | 55,705 |
| Differences between Expected and Acutal Experience | 93,407 |
| Plan Changes | (33,977) |
| Assumption changes | (75,798) |
| Benefit payments | (98,484) |
| Net changes | 8,928 |
| Balances at July 1, 2024 | $ 1,455,551 |

### G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.90% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

| | 1% Decrease in Discount Rate (2.90%) | Current Discount Rate (3.90%) | 1% Increase in Discount Rate (4.90%) |
|---|---|---|---|
| Total OPEB liability | $ 1,533,321 | $ 1,455,551 | $ 1,378,764 |

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 in Trend Rate Decreasing to 4.0% then 3.0%) | Current Trend Rate Decreasing to 5.0% then 4.0%) | 1% Increase in Trend Rate Decreasing to 6.0% then 5.0%) |
|---|---|---|---|
| Total OPEB liability | $ 1,366,103 | $ 1,455,551 | $ 1,559,158 |

## NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

For the year ended June 30, 2024, the District recognized OPEB expense of $37,990. At June 30, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Contributions made subsequent to measurement date | $ 127,640 | $ - |
| Liability gains | | 127,127 |
| Liability Losses | 81,731 | |
| Changes of assumptions | 50,015 | 172,309 |
| Total | $ 259,386 | $ 299,436 |

The $127,640 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 the OPEB expense as follows:

| Year Ended June 30, | |
|---|---|
| 2025 | $ (51,813) |
| 2026 | (51,810) |
| 2027 | (12,870) |
| 2028 | (20,005) |
| 2029 | (20,005) |
| Thereafter | (11,187) |
| Total | $ (167,690) |

## NOTE 9 – JOINT POWERS AGREEMENT

The District entered into a joint powers agreement in February 1998 with Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, between and among eight other independent school districts and to finance the acquisition and betterment of the addition to the existing WTC facilities.

## NOTE 9 – JOINT POWERS AGREEMENT (CONTINUED)

The addition is being financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost.

Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25, North Buffalo, Minnesota 55313-1936.

## NOTE 10 – CHANGES IN ACCOUNTING

The Governmental Accounting Standards Board (GASB) has issued implementation Guide No. 2021-1, Implementation Guidance Update - 2021. The implementation guide contains new questions and answers that address the application of GASB standards. The guide also amends certain questions and answers issued in previous implementation guides. The answer to Question 5.1 in Implementation Guide 2021-1 has been amended to state that a government should capitalize assets whole individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant.

The District has an adjustment to capital assets of $346,762 to account for the standard required to capitalize grouped assets from prior periods.

| | Reporting Unit Affected by Restatements of Beginning Balances |
|---|---|
| | Government-Wide |
| | Governmental Activities |
| 6/30/2023 as previously reported | $ 8,157,902 |
| Change in accounting principle | 346,762 |
| 6/30/2023 as restated | $ 8,504,664 |

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REQUIRED SUPPLEMENTARY INFORMATION

**Independent School District No. 876**
**Schedule of Changes in Total OPEB Liability**
**and Related Ratios**

| | June 30, 2024 | June 30, 2023 | June 30, 2022 | June 30, 2021 |
|---|---|---|---|---|
| **Total OPEB Liability** | | | | |
| Service cost | $ 68,075 | $ 87,989 | $ 110,593 | $ 99,313 |
| Interest | 55,705 | 33,658 | 40,045 | 50,724 |
| Differenced between expected and actual experience | 93,407 | - | (98,704) | - |
| Changes of assumptions | (75,798) | (124,720) | 45,776 | 49,945 |
| Changes of benefit terms | - | - | - | - |
| Benefit payments | (98,484) | (129,462) | (152,117) | (205,165) |
| Net change in total OPEB liability | 42,905 | (132,535) | (54,407) | (5,183) |
| Beginning of year | 1,446,623 | 1,579,158 | 1,633,565 | 1,638,748 |
| End of year | $ 1,489,528 | $ 1,446,623 | $ 1,579,158 | $ 1,633,565 |
| Covered payroll | $ 12,987,231 | $ 12,109,748 | $ 11,757,037 | $ 10,856,062 |
| Total OPEB liability as a percentage of covered-employee payroll | 11.5% | 11.9% | 13.4% | 15.0% |

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

| | June 30, 2020 | June 30, 2019 | June 30, 2018 |
|---|---|---|---|
| | $ 86,605 | $ 86,720 | $ 84,194 |
| | 65,952 | 67,733 | 69,897 |
| | (229,032) | - | - |
| | (43,566) | - | - |
| | 6,616 | - | - |
| | (200,314) | (212,999) | (227,407) |
| | (313,739) | (58,546) | (73,316) |
| | 1,952,487 | 2,011,033 | 2,084,349 |
| | $ 1,638,748 | $ 1,952,487 | $ 2,011,033 |
| | $ 10,539,866 | $ 9,454,828 | $ 9,179,445 |
| | 15.5% | 20.7% | 21.9% |

**Independent School District No. 876**
**Schedule of District's and Non-Employer**
**Proportionate Share of Net Pension Liability**
**Last Ten Years General Employees Retirement Fund**

| 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 Proportionated Share of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability | District's Covered - Employee Payroll | District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered - Employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|---|---|
| 2014 | 0.0450% | $ 2,113,875 | $ - | $ 2,113,875 | $ 2,360,483 | 89.55% | 78.75% |
| 2015 | 0.0424% | 2,197,388 | - | 2,197,388 | 2,452,613 | 89.59% | 76.80% |
| 2016 | 0.0433% | 3,515,745 | 45,848 | 3,561,593 | 2,684,347 | 130.97% | 68.90% |
| 2017 | 0.0444% | 2,834,467 | 35,640 | 2,870,107 | 2,860,267 | 99.10% | 75.90% |
| 2018 | 0.0441% | 2,446,487 | 80,167 | 2,526,654 | 2,961,893 | 82.60% | 79.53% |
| 2019 | 0.0448% | 2,476,892 | 76,997 | 2,553,889 | 3,167,693 | 78.19% | 80.23% |
| 2020 | 0.0478% | 2,865,828 | 88,419 | 2,954,247 | 3,409,840 | 84.05% | 79.06% |
| 2021 | 0.0476% | 2,032,733 | 62,134 | 2,094,867 | 3,426,907 | 59.32% | 87.00% |
| 2022 | 0.0483% | 3,825,376 | 112,338 | 3,937,714 | 3,621,027 | 105.64% | 76.67% |
| 2023 | 0.0500% | 2,795,944 | 77,107 | 2,873,051 | 3,961,867 | 70.57% | 83.10% |

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

| 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 Proportionated Share of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability | District's Covered - Employee Payroll | District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered - Employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|---|---|
| 2014 | 0.1626% | $ 7,492,491 | $ 526,970 | $ 8,019,461 | $ 7,421,943 | 100.95% | 81.50% |
| 2015 | 0.1504% | 9,303,727 | 1,140,867 | 10,444,594 | 7,633,573 | 121.88% | 76.80% |
| 2016 | 0.1539% | 36,708,822 | 3,683,573 | 40,392,395 | 8,003,880 | 458.64% | 44.90% |
| 2017 | 0.1574% | 31,419,895 | 3,036,990 | 34,456,885 | 8,473,200 | 370.81% | 51.57% |
| 2018 | 0.1604% | 10,074,621 | 946,703 | 11,021,324 | 8,863,093 | 113.67% | 78.07% |
| 2019 | 0.1604% | 10,223,930 | 904,813 | 11,128,743 | 9,105,538 | 112.28% | 78.21% |
| 2020 | 0.1693% | 12,508,111 | 1,048,285 | 13,556,396 | 9,836,111 | 127.17% | 75.48% |
| 2021 | 0.1760% | 7,702,286 | 649,453 | 8,351,739 | 10,533,875 | 73.12% | 86.63% |
| 2022 | 0.1818% | 14,557,582 | 1,079,761 | 15,637,343 | 11,119,549 | 130.92% | 76.17% |
| 2023 | 0.1855% | 15,315,296 | 1,072,847 | 16,388,143 | 11,927,719 | 128.40% | 76.42% |

**Independent School District No. 876**
**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 Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| 2015 | $ 183,946 | $ 183,946 | $ - | $ 2,452,613 | 7.50% |
| 2016 | 201,326 | 201,326 | - | 2,684,347 | 7.50% |
| 2017 | 214,520 | 214,520 | - | 2,860,267 | 7.50% |
| 2018 | 222,142 | 222,142 | - | 2,961,893 | 7.50% |
| 2019 | 237,577 | 237,577 | - | 3,167,693 | 7.50% |
| 2020 | 255,738 | 255,738 | - | 3,409,840 | 7.50% |
| 2021 | 257,018 | 257,018 | - | 3,426,907 | 7.50% |
| 2022 | 271,577 | 271,577 | - | 3,621,027 | 7.50% |
| 2023 | 297,140 | 297,140 | - | 3,961,867 | 7.50% |
| 2024 | 314,190 | 314,190 | - | 4,189,200 | 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 Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| 2015 | $ 572,518 | $ 572,518 | $ - | $ 7,633,573 | 7.50% |
| 2016 | 600,291 | 600,291 | - | 8,003,880 | 7.50% |
| 2017 | 635,490 | 635,490 | - | 8,473,200 | 7.50% |
| 2018 | 664,732 | 664,732 | - | 8,863,093 | 7.50% |
| 2019 | 702,037 | 702,037 | - | 9,105,538 | 7.71% |
| 2020 | 779,020 | 779,020 | - | 9,836,111 | 7.92% |
| 2021 | 856,404 | 856,404 | - | 10,533,875 | 8.13% |
| 2022 | 937,378 | 937,378 | - | 11,119,549 | 8.43% |
| 2023 | 1,019,820 | 1,019,820 | - | 11,927,719 | 8.55% |
| 2024 | 1,110,945 | 1,110,945 | - | 12,696,514 | 8.75% |

See notes to Required Supplementary Information.

**TRA Retirement Fund**

**2023 Changes**
Changes of Benefit Terms
The 2023 Tax Finance and Policy Bill, effective July 1, 2025:
- The employer contribution rate will increase from 8.75% to 9.5% on July 1, 2025.
- The employee contribution rate will increase from 7.75% to 8.0% on July 1, 2025.
- The pension adjustment rate for school districts and the base budgets for Minnesota State, Perpich Center for Arts Education, and Minnesota Academies will increase to reflect the 0.75% employer contribution rate increase.

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

**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.
- 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.

**TRA Retirement Fund (Continued)**

**2018 Changes (Continued)**
Changes in Actuarial Assumptions (Continued)

- Augmentation on deferred benefits will be reduced to 0.0% 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%.
- 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.

**TRA Retirement Fund (Continued)**

**2016 Changes (Continued)**
Changes in Actuarial Assumptions (Continued)

- 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%.

## General Employees Fund

### 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%.
- 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.

**General Employees Fund (Continued)**

**2020 Changes (Continued)**
Changes in Actuarial Assumptions (Continued)
- 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 retires 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.
- 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.

**General Employees Fund (Continued)**

**2017 Changes (Continued)**
Changes in Actuarial Assumptions (Continued)
- The State's contribution for the Minneapolis Employees Retirement Fund equals $16,000,000 in 2017 and 2018, and $6,000,000 thereafter.

Changes in Plan Provisions
- 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.

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. 876**
**Notes to the Required Supplementary Information**

**Other Post Employment Benefit**

**2024 Changes**

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.
- The percentage of future retirees not eligible for a subsidy who are assumed to continue on the District's medical plan post-employment was reduced from 50% to 30%.
- The discount rate was changed from 3.80% to 3.90%.

**2023 Changes**

Assumption Changes

- The inflation rate was changed from 2.00% to 2.50%.
- The discount rate was changed from 2.10% to 3.80%

**2022 Changes**

Assumption Changes

- The mortality tables, medical trend rates, and withdrawal rates were updated.
- The salary scale for non-teachers was updated.
- The inflation rate was changed from 2.50% to 2.00%.
- The discount rate was changed from 2.40% to 2.10%.

**2021 Changes**

Assumption Changes

- The discount rate changed from 3.10% to 2.40%.

**2020 Changes**

Benefit Changes

- The benefit multiplier per year of service for the Custodian post-employment subsidized benefit increased from $125 to $150. The benefit multiplier per year of service for the Director of Building and Grounds post-employment subsidized benefit increased from $350 to $500.

Assumption Changes

- The health care trend rates, mortality tables, and salary increase assumptions were updated. The discount rate changed from 3.40% to 3.10%.

**SUPPLEMENTARY INFORMATION**

**Independent School District No. 876**
**Combining Balance Sheet -**
**Nonmajor Governmental Funds**
**June 30, 2024**

| | Special Revenue Funds | | | | |
|---|---|---|---|---|---|
| | Food Service | Community Service | Total Special Revenue | Capital Project | Total Nonmajor Funds |
| **Assets** | | | | | |
| Cash and investments | $ 36,413 | $ 644,456 | $ 680,869 | $ 8,234 | $ 689,103 |
| Current property taxes receivable | - | 87,972 | 87,972 | - | 87,972 |
| Delinquent property taxes receivable | - | 1,248 | 1,248 | - | 1,248 |
| Interest receivable | - | - | - | 847 | 847 |
| Due from Department of Education | 122,022 | 34,938 | 156,960 | - | 156,960 |
| Due from other Minnesota school districts | - | 5,430 | 5,430 | - | 5,430 |
| Due from federal government through department of education | 101,444 | - | 101,444 | - | 101,444 |
| Inventory | 11,518 | - | 11,518 | - | 11,518 |
| Total assets | $ 271,397 | $ 774,044 | $ 1,045,441 | $ 9,081 | $ 1,054,522 |
| **Liabilities** | | | | | |
| Accounts and contracts payable | $ 6,266 | $ 19,585 | $ 25,851 | $ - | $ 25,851 |
| Salaries and benefits payable | 7,020 | 108,153 | 115,173 | - | 115,173 |
| Unearned revenue | 21,747 | 18,323 | 40,070 | - | 40,070 |
| Total liabilities | 35,033 | 146,061 | 181,094 | - | 181,094 |
| **Deferred Inflows of Resources** | | | | | |
| Unavailable revenue - property taxes levied for subsequent year's expenditures | - | 193,555 | 193,555 | - | 193,555 |
| Unavailable revenue - delinquent property taxes | - | 1,248 | 1,248 | - | 1,248 |
| Total deferred inflows of resources | - | 194,803 | 194,803 | - | 194,803 |
| **Fund Balances** | | | | | |
| Nonspendable | 11,518 | - | 11,518 | - | 11,518 |
| Restricted | 224,846 | 433,180 | 658,026 | 9,081 | 667,107 |
| Total fund balances | 236,364 | 433,180 | 669,544 | 9,081 | 678,625 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 271,397 | $ 774,044 | $ 1,045,441 | $ 9,081 | $ 1,054,522 |

**Independent School District No. 876**
**Combining Statement of Revenues, Expenditures,**
**and Changes in Fund Balances -**
**Nonmajor Governmental Funds**
**Year Ended June 30, 2024**

| | Special Revenue Funds | | | | |
|---|---|---|---|---|---|
| | Food Service | Community Service | Total Special Revenue | Capital Project | Total Nonmajor Funds |
| **Revenues** | | | | | |
| Local property taxes | $ - | $ 171,509 | $ 171,509 | $ - | $ 171,509 |
| Other local and county revenues | 4,334 | 1,156,848 | 1,161,182 | - | 1,161,182 |
| Revenue from state sources | 918,545 | 125,375 | 1,043,920 | - | 1,043,920 |
| Revenue from federal sources | 748,468 | - | 748,468 | - | 748,468 |
| Sales and other conversion of assets | 121,766 | - | 121,766 | - | 121,766 |
| Total revenues | 1,793,113 | 1,453,732 | 3,246,845 | - | 3,246,845 |
| **Expenditures** | | | | | |
| Current | | | | | |
| Food service | 1,870,199 | - | 1,870,199 | - | 1,870,199 |
| Community education and services | - | 1,621,927 | 1,621,927 | - | 1,621,927 |
| Capital outlay | | | | | |
| Food service | 355,521 | - | 355,521 | - | 355,521 |
| Community education and services | - | 3,776 | 3,776 | - | 3,776 |
| Total expenditures | 2,225,720 | 1,625,703 | 3,851,423 | - | 3,851,423 |
| Excess of revenues over (under) expenditures | (432,607) | (171,971) | (604,578) | - | (604,578) |
| **Other Financing Sources** | | | | | |
| Proceeds from sale of capital assets | 3,057 | - | 3,057 | - | 3,057 |
| Total other financing sources (uses) | 3,057 | - | 3,057 | - | 3,057 |
| Net change in fund balances | (429,550) | (171,971) | (601,521) | - | (601,521) |
| **Fund Balances** | | | | | |
| Beginning of year | 665,914 | 605,151 | 1,271,065 | 9,081 | 1,280,146 |
| End of year | $ 236,364 | $ 433,180 | $ 669,544 | $ 9,081 | $ 678,625 |

**Independent School District No. 876**
**Uniform Financial Accounting and Reporting Standards**
**Compliance Table**
**For the Year Ended June 30, 2024**

| | | Audit | UFARS | Audit -UFARS |
|---|---|---|---|---|
| **01 GENERAL FUND** | | | | |
| Total revenue | | $ 27,660,617 | $ 27,660,611 | $ 6 |
| Total expenditures | | 28,637,314 | 28,637,306 | 8 |
| *Nonspendable:* | | | | |
| 4.60 | Nonspendable | 43,843 | 43,843 | - |
| *Restricted/reserved:* | | | | |
| 4.01 | Student Activities | 274,783 | 274,783 | - |
| 4.02 | Scholarships | 280,301 | 280,301 | - |
| 4.03 | Staff Development | - | - | - |
| 4.07 | Capital Projects Levy | - | - | - |
| 4.08 | Cooperative Programs | - | - | - |
| 4.12 | Literacy Incentive Aid | 112,772 | 112,772 | - |
| 4.14 | Operating Debt | - | - | - |
| 4.16 | Levy Reduction | - | - | - |
| 4.20 | American Indian Education Aid | | | |
| 4.24 | Operating Capital | 1,330 | 1,330 | - |
| 4.26 | $ 25 Taconite | - | - | - |
| 4.27 | Disabled Accessibility | - | - | - |
| 4.28 | Learning and Development | - | - | - |
| 4.34 | Area Learning Center | 21,684 | 21,684 | - |
| 4.35 | Contracted Alternative Programs | - | - | - |
| 4.36 | State Approved Alternative Program | - | - | - |
| 4.38 | Gifted and Talented | - | - | - |
| 4.39 | English Learner | | | |
| 4.40 | Teacher Development and Evaluation | - | - | - |
| 4.41 | Basic Skills Programs | - | - | - |
| 4.43 | School Library Aid | | | |
| 4.45 | Career Technical Programs | - | - | - |
| 4.48 | Achievement and Integration Revenue | - | - | - |
| 4.49 | Safe Schools Revenue | - | - | - |
| 4.51 | QZAB Payments | - | - | - |
| 4.52 | OPEB Liabilities not Held in Trust | - | - | - |
| 4.53 | Unfunded Severance and Retirement Levy | - | - | - |
| 4.59 | Basic Skills Extended Time | - | - | - |
| 4.67 | Long-Term Facilities Maintenance | 406,365 | 406,365 | - |
| 4.71 | Student Support Personnel Aid | 40,000 | 40,000 | - |
| *Restricted:* | | | | |
| 4.72 | Medical Assistance | - | - | - |
| 4.64 | Restricted | - | - | - |
| 4.75 | Title VII - Impact Aid | - | - | - |
| 4.76 | Payments in Lieu of Taxes | - | - | - |
| *Committed:* | | | | |
| 4.18 | Separation benefits | 326,636 | 326,636 | - |
| 4.61 | Committed | - | - | - |
| *Assigned:* | | | | |
| 4.62 | Assigned | 189,609 | 189,609 | - |
| *Unassigned:* | | | | |
| 4.22 | Unassigned fund balance | 1,648,098 | 1,648,099 | (1) |
| **02 FOOD SERVICE FUND** | | | | |
| Total Revenue | | $ 1,793,113 | $ 1,793,117 | $ (4) |
| Total Expenditures | | 2,225,720 | 2,225,722 | (2) |
| *Nonspendable:* | | | | |
| 4.60 | Nonspendable | 11,518 | 11,518 | - |
| *Restricted/reserved:* | | | | |
| 4.52 | OPEB Liabilities not Held in Trust | - | - | - |
| *Restricted:* | | | | |
| 4.64 | Restricted | 224,846 | 224,847 | (1) |
| *Unassigned:* | | | | |
| 4.63 | Unassigned | - | - | - |
| **04 COMMUNITY SERVICE FUND** | | | | |
| Total revenue | | $ 1,453,732 | $ 1,453,729 | $ 3 |
| Total expenditures | | 1,625,703 | 1,625,700 | 3 |
| *Nonspendable:* | | | | |
| 4.60 | Nonspendable | - | - | - |
| *Restricted/reserved:* | | | | |
| 4.26 | $ 25 Taconite | - | - | - |
| 4.31 | Community Education | 262,517 | 262,514 | 3 |
| 4.32 | ECFE | - | - | - |
| 4.40 | Teacher Development and Evaluation | - | - | - |
| 4.44 | School Readiness | 170,663 | 170,663 | - |
| 4.47 | Adult Basic Education | - | - | - |
| 4.52 | OPEB Liabilities not Held in Trust | - | - | - |
| *Restricted:* | | | | |
| 4.64 | Restricted | - | - | - |
| *Unassigned:* | | | | |
| 4.63 | Unassigned | - | - | - |

| | | Audit | UFARS | Audit -UFARS |
|---|---|---|---|---|
| **06 BUILDING CONSTRUCTION FUND** | | | | |
| Total revenue | | $ - | $ - | $ - |
| Total expenditures | | - | - | - |
| *Nonspendable:* | | | | |
| 4.60 | Nonspendable | - | - | - |
| *Restricted/reserved:* | | | | |
| 4.07 | Capital Projects Levy | - | - | - |
| 4.13 | Project Funded by COP/LP | - | - | - |
| 4.67 | Long-term Facilities Maintenance | - | - | - |
| *Restricted:* | | | | |
| 4.64 | Restricted | 9,081 | 9,081 | - |
| *Unassigned:* | | | | |
| 4.63 | Unassigned | - | - | - |
| **07 DEBT SERVICE FUND** | | | | |
| Total revenue | | $ 2,070,911 | $ 2,070,911 | $ - |
| Total expenditures | | 2,085,388 | 2,085,388 | - |
| *Nonspendable:* | | | | |
| 4.60 | Nonspendable | - | - | - |
| *Restricted/reserved:* | | | | |
| 4.25 | Bond Refundings | - | - | - |
| 4.33 | Maxiumum effort loan aid | - | - | - |
| 4.51 | QZAB Payments | - | - | - |
| 4.67 | LTFM | - | - | - |
| *Restricted:* | | | | |
| 4.64 | Restricted | 469,608 | 469,608 | - |
| *Unassigned:* | | | | |
| 4.63 | Unassigned | - | - | - |
| **08 TRUST FUND** | | | | |
| Total revenue | | $ - | $ - | $ - |
| Total expenditures | | - | - | - |
| *Unassigned:* | | - | - | - |
| 4.01 | Student Activities | - | - | - |
| 4.02 | Scholarships | - | - | - |
| 4.22 | Net position | - | - | - |
| **18 CUSTODIAL** | | | | |
| Total revenue | | $ - | $ - | $ - |
| Total expenditures | | - | - | - |
| *Restricted/reserved:* | | | | |
| 4.01 | Student Activities | - | - | - |
| 4.02 | Scholarships | - | - | - |
| 4.48 | Achievement and Integration | - | - | - |
| 4.64 | Restricted | - | - | - |
| **20 INTERNAL SERVICE FUND** | | | | |
| Total revenue | | $ - | $ - | $ - |
| Total expenditures | | - | - | - |
| *Unassigned:* | | | | |
| 4.22 | Net position | - | - | - |
| **25 OPEB REVOCABLE TRUST** | | | | |
| Total revenue | | $ - | $ - | $ - |
| Total expenditures | | - | - | - |
| *Unassigned:* | | | | |
| 4.22 | Net position | - | - | - |
| **45 OPEB IRREVOCABLE TRUST** | | | | |
| Total revenue | | $ - | $ - | $ - |
| Total expenditures | | - | - | - |
| *Unassigned:* | | | | |
| 4.22 | Net position | - | - | - |
| **47 OPEB DEBT SERVICE** | | | | |
| Total revenue | | $ - | $ - | $ - |
| Total expenditures | | - | - | - |
| *Nonspendable:* | | | | |
| 4.25 | Bond refundings | - | - | - |
| 4.60 | Nonspendable fund balance | - | - | - |
| *Restricted:* | | | | |
| 4.64 | Restricted fund balance | - | - | - |
| *Unassigned:* | | | | |
| 4.63 | Unassigned fund balance | - | - | - |

**Independent School District No. 876**
**Schedule of Expenditures of Federal Awards**
**For the Year Ended June 30, 2024**

| Federal Funding Source/Pass Through Agency/Program Title | Federal Assistance Listing Number | Expenditures |
|---|---|---|
| **U.S. Department of Agriculture** | | |
| Through Minnesota Department of Education | | |
| Child Nutrition Cluster | | |
| Commodities Programs | 10.555 | $ 139,142 |
| School Breakfast | 10.553 | 78,954 |
| National School Lunch | 10.555 | 451,316 |
| Summer Food Service | 10.559 | 79,056 |
| Total Child Nutrition Cluster and U.S. Department of Agriculture | | 748,468 |
| **U.S. Department of Education** | | |
| Through Minnesota Department of Education | | |
| Title I, Part A | 84.010 | 163,184 |
| Education Stabilization Fund | | |
| COVID-19 Elementary and Secondary School Education Relief II Fund - 90% Formula Allowance | 84.425D | 86,598 |
| COVID-19 Elementary and Secondary School Education Relief III Fund - 90% Formula Allowance | 84.425U | 476,761 |
| Total Education Stabilization Fund | | 563,359 |
| Through ISD No. 938 - Meeker and Wright Special Education Co-op | | |
| Special Education Cluster | | |
| Special Education | 84.027 | 102,567 |
| Disabled Early Education | 84.173 | 22,431 |
| Total Special Education Cluster | | 124,998 |
| Total U.S. Department of Education | | 851,541 |
| Total Federal Expenditures | | $ 1,600,009 |

See notes to the schedule of expenditures of federal awards.

**Independent School District No. 876**
**Notes to the Schedule of Expenditures of Federal Awards**

## NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2024. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes of net assets, or cash flows of the District.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## NOTE 3 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

## NOTE 4 – INDIRECT COST RATE

The District did not elect to use the 10 percent de minimis indirect cost rate, as allowed under the Uniform Guidance.

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with *Government Auditing Standards***

**Independent Auditor's Report**

To the School Board
Independent School District No. 876
Annandale, 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 *(Government Auditing Standards)*, the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 876, Annandale, Minnesota, as of and for the year ended June 30, 2024, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 25, 2024.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's basic 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 Finding and Questioned Costs in Accordance with the Uniform Guidance that we consider to be a material weakness, Audit Finding 2024-001.

**Report on Compliance and Other Matters**
As part of obtaining reasonable assurance about whether the District's basic 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 determination of 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 Response to the Finding**
*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs in Accordance with Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

BerganKDV, Ltd.

St. Cloud, Minnesota
November 25, 2024

**Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance**

**Independent Auditor's Report**

To the School Board
Independent School District No. 876
Annandale, Minnesota

## Report on Compliance for Each Major Federal Program

### Opinion on Each Major Federal Program

We have audited Independent School District No. 876, Annandale, Minnesota compliance with the types of compliance requirements identified as subject to audit in the *U.S. Office of Management and Budget* (OMB) Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2024. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

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

### Basis for Opinion on Each Major Federal Program

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

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

### Responsibilities of Management for Compliance

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

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

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

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

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

**Report on Internal Control over Compliance**
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BergankDV, Ltd.

St. Cloud, Minnesota
November 25, 2024

**Independent School District No. 876**
**Schedule of Findings and Questioned Costs**
**in Accordance with the Uniform Guidance**

## SECTION I – SUMMARY OF AUDITOR'S RESULTS

### Financial Statements

| | |
|---|---|
| Type of auditor's report issued: | We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP). |
| Internal control over financial reporting: | |
| ◆ Material weakness(es) identified? | Yes, Audit Finding 2024-001 |
| ◆ Significant deficiency(ies) identified? | None reported |
| Noncompliance material to financial statements noted? | No |

### Federal Awards

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

### Identification of Major Programs

| | |
|---|---|
| Assistance Listing No: | 10.553, 10.555, and 10.559 |
| Name of Federal Program or Cluster: | Child Nutrition Cluster |
| Dollar threshold used to distinguish between type A and type B programs: | $750,000 |
| Auditee qualified as low risk auditee? | No |

**Independent School District No. 876**
**Schedule of Findings and Questioned Costs**
**in Accordance with the Uniform Guidance**

## SECTION II – FINANCIAL STATEMENT FINDINGS

### Audit Finding 2024-001 – Lack of Segregation of Accounting Duties

*Criteria:*
Internal control that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

*Condition:*
The District does not have adequate segregation of accounting duties.

*Context:*
This finding impacts the internal control for all significant accounting functions.

*Effect or Potential Effect:*
The lack of adequate segregation of accounting duties could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

*Cause:*
There are a limited number of office employees.

*Recommendation:*
Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

*Views of the Responsible Officials and Planned Corrective Actions:*

**CORRECTIVE ACTION PLAN (CAP):**

1. <u>Explanation of Disagreement with Audit Finding</u>
   There is no disagreement with the audit finding.

2. <u>Actions Planned in Response to Finding</u>
   The District will continue to segregate duties as much as possible, based upon an analysis of costs and benefits.

3. <u>Official Responsible for Ensuring CAP</u>
   Rick Pullen, Business Manager, is the official responsible for ensuring corrective action of the deficiency by communicating with staff the new procedures.

4. <u>Planned Completion Date for CAP</u>
   The planned completion date for the CAP is ongoing.

5. <u>Plan to Monitor Completion of CAP</u>
   Tim Prom, Superintendent, will be monitoring this CAP by supervising the Business Manager. The School Board will monitor the cost benefit analysis annually during the budgeting process.

**Independent School District No. 876**
**Schedule of Findings and Questioned Costs**
**in Accordance with the Uniform Guidance**

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs.

## SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None

**Minnesota Legal Compliance**

**Independent Auditor's Report**

To the School Board
Independent School District No. 876
Annandale, 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. 876, Annandale, Minnesota, as of and for the year ended June 30, 2024, and the related notes to basic financial statements, and have issued our report thereon dated November 25, 2024.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, insofar as they relate to accounting matters. However, our audit as 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.

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.

BerganKDV, Ltd.

St. Cloud, Minnesota
November 25, 2024