Independent School District No. 578
Pine City, Minnesota

Basic Financial Statements

June 30, 2025

Independent School District No. 578
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Independent School District No. 578
Board of Education and Administration
June 30, 2024

Board of Education	Position	Term Expires
James Foster	Chairperson	January 2027
Lezlie Sauter	Vice Chairperson	January 2027
Cami Babolik	Treasurer	January 2027
Becci Palmblade	Clerk	January 2029
Wayne Gilman	Director	January 2029
Tim Geisler	Director	January 2029
Shaune Macho	Director	January 2029

Administration	
Cindy Stolp	Superintendent
Jill Nolan	Business Manager

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Independent Auditor's Report

To the School Board
Independent School District No. 578
Pine City, Minnesota

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 578, Pine City, Minnesota, as of and for the year ended June 30, 2025, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements 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. 578, as of June 30, 2025, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independent School District No. 578 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Responsibilities of Management for the Financial Statements
The management of Independent School District No. 578, Pine City, Minnesota is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 December 11, 2025, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



St. Cloud, Minnesota
December 11, 2025

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Independent School District No. 578
Management Discussion and Analysis

This section of Independent School District No. 578's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2025. Please read it in conjunction with the District's financial statements, which immediately follows this section.

Financial Highlights
Key financial highlights for fiscal year 2024-2025 include the following:

- Total General Fund revenues were $24,958,241 and total General Fund expenditures were $24,127,887 for the fiscal year ended June 30, 2025. Total revenues and expenditures for all governmental funds combined were $28,511,709 and $27,643,323, respectively.
- The total fund balance in the General Fund increased by $830,354 to $5,479,559. The unassigned fund balance in the General Fund increased by $685,886 to $2,626,890. Total General Fund revenues were 4.1% higher than the final budget, and total General Fund expenditures were 0.8% higher than the final budget.
- The total fund balance in the Food Service Fund decreased by $101,288 to $737,602 with revenue of $1,394,945 and expenditures of $1,496,233.
- Community Service programs offered by the District generated revenue of $505,564 and expenditures of $505,318 for the fiscal year. The total fund balance in the Community Services fund is $262,997.
- The District has general obligation bonded debt and financed purchase principal outstanding in the amount of $9,590,402 as of June 30, 2025. This is a decrease of $1,447,846 from the previous fiscal year end.
- Net position of governmental activities increased by $836,033 for the fiscal year. The total expense of governmental activities was $25,793,324. Program revenues totaled $10,040,935 and general revenues totaled $18,784,482.

Overview of the Financial Statements
The financial section of the annual report consists of four parts - Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and single audit and other required reports. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- The fiduciary fund statements offer short-term and long-term financial information about resources the School District holds related to the Other Post-Employment Benefits (OPEB).

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

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

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

- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements the District's activities are shown as Governmental activities:

- Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements
The fund financial statements provide more detailed information about the District's funds - focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes.

The District has two kinds of funds:

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

Fund Financial Statements (Continued)

The District has two kinds of funds: (Continued)

- **Fiduciary Funds** – The District is the trustee, or fiduciary, for assets that belong to others, such as the Custodial Fund for OPEB. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Financial Analysis of the District as A Whole

Net Position
The District's combined net position from Governmental activities was $6,520,550 on June 30, 2025 (See Table A-1). Total assets and deferred outflows of resources increased by $350,830 or 0.8%. Capital assets decreased $191,543 as the District's depreciation expense was higher than capital outlay in the current fiscal year. Total liabilities decreased by $2,942,123 or 10.6%.

Independent School District No. 578
Management Discussion and Analysis
Table A-1
Net Position - Governmental Activities

	Year Ended 2025	Year Ended 2024
Assets		
Current and other assets	$ 12,879,054	$ 11,690,967
Capital assets	26,857,350	27,048,893
Total assets	39,736,404	38,739,860
Deferred Outflows of Resources	3,047,387	3,693,101
Total assets and deferred outflows of resources	$ 42,783,791	$ 42,432,961
Liabilities		
Other liabilities	$ 3,859,357	$ 3,201,369
Long-term liabilities	23,807,198	27,407,309
Total liabilities	$ 27,666,555	$ 30,608,678
Deferred Inflows of Resources	$ 8,596,686	$ 6,139,766
Net Position		
Net investment in capital assets	$ 14,026,948	$ 12,605,645
Restricted	4,117,105	3,870,467
Unrestricted	(11,623,503)	(10,791,595)
Total net position	$ 6,520,550	$ 5,684,517

Financial Analysis of the District as A Whole (Continued)

Changes in Net Position

The District's total revenues were $28,825,417 for the year ended June 30, 2025. Property taxes and state formula aid accounted for 63% of total revenue for the year (See Figure A-1). 37% of total revenue came from program and other revenues.

The total cost of all programs and services was $25,793,324. The District's expenses are predominantly related to educating and caring for students (See Figure A-2). The purely administrative activities of the District accounted for just 3.4% of total costs.

Table A-2
Changes in Net Position

	Year Ended 2025	Year Ended 2024
Revenues		
Program revenues		
Charges for services	$ 1,693,585	$ 1,548,068
Operating grants and contributions	7,837,825	6,374,387
Capital grants and contributions	509,525	534,398
General revenues		
Property taxes	3,928,189	4,014,263
State aid-formula grants	14,216,281	13,891,348
Investment earnings	277,570	274,727
Other	362,442	305,513
Total revenues	28,825,417	26,942,704
Expenses		
Administration	877,561	923,925
District Support Services	609,078	599,658
Elementary and Secondary Regular Instruction	10,176,590	9,246,649
Vocational Education Instruction	140,278	161,697
Special Education Instruction	5,072,346	5,041,818
Instructional Support Services	1,504,193	1,447,563
Pupil Support Services	2,456,971	2,131,101
Sites and Buildings	2,662,803	3,039,469
Fiscal and Other Fixed Cost Programs	251,479	167,995
Food Service	1,303,829	1,084,996
Community Education and Services	544,417	421,711
Interest and Fiscal Charges on Long-Term Debt	193,779	169,493
Total expenses	25,793,324	24,436,075
Increase (decrease) in net position	3,032,093	2,506,629
Net Position		
Net position - beginning	5,684,517	3,177,888
Change in accounting principle	(2,196,060)	-
Beginning of year, restated	3,488,457	3,177,888
Net position - end of year	$ 6,520,550	$ 5,684,517

Financial Analysis of the District as A Whole (Continued)

Figure A-1
Source of Revenues for Fiscal Year 2025

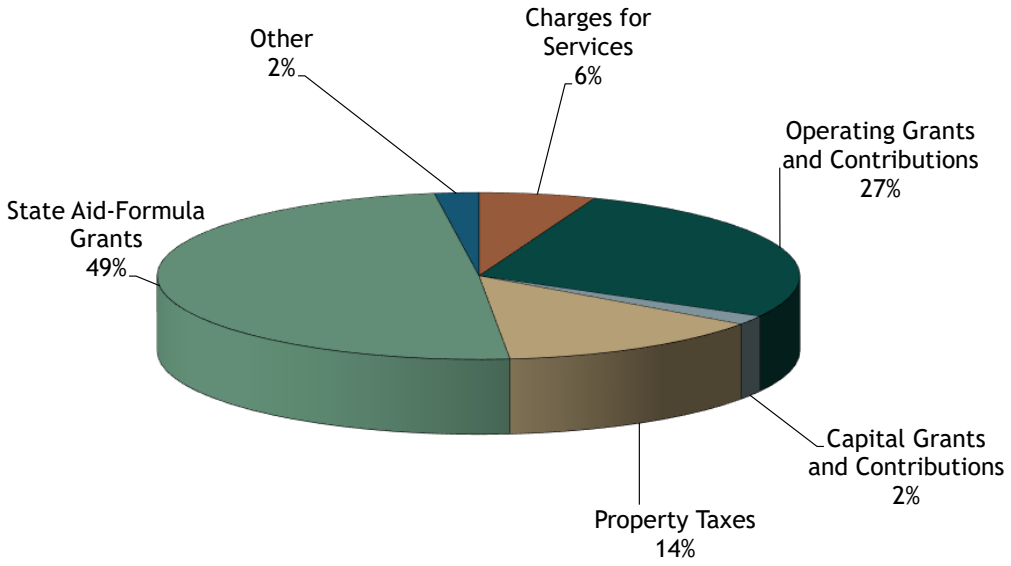
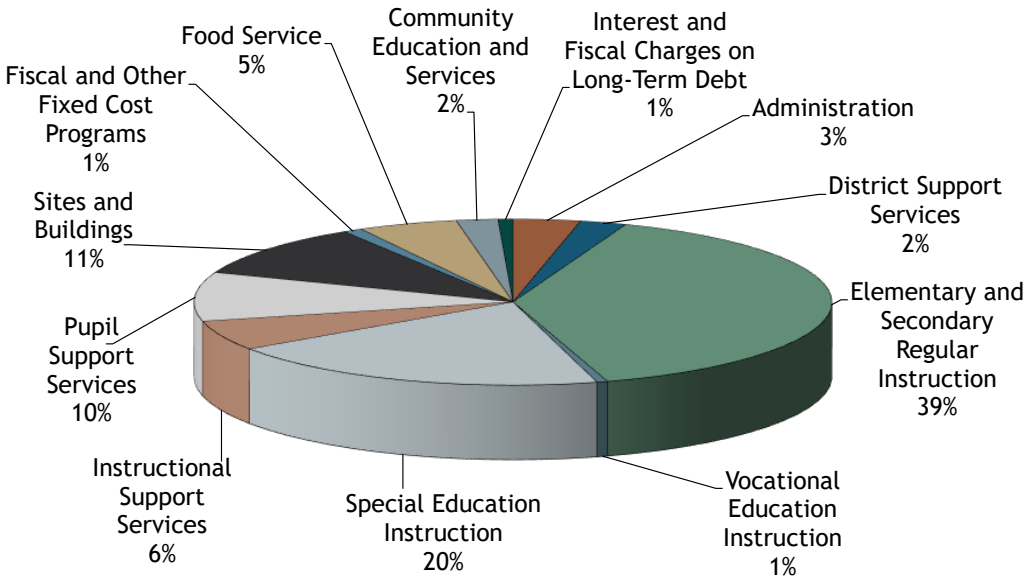


Figure A-2
Expenses for Fiscal Year 2025



Financial Analysis of the District as A Whole (Continued)

- The cost of all governmental activities was $25,793,324. This was an increase of $1,357,249 when compared to the previous year.
- The federal and state governments subsidized certain programs with grants and contributions of $8,347,350.
- A good portion of the District's costs, $18,144,470, were paid for by District taxpayers and state aid formula grants from the State of Minnesota.

Table A-3
Program Expenses and Net Cost of Services

	Total Cost of Services		Net Cost of Services	
	2025	2024	2025	2024
Administrative	$ 877,561	$ 923,925	$ (877,561)	$ (923,925)
District Support Services	609,078	599,658	(609,078)	(599,005)
Elementary and Secondary Regular Instruction	10,176,590	9,246,649	(8,482,081)	(7,753,391)
Vocational Education Instruction	140,278	161,697	(130,684)	(148,848)
Special Education Instruction	5,072,346	5,041,818	523,915	(312,721)
Instructional Support Services	1,504,193	1,447,563	(1,351,704)	(1,438,400)
Pupil Support Services	2,456,971	2,131,101	(2,455,355)	(2,121,026)
Sites and Buildings	2,662,803	3,039,469	(1,827,705)	(2,505,071)
Fiscal and Other Fixed Cost Programs	251,479	167,995	(251,479)	(167,995)
Food Service	1,303,829	1,084,996	49,026	228,517
Community Education and Services	544,417	421,711	(145,904)	(67,864)
Interest and Fiscal Charges on Long-Term Debt	193,779	169,493	(193,779)	(169,493)
Total	$ 25,793,324	$ 24,436,075	$ (15,752,389)	$ (15,979,222)

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 $7,068,675, which is an increase of $868,386 from the prior year ending fund balance. Revenues for the District's governmental funds were $28,511,709 and total expenditures were $27,643,323.

The fund balance of the General Fund increased by $830,354 based on current year operations. The operations of the other governmental funds: Food Service, Community Service, and Debt Service funds resulted in an increase in fund balance of $38,032.

General Fund

The General Fund includes the primary operations of the District in providing educational services to students from early childhood through grade 12 including pupil transportation activities and operating capital expenditures.

General Fund (Continued)
The following schedule presents a summary of General Fund Revenues.

Table A-4
General Fund Revenues

	Year Ended		Increase
	June 30, 2025	June 30, 2024	(Decrease)
Local property taxes	$ 2,865,898	$ 2,715,769	$ 150,129
Revenue from state sources	19,733,047	18,583,455	1,149,592
Revenue from federal sources	501,939	650,909	(148,970)
Other	1,857,357	1,538,085	319,272
Total	$ 24,958,241	$ 23,488,218	$ 1,470,023

Total General Fund revenue of $24,958,241 increased by $1,470,023, or 6.3%, compared to the previous year. Basic general education revenue is determined by the state per student funding formula and consists of state aid revenue. Other state-authorized revenue including excess levy referendum and operating capital involve an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change of revenue.

The following schedule presents a summary of General Fund expenditures.

Table A-5
General Fund Expenditures

	Year Ended		Increase
	June 30, 2025	June 30, 2024	(Decrease)
Salaries	$ 12,207,833	$ 12,132,247	$ 75,586
Employee benefits	4,478,170	4,480,789	(2,619)
Purchased services	5,381,026	5,084,252	296,774
Supplies and materials	751,256	919,472	(168,216)
Capital expenditures	1,246,337	1,062,245	184,092
Other capital expenditures	13,418	1,500	11,918
Other expenditures	49,847	102,779	(52,932)
Total	$ 24,127,887	$ 23,783,284	$ 344,603

General Fund (Continued)
The total General Fund expenditures of $24,127,887 was an increase of $344,603, or 1.4%, from the prior year. Capital expenditure costs increased by $184,092, or 17.3%, from the prior year based on the amount of building and construction expenditures.

In 2024-2025, General Fund revenues were greater than expenditures by $830,354, which was $192,110 less than the final budget. Revenue received were $989,266 higher than budgeted and expenditures were $180,272 higher than budgeted.

Food Service Fund
The Food Service Fund accounts for the activities related to providing nutrition services to the K-12 academic program. The fund operates on the principle of revenues exceeding expenditures on day-to-day operations so that the excess can be used to systematically replace and upgrade kitchen equipment around the District. By operating in this manner, the Student Nutrition Services program is self-contained and does not pull resources away from direct K-12 instruction.

The fund balance decreased by $101,288 in 2024-2025. Food Service Fund revenue for 2024-2025 totaled $1,394,945, which is a decrease of $43,055 from 2023-2024. Food Service Fund expenditures for 2024-2025 totaled $1,496,233, an increase of $409,310 from 2023-2024.

Community Service Fund
The Community Service Fund accounts for the activities related to providing education services for Pre-Kindergarten students. The fund operates on a principle of breaking even on a year-to-year basis so that it does not pull resources away from K-12 instruction.

The fund balance increased by $246 in 2024-2025. Community Service Fund revenues for 2024-2025 totaled $505,564. This was an increase of $11,659 from 2023-2024. Community Service Fund expenditures for 2024-2025 totaled $505,318. This was an increase of $94,780 from 2023-2024.

The entire fund balance is restricted to be used for specific purposes based on state requirements.

Debt Service Fund
The Debt Service Fund exists to service the principal and interest payments on long-term debt issued by the District to construct school facilities or acquire school equipment. Annual levies will provide revenue at a rate of 105% of pending debt service payments for a fiscal year. This rate is specified in statute to ensure that principal and interest payments can be made as scheduled even if there are late property tax payments or delinquencies that may arise.

Debt service revenue was $1,652,959 for 2024-2025, 74% of which came from property tax revenue. Debt service expenditures were $1,513,885. The District made principal payments in the amount of $1,305,000 and interest and fiscal charge payments of $208,885. The Debt Service Fund has a fund balance of $588,517 as of June 30, 2025, which is restricted to be used for future debt payments.

The Minnesota Department of Education monitors fund balances in the Debt Service Fund and limits the amount of funds that can be carried forward. If the fund balance gets too high, future levy authority will be reduced in order to reduce the debt service fund balance to a reasonable level. Fund balance and collection of tax levies will provide adequate cash flow for timely payment of principal and interest.

Capital Assets and Debt Administration

Capital Assets

By the end of 2025, the District had invested $51,236,324 in a broad range of capital assets including: school buildings, land, and other equipment for various instructional programs (see Table A-6). Accumulated depreciation as of June 30, 2025, was $24,378,974, with current year depreciation expense for governmental activities totaling $1,339,157. See Note 3 to the basic financial statements for additional information.

Table A-6
Capital Assets

	Year Ended 2025	Year Ended 2024	Percent Change
Land	$ 191,251	$ 191,251	0.0%
Land improvements	2,770,641	2,770,641	0.0%
Buildings and improvements	43,975,449	43,453,881	1.2%
Machinery and equipment	4,298,983	3,773,802	13.9%
Less accumulated depreciation/amortization	(24,378,974)	(23,140,682)	5.4%
Total capital assets	$ 26,857,350	$ 27,048,893	-0.7%

Capital Assets and Debt Administration (Continued)

Long-Term Liabilities

For the fiscal year ended June 30, 2025, the District had $25,885,820 in long-term liabilities outstanding, including $8,965,000 in General Obligation Bonds. The decrease in total bonds payable was $1,305,000, or 12.7%, from last year (see Table A-7). See Notes 4, 6 and 7 for additional information.

Table A-7
Long-Term Liabilities

	Year Ended 2025	Year Ended 2024
General obligation bonds	$ 8,965,000	$ 10,270,000
Net bond premium and discount	300,240	375,564
Certificates of participation payable	3,240,000	3,405,000
Financed purchases payable	325,162	392,684
Net pension liability	9,959,554	13,454,332
Total OPEB liability	999,574	1,019,304
Compensated absences payable	2,096,290	47,378
Total long-term liabilities	$ 25,885,820	$ 28,964,262
Long-term liabilities		
Due within one year	$ 1,556,953	$ 1,523,197
Due in more than one year	24,328,867	29,992,715
Total	$ 25,885,820	$ 31,515,912

Factors Bearing on the District's Future

- **State Funding Dependence**
  With the exception of the voter-approved operating referendum, the District is heavily dependent on the state of Minnesota for a majority of its revenue authority. While the 2023 legislative session increased the basic general education formula by 2.00% for fiscal year 2025 and 2.70% for fiscal year 2026, these adjustments have not kept pace with rising instructional costs driven by inflation and mandated expenditures.
- **Enrollment and Funding Challenges**
  Since Minnesota's school funding formulas are largely enrollment-driven, any decline in student numbers directly affects revenue. Currently, enrollment remains relatively stable; however, the District anticipates potential declines as smaller Kindergarten classes replace graduating senior classes. Maintaining financial stability will require continued efforts to attract and retain students.
- **Reduction in Federal Pandemic Aid**
  The District has benefited from additional federal funding allocated during the pandemic, which has provided short-term financial relief. However, as these funds phase out, the District will need to adjust its financial strategy to compensate for the loss of this temporary revenue source.
- **Facilities and Capital Planning**
  Like many rural districts, Pine City already faces significant fiscal challenges, including aging facilities, deferred maintenance, and the inability to pass a building referendum in three attempts. Without additional funding mechanisms, the district will be faced with the challenge of the increased cost of needed maintenance projects and impacts to teaching and learning. The District will strive to maintain its longstanding 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 Business Office, Independent School District No. 578, 1400 Main St. S, Pine City, Minnesota 55063.

BASIC FINANCIAL STATEMENTS

Independent School District No. 578
Statement of Net Position
June 30, 2025

	Governmental Activities
Assets	
Cash and investments	$ 7,886,209
Receivables	
Property taxes	2,060,458
Other governments	2,629,835
Other	90,482
Prepaid items	195,553
Inventory	16,517
Capital assets not being depreciated	
Land	191,251
Capital assets (net of accumulated depreciation)	
Land improvements	1,224,399
Buildings	23,424,081
Equipment and transportation	2,017,619
Total assets	39,736,404
Deferred Outflows of Resources	
Deferred outflows related to pensions	2,623,514
Deferred outflows related to OPEB	423,873
Total deferred outflows of resources	3,047,387
Total assets and deferred outflows of resources	$ 42,783,791
Liabilities	
Accounts payable	$ 293,625
Salaries and benefits payable	1,283,003
Interest payable	94,217
Due to other Minnesota school districts	100,988
Unearned revenue	8,902
Bond principal payable (net)	
Payable within one year	1,335,000
Payable after one year	7,930,240
Certificate of participation payable	
Payable within one year	170,000
Payable after one year	3,070,000
Financed purchases payable	
Payable within one year	69,988
Payable after one year	255,174
Compensated absences payable	
Payable within one year	503,634
Payable after one year	1,592,656
Net other post employment benefits (OPEB) payable	999,574
Net pension liability	9,959,554
Total liabilities	27,666,555
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	4,060,977
Deferred inflows related to OPEB	534,294
Deferred inflows related to pensions	4,001,415
Total deferred inflows of resources	8,596,686
Net Position	
Net investment in capital assets	14,026,948
Restricted	
Debt service	514,273
State-mandated restrictions	3,602,832
Unrestricted	(11,623,503)
Total net position	6,520,550
Total liabilities, deferred inflows of resources, and net position	$ 42,783,791

See notes to basic financial statements.

Independent School District No. 578
Statement of Activities
Year Ended June 30, 2025

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	$ 877,561	$ -	$ -	$ -	$ (877,561)
District support services	609,078	-	-	-	(609,078)
Elementary and secondary regular instruction	10,176,590	192,846	1,501,663	-	(8,482,081)
Vocational education instruction	140,278	-	9,594	-	(130,684)
Special education instruction	5,072,346	1,205,625	4,376,949	-	510,228
Instructional support services	1,504,193	1,320	164,856	-	(1,338,017)
Pupil support services	2,456,971	193	1,423	-	(2,455,355)
Sites and buildings	2,662,803	-	-	509,525	(2,153,278)
Fiscal and other fixed cost programs	251,479	-	-	-	(251,479)
Food service	1,303,829	119,128	1,233,727	-	49,026
Community education and services	544,417	174,473	224,040	-	(145,904)
Interest and fiscal charges on long-term debt	193,779	-	-	-	(193,779)
Total governmental activities	$ 25,793,324	$ 1,693,585	$ 7,512,252	$ 509,525	(16,077,962)
General revenues					
Taxes					
Property taxes, levied for general purposes					2,932,200
Property taxes, levied for community service					93,424
Property taxes, levied for debt service					1,228,138
State aid-formula grants					14,216,281
Other general revenues					362,442
Investment income					277,570
Total general revenues					19,110,055
Change in net position					3,032,093
Net position - beginning					5,684,517
Change in accounting principle (Note 10)					(2,196,060)
Net position - beginning, as restated					3,488,457
Net position - ending					$ 6,520,550

See notes to basic financial statements.

Independent School District No. 578
Balance Sheet - Governmental Funds
June 30, 2025

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments	$ 5,615,440	$ 1,222,212	$ 1,048,557	$ 7,886,209
Current property taxes receivable	1,288,537	656,602	52,435	1,997,574
Delinquent property taxes receivable	41,152	19,973	1,759	62,884
Accounts receivable	87,463	-	1,500	88,963
Due from other Minnesota school districts	88,385	-	5,126	93,511
Due from Department of Education	2,128,401	37,740	26,617	2,192,758
Due from federal government through Department of Education	290,517	-	-	290,517
Due from other governmental units	53,049	-	-	53,049
Interest receivable	1,519	-	-	1,519
Prepaid items	195,553	-	-	195,553
Inventory	-	-	16,517	16,517
Total assets	$ 9,790,016	$ 1,936,527	$ 1,152,511	$ 12,879,054
Liabilities				
Accounts payable	$ 291,480	$ -	$ 2,145	$ 293,625
Salaries and benefits payable	1,258,461	-	24,542	1,283,003
Due to other Minnesota school districts	100,988	-	-	100,988
Unearned revenue	-	-	8,902	8,902
Total liabilities	1,650,929	-	35,589	1,686,518
Deferred Inflows of Resources				
Property taxes levied for subsequent year's expenditures	2,618,376	1,328,037	114,564	4,060,977
Unavailable revenue - delinquent property taxes	41,152	19,973	1,759	62,884
Total deferred inflows of resources	2,659,528	1,348,010	116,323	4,123,861
Fund Balances				
Nonspendable				
Prepaid items	195,553	-	-	195,553
Inventory	-	-	16,517	16,517
Restricted				
Scholarships	283,129	-	-	283,129
Student Activities	56,089	-	-	56,089
Gifted and talented	670	-	-	670
Basic Skills	88,325	-	-	88,325
American Indian Education	19,226	-	-	19,226
Teacher Comp READ Act	38,969	-	-	38,969
Long term facility maintenance	710,957	-	-	710,957
Operating capital	1,385,864	-	-	1,385,864
Student Support Personnel Aid	9,776	-	-	9,776
Medical assistance	7,469	-	-	7,469
Debt service	-	588,517	-	588,517
Community education	-	-	207,720	207,720
Early childhood and family education	-	-	42,541	42,541
School readiness	-	-	3,192	3,192
Community service	-	-	9,544	9,544
Food service	-	-	721,085	721,085
Assigned	56,642	-	-	56,642
Unassigned	2,626,890	-	-	2,626,890
Total fund balances	5,479,559	588,517	1,000,599	7,068,675
Total liabilities, deferred inflows of resources, and fund balances	$ 9,790,016	$ 1,936,527	$ 1,152,511	$ 12,879,054

See notes to basic financial statements.

Independent School District No. 578
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2025

Total fund balances - governmental funds	$ 7,068,675
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, are not reported as assets in governmental funds:	
Cost of capital assets	51,236,324
Less accumulated depreciation	(24,378,974)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable	(8,965,000)
Certificates of participation payable	(3,240,000)
Financed purchase payable	(325,162)
Compensated absences payable	(2,096,290)
Net pension liability	(9,959,554)
Net OPEB obligation	(999,574)
Government funds report debt issuance premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported as an unamortized adjustment to total debt in the government-wide financial statements.	(300,240)
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	2,623,514
Deferred outflows of resources related to OPEB	423,873
Deferred inflows of resources related to pensions	(4,001,415)
Deferred inflows of resources related to OPEB	(534,294)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	62,884
Governmental funds do not report a liability for accrued interest on bonds and financed purchases until due and payable.	(94,217)
Total net position - governmental activities	$ 6,520,550

See notes to basic financial statements.

Independent School District No. 578
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2025

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Revenues				
Local Sources				
Property taxes	$ 2,865,898	$ 1,215,790	$ 92,435	$ 4,174,123
Earnings on investments	164,998	55,866	56,706	277,570
Other	1,663,566	-	199,236	1,862,802
State sources	19,733,047	381,303	764,807	20,879,157
Federal sources	501,939	-	676,762	1,178,701
Sales and other conversion of assets	28,793	-	110,563	139,356
Total revenues	24,958,241	1,652,959	1,900,509	28,511,709
Expenditures				
Current				
Administration	902,164	-	-	902,164
District support services	629,915	-	-	629,915
Elementary and secondary regular instruction	10,268,769	-	-	10,268,769
Vocational education instruction	139,900	-	-	139,900
Special education instruction	5,070,277	-	-	5,070,277
Instructional support services	1,359,101	-	-	1,359,101
Pupil support services	2,468,755	-	-	2,468,755
Sites and buildings	1,734,891	-	-	1,734,891
Fiscal and other fixed cost programs	251,479	-	-	251,479
Food service	-	-	1,291,301	1,291,301
Community service	42,881	-	495,733	538,614
Capital outlay				
Vocational education instruction	5,428	-	-	5,428
Elementary and secondary regular instruction	208,912	-	-	208,912
Instructional support services	193,234	-	-	193,234
Sites and buildings	529,728	-	-	529,728
Food service	-	-	204,932	204,932
Community education and services	-	-	9,585	9,585
Debt service				
Principal	232,566	1,305,000	-	1,537,566
Interest and fiscal charges	89,887	208,885	-	298,772
Total expenditures	24,127,887	1,513,885	2,001,551	27,643,323
Net change in fund balances	830,354	139,074	(101,042)	868,386
Fund Balances				
Beginning of year	4,649,205	449,443	1,101,641	6,200,289
End of year	$ 5,479,559	$ 588,517	$ 1,000,599	$ 7,068,675

See notes to basic financial statements.

Independent School District No. 578
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended June 30, 2025

Net change in fund balances - total governmental funds	$ 868,386
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	1,149,722
Depreciation expense	(1,339,157)
Disposal of capital assets	(2,108)
Compensated absences and severance payable are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	147,148
Governmental funds recognize OPEB contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to OPEB on a full accrual perspective.	(165,448)
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.	691,352
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no impact on net position in the Statement of Activities.	1,537,522
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.	29,713
Governmental funds report bond premiums and discounts as other financing sources and uses at the time of issuance. Net premiums and discounts are reported as a liability and deferred charges on refundings are presented as a deferred inflow of resources in the government-wide financial statements and are amortized over the life of the bond.	75,324
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	39,639
Change in net position - governmental activities	$ 3,032,093

See notes to basic financial statements.

Independent School District No. 578
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Revenues from local sources				
Property taxes	$ 2,817,586	$ 2,809,194	$ 2,865,898	$ 56,704
Earnings on investments	204,000	160,000	164,998	4,998
Other local and county revenues	1,462,480	1,539,029	1,663,566	124,537
Revenues from state sources	18,928,530	18,943,411	19,733,047	789,636
Revenues from federal sources	447,747	505,649	501,939	(3,710)
Sales and other conversion of assets	-	11,692	28,793	17,101
Total revenues	23,860,343	23,968,975	24,958,241	989,266
Expenditures				
Current				
Administration	917,734	919,200	902,164	(17,036)
District support services	589,572	675,701	629,915	(45,786)
Elementary and secondary regular instruction	10,701,695	10,327,176	10,268,769	(58,407)
Vocational education instruction	169,402	135,004	139,900	4,896
Special education instruction	5,231,433	5,155,575	5,070,277	(85,298)
Instructional support services	1,430,030	1,240,837	1,359,101	118,264
Pupil support services	2,135,508	2,345,552	2,468,755	123,203
Sites and buildings	1,769,390	1,601,831	1,734,891	133,060
Fiscal and other fixed cost programs	205,718	242,479	251,479	9,000
Capital outlay				
Elementary and secondary regular instruction	58,000	206,465	208,912	2,447
Vocational education instruction	6,500	4,000	5,428	1,428
Instructional support services	35,000	253,087	193,234	(59,853)
Sites and buildings	287,843	518,190	529,728	11,538
Debt service				
Principal	232,566	232,566	232,566	-
Interest and fiscal charges	89,952	89,952	89,887	(65)
Total expenditures	23,860,343	23,947,615	24,127,887	180,272
Net change in fund balance	$ -	$ 21,360	830,354	$ 808,994
Fund Balance				
Beginning of year			4,649,205	
End of year			$ 5,479,559	

See notes to basic financial statements.

Independent School District No. 578
Statement of Fiduciary Net Position
June 30, 2025

	OPEB Irrevocable Trust Fund
Assets	
Current	
Cash and investments (including cash equivalents)	$ 1,009,156
Net Position	
Held in trust for OPEB	$ 1,009,156

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2025

	OPEB Irrevocable Trust Fund
Additions	
Interest revenue	$ 17,133
Change in net position	17,133
Net Position	
Beginning of year	992,023
End of year	$ 1,009,156

See notes to basic financial statements.

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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 seven 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 basic 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 board control and are reported in the General Fund.

B. Basic Financial Statement Information

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

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

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

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

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

2. Recording of Expenditures

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

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. When committed, assigned, or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

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, general obligation (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. Local, state, and federal revenues are received in this Fund to specifically support the food service program.

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, aquatic center, or other similar services. The District receipts property tax and local and state revenues in this fund that were received for these specific purposes.

Fiduciary Fund:

Post-Employment Benefits Irrevocable Trust Fund – The Post-Employment Benefits Irrevocable Trust Fund is used to administer resources received and held by the District as the trustee for others. The Post-Employment Benefits Irrevocable Trust Fund includes assets held in an irrevocable trust to fund post-employment insurance benefits of eligible employees.

D. Deposits and Investments

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

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

Cash and investments at June 30, 2025, were comprised of deposits, and investments as outlined in Note 2. MNTrust and the Minnesota School District Liquid Asset Fund (MSDLAF) are external investment pools regulated by *Minnesota Statutes* not registered with the Securities and Exchange Commission. The District's investments in these investment pools are measured at the net asset value per share provided by the pools, which are based on amortized cost methods that approximate fair value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

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

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

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

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

G. Prepaid Items

Certain payments to vendors reflect costs applicable to a future accounting period and are recorded as prepaid in both the government-wide and fund financial statements. Prepaid items are recorded as expenditures at the time of consumption.

H. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Pine County is the collecting agency for the levy and remits the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

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 basic financial statements.

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. 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 straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 25 years for equipment, and transportation.

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

L. Unearned Revenue

Unearned revenue represents monies received prior to June 30, 2025, but earned subsequent to year end.

M. Long-Term Obligations

In the government-wide financial statements long-term debt and other long term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the 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 other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Accrued Employee Benefits

1. Compensated Absences Payable

Under the terms of collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for unused, accrued vacation to the limit specified in their labor contract or School Board policy upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued in governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end, due to employee termination or similar circumstances.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Accrued Employee Benefits (Continued)

1. Compensated Absences Payable (Continued)

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

2. Other Post Employment Benefits

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources, and OPEB expense, information about the fiduciary net position of the District's OPEB Plan and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and certain investments that have a maturity at the time of purchase of one year or less, which may also be reported at amortized cost. Guaranteed investment contract investments are valued on a cost-basis measure.

O. Pensions

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

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.

P. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Equity

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in 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 inventory and prepaid items.

- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.

- Committed Fund Balances – These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action (majority vote) of the School Board that remain binding unless removed by the School Board by subsequent formal action.

- Assigned Fund Balances – These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to policy, the District's superintendent and business manager are authorized to establish assignments of fund balance.

- Unassigned Fund Balances – These are amounts that have not been restricted, committed, or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

- Minimum Fund Balance Policy – The District's annual budget will be developed to maintain a minimum unassigned General Fund balance of 25% of General Fund expenditures.

R. Use of Estimates

The preparation of basic 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 basic financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the basic 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. Legal budgetary control is at the fund level.
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.
4. Budgets for the General, Special Revenue, and Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: For 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 deposit policy which requires deposits in excess of federal deposit coverage to be collateralized as required by *Minnesota Statutes* § 118A.03.

As of June 30, 2025, the District's bank balances were not exposed to custodial credit risk as they were insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

At June 30, 2025, the District had the following deposits:

Checking - pooled	$	25,753
Savings - pooled		253,336
Total	$	279,089

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

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

Type of Investments	Rating	Fair Value	Investment Maturities: Less than 1 year	Investment Maturities: 2-5 years
Pooled Investments				
Certificates of deposit	NR	$ 465,057	$ 237,644	$ 227,413
MSDLAF	AAA	226,534	226,534	-
MSDLAF MAX	AAA	4	4	-
MNTrust Investment Shares	AAA	6,915,525	6,915,525	-
Total pooled investments		$ 7,607,120	$ 7,379,707	$ 227,413
Non-pooled Investments				
Money Market	NR	$ 1,009,156	$ 1,009,156	$ -
Total investments		$ 8,616,276	$ 8,388,863	$ 227,413

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the district manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities to meet cash requirements for ongoing operations. Information about the sensitivity of the fair values of the district's investments to market interest rate risk fluctuations is provided by the table above that shows the distribution of the district's investments by maturity.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* §§ 118A.04 and 118A.05 limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. For assets held in the Post-Employment Benefits Trust Fund, the investment options available to the District are expanded to include the investment types specified in *Minnesota Statutes* § 356A.06, Subd. 7. The District's investment policies do not further restrict investing in specific financial instruments.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policies do not address concentration risk. At June 30, 2025, the District did not have applicable investments greater than 5% of the portfolio.

Custodial Credit Risk – Investments: This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Type of Investments	Total	Level 1	Level 2	Level 3
Money market	$ 1,009,156	$ 1,009,156	$ -	$ -
Certificates of deposit	465,057	-	465,057	-
	$ 1,474,213	$ 1,009,156	$ 465,057	$ -
Investments at amortized cost	7,142,063			
Total investments	$ 8,616,276			

Following is a summary of deposits and investments at June 30, 2025:

Deposits - pooled	$ 279,089
Investments - pooled	7,607,120
Investments - non-pooled	1,009,156
Total cash and investments	$ 8,895,365

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

Statement of Net Position	
Governmental Activities	$ 7,886,209
Fiduciary Funds	1,009,156
Total cash and investments	$ 8,895,365

NOTE 3 – CAPITAL ASSETS

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

	Balance 06/30/24	Additions	Disposals	Balance 06/30/25
Capital assets not being depreciated				
Land	$ 191,251	$ -	$ -	$ 191,251
Capital assets, being depreciated				
Land Improvements	2,770,641	-	-	2,770,641
Buildings	43,453,881	521,568	-	43,975,449
Equipment	3,773,802	628,154	102,973	4,298,983
Total capital assets being depreciated	49,998,324	1,149,722	102,973	51,045,073
Less accumulated depreciation				
Land Improvements	(1,450,619)	(95,623)	-	(1,546,242)
Buildings	(19,614,316)	(937,052)	-	(20,551,368)
Equipment	(2,075,747)	(306,482)	(100,865)	(2,281,364)
Total accumulated depreciation	(23,140,682)	(1,339,157)	(100,865)	(24,378,974)
Total capital assets being depreciated, net	26,857,642	(189,435)	2,108	26,666,099
Governmental activities, capital assets, net	$ 27,048,893	$ (189,435)	$ 2,108	$ 26,857,350

Depreciation expense of $1,339,157 for the year ended June 30, 2025, was charged to the following governmental functions:

Administration	$ 1,764
District Support Services	27
Elementary and Secondary Regular Instruction	85,264
Vocational Education Instruction	942
Special Education Instruction	80,150
Instructional Support Services	189,477
Pupil Support Services	1,241
Sites and Buildings	945,392
Food Service	19,554
Community Education and Services	15,346
Total depreciation expense	$ 1,339,157

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Debt

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One year
Long-term debt						
G.O. Bonds						
including refunding bonds						
2016A Alternative Facilities Refunding Bonds	03/09/16	2.00%-3.00%	$ 5,945,000	02/01/28	$ 2,140,000	$ 700,000
2016B Facilities Maintenance Bonds	05/05/16	2.00%	1,385,000	02/01/26	165,000	165,000
G.O. School Building Refunding Bonds Series 2017A	05/04/17	3.00%-4.00%	4,365,000	02/01/28	1,470,000	470,000
G.O. School Building Refunding Bonds Series 2020A	11/04/20	1.00%-2.00%	5,190,000	02/01/32	5,190,000	-
Total G.O. bonds					8,965,000	1,335,000
Certificates of Participation						
2021A Certificates of Participation	05/06/21	2.00%-3.00%	3,875,000	04/01/41	3,240,000	170,000
Unamortized bond premium					300,240	-
Financed purchases					325,162	69,988
Compensated absences payable					2,096,290	503,634
Total long term-debt					$ 14,926,692	$ 2,078,622

The long-term bond, certificate, and financed purchase liabilities listed above were issued to finance acquisition and construction of capital facilities, equipment, and to refinance (refund) previous bond issues. Other long-term liabilities such as compensated absences payable, are typically liquidated through the General Fund.

B. Minimum Debt Payments for Bonds, Certificates, and Financed Purchases

Minimum annual principal and interest payments required to retire long term debt are as follows:

Year Ended June 30,	G.O. Bonds and Certificates		
	Principal	Interest	Total
2026	$ 1,335,000	$ 171,685	$ 1,506,685
2027	1,205,000	135,585	1,340,585
2028	1,235,000	101,685	1,336,685
2029	1,220,000	66,785	1,286,785
2030	1,300,000	42,385	1,342,385
2031-2032	2,670,000	44,910	2,714,910
Total	$ 8,965,000	$ 563,035	$ 9,528,035

NOTE 4 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds, Certificates, and Financed Purchases (Continued)

Year Ended June 30,	Financed Purchases Principal	Interest	Total
2026	$ 69,988	$ 10,679	$ 80,667
2027	72,498	8,170	80,668
2028	75,099	5,569	80,668
2029	55,405	2,874	58,279
2030	34,508	1,383	35,891
2031	17,664	280	17,944
Total	$ 325,162	$ 28,955	$ 354,117

Year Ended June 30,	Certificates of Participation Principal	Interest	Total
2026	$ 170,000	$ 71,900	$ 241,900
2027	175,000	66,800	241,800
2028	180,000	61,550	241,550
2029	185,000	56,150	241,150
2030	190,000	50,600	240,600
2031-2035	1,000,000	195,000	1,195,000
2036-2040	1,105,000	90,600	1,195,600
2041	235,000	4,700	239,700
Total	$ 3,240,000	$ 597,300	$ 3,837,300

C. Changes in Long-Term Debt

	Beginning Balance	Change in Accounting Principle	Additions	Reductions	Ending Balance
Long-term debt					
G.O. Bonds and Certificates	$ 10,270,000	$ -	$ -	$ 1,305,000	$ 8,965,000
Unamortized bond premium	375,564	-	-	75,324	300,240
Certificates of participation	3,405,000	-	-	165,000	3,240,000
Financed purchases	392,684	-	-	67,522	325,162
Compensated absences payable	47,378	2,196,060	-	147,148	2,096,290
Total long-term debt	$ 14,490,626	$ 2,196,060	$ -	$ 1,759,994	$ 14,926,692

The change in the compensated absences liability is presented as a net change.

NOTE 5 – FUND BALANCES AND NET POSITION

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

A. Fund Equity

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

Nonspendable for Inventory and Prepaid Items – This balance represents a portion of the fund balance that is not available since the amounts have been spent by the District on inventory and prepaid items for subsequent fiscal years.

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

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

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

Restricted/Reserved for American Indian Education Aid – This balance represents resources remaining in the American Indian Education Funds.

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

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

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 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 Medical Assistance – This balance represents available resources to be used for medical assistance expenditures (*Minnesota Statute* § 125A.21, subd. 3).

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the debt service funds.

NOTE 5 – FUND BALANCES AND NET POSITION (CONTINUED)

A. Fund Equity (Continued)

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

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

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

Restricted for Community Service – This balance represents the positive fund balance of the Community Service Fund.

Restricted for Food Service – This balance represents the positive fund balance of the Food Service Fund.

B. Net Position

Restricted for State mandated restrictions net position is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service, and Community Service funds, and the effects of the conversion to the government-wide statements.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2025, was $696,337. 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 Retirement Plan (DCR) administered by Minnesota State. A teacher employed by Minnesota State and electing the DCR plan is not a member of TRA except for purposes of social security coverage.

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

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

Tier I Benefits

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier I Benefits (Continued)

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

Tier II Benefits
Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66. After July 1, 2024, the age will change to not to exceed 65. An early retirement reduction is applied to members retiring before age 66 but will be age 65 after July 1, 2024. Members who reach age 62 with 30 years of service have a lower (more favorable to the member) early retirement reduction rate applied.

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

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

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

C. Contributions

Per *Minnesota Statutes* Chapter 354 sets the contribution rates for employees and employers. Rates for the fiscal year 2025 for coordinated were 7.75% for the employee and 8.75% for the employer. Basic rates were 11.25% for the employee and 12.75% for the employer. The District's contributions to TRA for the plan's fiscal year ended June 30, 2025 were $820,226 The District's contributions were equal to the required contributions for each year as set by state statute.

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Experience study	August 2, 2023 (demographic and economic assumptions)*
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.00%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028, and 3.25% after June 30, 2028.
Projected salary increase	2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% after June 30, 2028.
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.
Mortality Assumptions	
Pre-retirement	PubT-2010(A) Employee Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Post-retirement	PubT-2010(A) Retiree Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Beneficiaries	Pub-2010(A) Contingent Survivor Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Disabled retirees	PubNS-2010 Disabled Retiree Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.

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

NOTE 6 – 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 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 %	

Changes in actuarial assumptions since the previous valuation:

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

NOTE 6 – 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 2024 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Net Pension Liability

On June 30, 2025, the District reported a liability of $8,684,073 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2024. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.1367% at the end of the measurement period and 0.1379% 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	$ 8,684,073
State's proportionate share of the net pension liability associated with the District	567,974
Total	$ 9,252,047

For the year ended June 30, 2025, the District recognized pension expense of $631,294. Included in this amount, the District recognized $31,222 as pension expense for the support provided by direct aid.

During the plan year ended June 30, 2024, the State of Minnesota contributed $176 million to the Fund. The State of Minnesota is not included as a non-employer contributing entity in the plan pension allocation schedules for the $176 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District recognized $240,757 for the year ended June 30, 2025 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Fund.

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 419,210	$ 115,200
Net difference between projected and actual earnings on plan investments	-	1,163,022
Changes of assumptions	931,802	1,035,599
Changes in proportion	43,762	661,504
Contributions to TRA subsequent to the measurement date	820,226	-
Total	$ 2,215,000	$ 2,975,325

The $820,226 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026.

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

Year Ended June 30,	Pension Expense Amount
2026	$ (699,383)
2027	719,495
2028	(775,320)
2029	(671,778)
2030	(153,565)
Total	$ (1,580,551)

NOTE 6 – 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% lower (6.0%) and 1% higher (8.0%) than the current rate.

Sensitivity of NPL to Changes in the Discount Rate

1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
$ 15,297,182	$ 8,684,073	$ 3,245,490

H. Pension Plan Fiduciary Net Position

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

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan

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

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service. When a member is "vested", they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

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

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0% and a maximum of 1.5%. The 2024 annual increase was 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

C. Contributions

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

General Employees Fund Contributions

General Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2025 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2025, were $235,914. The District's contributions were equal to the required contributions as set by state statute.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2025, the District reported a liability of $1,275,481 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 $32,981.

District's proportionate share of net pension liability	$ 1,275,481
State of Minnesota's proportionate share of the net pension liability associated with the District	32,981
Total	$ 1,308,462

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2023, through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0345% at the end of the measurement period and 0.0370% for the beginning of the period.

For the year ended June 30, 2025, the District recognized pension expense of $65,043 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $884 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

During the plan year ended June 30, 2024, the State of Minnesota contributed $170.1 million to the General Employees Fund. The State of Minnesota is not included as a non-employer contributing entity in the General Employees Plan pension allocation schedule for the $170.1 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District recognized $58,686 for the year ended December 31, 2024 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the General Employees Fund.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 122,561	$ -
Changes in actuarial assumptions	6,479	508,282
Net difference between projected and actual investments earnings	-	392,721
Change in proportion	43,560	125,087
Contributions paid to PERA subsequent to the measurement date	235,914	-
Total	$ 408,514	$ 1,026,090

The $235,914 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2026	$ (474,346)
2027	(87,147)
2028	(194,239)
2029	(97,758)
Total	$ (853,490)

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

Public Employees' Retirement Association (Continued)

E. Long-Term Expected Return on Investment

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

Asset Class	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 %	

F. Actuarial Methods and Assumptions

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

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

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

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

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

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

Public Employees' Retirement Association (Continued)

F. Actuarial Methods and Assumptions (Continued)

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

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

G. Discount Rates

The discount rate used to measure the total pension liability in 2024 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

The following table presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
District's proportionate share of the PERA net pension liability	$ 2,785,862	$ 1,275,481	$ 33,060

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 basic financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through the OPEB Plan, a single-employer defined benefit plan administered by the District. Management of the plan is vested with the School Board of the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements.

The District administers a defined benefit Post-Employment Benefits Trust Fund. The assets of the plan are reported in the District's financial report in the Post-Employment Benefits Trust Fund, established by the District to finance these obligations. The plan assets may be used only for the payment of benefits of the plan, in accordance with the terms of the plan. The plan does not issue a publicly available financial report.

B. Benefits Paid

All retirees of the District upon retirement have the option under state law to continue their medical insurance coverage through the District. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these District-paid premium benefits must pay the full district premium rate for their coverage.

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees until the retiree reaches Medicare eligibility, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District's younger and statistically healthier active employees.

The General Fund, Food Service Fund and Community Service Fund typically liquidate the liability related to OPEB.

C. Contributions

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District. The required contributions are based on projected pay-as-you-go financing requirements. For the fiscal year 2025, the District contributed $118,439 to the plan.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Members

As of July 1, 2024, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	15
Active employees	174
Total	189

E. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Investment rate of return	3.50%
Inflation	2.50%
Healthcare cost trend increases	7.60% gradually decreasing over several decades to an ultimate rate of 3.9% in FY2076 and later years.
Mortality Assumptions	From the 2023 PERA of Minnesota General Employees Retirement Plan Experience Study, mortality rates were based on the Pub-2010 General mortality tables with projected mortality improvements based on scale MP-2021, and other adjustments. (non-teachers) From the 2023 TRA of Minnesota experience study, mortality rates were based on the Pub-2010 Teacher mortality tables with projected mortality improvements based on scale MP-2021, and other adjustments. (teachers)

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

Changes in Actuarial Assumptions

- The discount rate was changed from 3.77% to 4.34% for the June 30, 2025, measurement date.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

The long-term expected rate of return on OPEB 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 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 arithmetic 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	0.0 %	7.02 %
International stocks	0.0	7.58
Fixed income	0.0	4.94
Real estate alternatives	0.0	6.23
Cash and equivalents	100.0	3.49
Total	100.0 %	

The details of the investments and the investment policy are described in Note 3 of the District's basic financial statements. For the year ended June 30, 2025, the annual money-weighted rate of return on investments, net of investment expense, was 1.72%. The money-weighted rate of return expenses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

F. Discount Rate

The discount rate used to measure the total OPEB liability was 4.34%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

G. Total OPEB Liability

The District's total OPEB liability of $2,008,730 was measured as of June 30, 2025, and was determined by an actuarial valuation as of June 30, 2023.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. Total OPEB Liability (Continued)

Changes in the net OPEB liability are as follows:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at June 30, 2024	$ 2,011,415	$ 992,111	$ 1,019,304
Changes for the year			
Service cost	130,516	-	130,516
Interest	78,518	-	78,518
Differences between expected and actual economic experience	(19,204)	-	(19,204)
Changes in assumptions	(74,076)	-	(74,076)
Employer contributions	-	118,439	(118,439)
Net investment income	-	17,045	(17,045)
Benefit payments	(118,439)	(118,439)	-
Net changes	(2,685)	17,045	(19,730)
Balances at June 30, 2025	$ 2,008,730	$ 1,009,156	$ 999,574

H. OPEB Liability Sensitivity

The following presents the District's net OPEB liability calculated using the discount rate of 4.34% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% Decrease in Discount Rate (3.34%)	Current Discount Rate (4.34%)	1% Increase in Discount Rate (5.34%)
Net OPEB Liability	$ 1,130,506	$ 999,574	$ 873,842

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	Current Trend Rate	1% Increase in Trend Rate
Net OPEB Liability	$ 776,472	$ 999,574	$ 1,265,628

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2025, the District recognized OPEB expense of $165,448. At June 30, 2025, the District reported deferred outflows of resources related to OPEB from the following source:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual liability	$ 386,661	$ 94,179
Change of assumptions	14,561	440,115
Net difference between projected and actual investment earnings	22,651	-
Total	$ 423,873	$ 534,294

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

Year Ended June 30,	Total
2026	$ (11,574)
2027	(12,904)
2028	(12,222)
2029	(12,818)
2030	(39)
Thereafter	(60,864)
Total	$ (110,421)

NOTE 8 – FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan, which is classified as a cafeteria plan (the Plan) under § 125 of the IRC. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pretax dollars withheld from payroll checks to the Plan for healthcare and dependent care benefits. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant.

Before the beginning of the Plan year, each participant designates a total amount of pretax dollars to be contributed to the Plan during the year. At June 30, the District is contingently liable for total contributions to the medical reimbursement portion of the Plan, whether or not such contributions have been made.

NOTE 8 – FLEXIBLE BENEFIT PLAN (CONTINUED)

Payments of insurance premiums (health, dental, life, and disability) are made by the District directly to the designated insurance companies. These payments are accounted for in the General Fund. Amounts withheld for medical reimbursement and dependent care are deposited into a separate district checking account. Payments are made by the District to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the employee. The medical reimbursement and dependent care activity are included in the financial statements of the General Fund.

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

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2025.

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE

The government wide beginning net position for governmental activities was restated as a result of the implementation of GASB Statement No. 101, Compensated Absences.

	Reporting Units Affected by Adjustments to and Restatements of Beginning Balances
	Governmental Activities
6/30/2024, as previously reported	$ 5,684,517
Change in accounting principle	
GASB Statement No. 101 implementation	(2,196,060)
6/30/2024, as adjusted or restated	$ 3,488,457

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 578
Schedule of Changes in Total OPEB Liability
and Related Ratios

	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020
Total OPEB Liability				
Service cost	$ 144,119	$ 140,652	$ 115,975	$ 105,734
Interest	67,260	74,697	68,099	56,489
Differences between expected and actual experience	-	77,753	-	331,355
Changes of assumptions	(39,901)	(277,969)	35,029	(116,590)
Plan changes	-	(3,121)	(205,828)	135,905
Benefit payments	(187,823)	(174,511)	(152,942)	(191,717)
Projected investment return	-	-	-	-
Other changes	-	-	-	-
Net change in total OPEB liability	(16,345)	(162,499)	(139,667)	321,176
Beginning of year	2,085,034	2,068,689	1,906,190	1,766,523
End of year	$ 2,068,689	$ 1,906,190	$ 1,766,523	$ 2,087,699
Plan Fiduciary Net Pension (FNP)				
Employer contributions	$ 187,823	$ 174,511	$ 152,942	$ 191,717
Projected investment return	14,678	12,862	13,928	16,509
Differences between expected and actual experience	-	-	-	-
Benefit payments	(187,823)	(174,511)	(152,942)	(191,717)
Administrative expense	-	-	-	-
Other changes	-	-	-	-
Net change in plan fiduciary net position	14,678	12,862	13,928	16,509
Beginning of year	874,601	889,279	902,141	916,069
End of year	$ 889,279	$ 902,141	$ 916,069	$ 932,578
Net OPEB liability	$ 1,179,410	$ 1,004,049	$ 850,454	$ 1,155,121
Plan FNP as a percentage of the total OPEB liablity	42.99%	47.33%	51.86%	44.67%
Covered payroll	$ 11,025,000	$ 11,190,075	$ 11,435,026	$ 11,696,544
Net OPEB liability as a percentage of covered-employee payroll	10.70%	8.97%	7.44%	9.88%

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

See notes to required supplementary information.

June 30, 2021	June 30, 2022	June 30, 2023	June 30, 2024	June 30, 2025
$ 124,756	$ 132,970	$ 112,112	$ 114,417	$ 130,516
59,321	50,686	54,284	55,566	78,518
2,143	(112,270)	28,845	201,736	(19,204)
(39,330)	(98,357)	(5,733)	(142,480)	(74,076)
10,436	-	-	180,407	-
(232,626)	(203,133)	(217,514)	(152,520)	(118,439)
-	-	-	-	-
-	-	-	-	-
(75,300)	(230,104)	(28,006)	257,126	(2,685)
2,087,699	2,012,399	1,782,295	1,754,289	2,011,415
$ 2,012,399	$ 1,782,295	$ 1,754,289	$ 2,011,415	$ 2,008,730
$ 232,626	$ 203,133	$ 217,514	$ 152,520	$ 118,439
16,750	14,929	12,976	14,878	17,045
-	-	-	-	-
(232,626)	(203,133)	(217,514)	(152,520)	(118,439)
-	-	-	-	-
-	-	-	-	-
16,750	14,929	12,976	14,878	17,045
932,578	949,328	964,257	977,233	992,111
$ 949,328	$ 964,257	$ 977,233	$ 992,111	$ 1,009,156
$ 1,063,071	$ 818,038	$ 777,056	$ 1,019,304	$ 999,574
47.17%	54.10%	55.71%	49.32%	50.24%
$ 11,754,258	$ 10,414,482	$ 12,212,000	$ 10,931,764	$ 12,938,000
9.04%	7.85%	6.36%	9.32%	7.73%

Independent School District No. 578
Schedule of Investment Returns

	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020
Annual money-weighted rate of return, net of investment expense	1.67%	1.45%	1.54%	1.80%

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

June 30, 2021	June 30, 2022	June 30, 2023	June 30, 2024	June 30, 2025
1.80%	1.57%	1.35%	1.52%	1.72%

Independent School District No. 578
Schedule of District's and Non-Employer Proportionate Share
(if Applicable) 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 of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0430%	$ 2,228,484	$ -	$ 2,228,484	$ 2,495,413	89.30%	78.19%
2016	0.0421%	3,418,312	44,592	3,462,904	2,621,373	130.40%	68.91%
2017	0.0404%	2,579,109	32,442	2,611,551	2,603,667	99.06%	75.90%
2018	0.0395%	2,191,297	71,886	2,263,183	2,660,800	82.35%	79.53%
2019	0.0383%	2,117,522	65,830	2,183,352	2,660,787	79.58%	80.23%
2020	0.0386%	2,314,246	71,201	2,385,447	2,749,227	84.18%	79.06%
2021	0.0378%	1,614,229	49,353	1,663,582	2,723,080	59.28%	87.00%
2022	0.0359%	2,843,292	83,238	2,926,530	2,687,507	105.80%	76.67%
2023	0.0370%	2,068,999	57,155	2,126,154	2,944,853	70.26%	83.10%
2024	0.0345%	1,275,481	32,981	1,308,462	2,920,013	43.68%	89.08%

Schedule of District's and Non-Employer Proportionate Share
(if Applicable) 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 Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.1586%	$ 9,810,979	$ 1,203,722	$ 11,014,701	$ 8,049,040	121.89%	76.77%
2016	0.1542%	36,780,380	3,692,277	40,472,657	8,094,867	454.37%	44.88%
2017	0.1508%	30,102,416	2,910,302	33,012,718	8,118,347	370.79%	51.57%
2018	0.1499%	9,415,123	884,668	10,299,791	8,283,840	113.66%	78.07%
2019	0.1486%	9,471,795	838,481	10,310,276	8,428,781	112.37%	78.21%
2020	0.1481%	10,941,826	916,893	11,858,719	8,606,288	127.14%	75.48%
2021	0.1454%	6,363,139	536,786	6,899,925	8,700,160	73.14%	86.63%
2022	0.1474%	11,803,012	875,560	12,678,572	9,016,655	130.90%	76.17%
2023	0.1379%	11,385,333	797,744	12,183,077	8,768,643	129.84%	76.42%
2024	0.1367%	8,684,073	567,974	9,252,047	9,054,183	95.91%	82.07%

See notes to required supplementary information.

Independent School District No. 578
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
2016	$ 196,603	$ 196,603	$ -	$ 2,621,373	7.50%
2017	195,275	195,275	-	2,603,667	7.50%
2018	199,560	199,560	-	2,660,800	7.50%
2019	199,559	199,559	-	2,660,787	7.50%
2020	206,192	206,192	-	2,749,227	7.50%
2021	204,231	204,231	-	2,723,080	7.50%
2022	201,563	201,563	-	2,687,507	7.50%
2023	220,864	220,864	-	2,944,853	7.50%
2024	219,001	219,001	-	2,920,013	7.50%
2025	235,914	235,914	-	3,145,520	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
2016	$ 607,115	$ 607,115	$ -	$ 8,094,867	7.50%
2017	608,876	608,876	-	8,118,347	7.50%
2018	621,288	621,288	-	8,283,840	7.50%
2019	649,859	649,859	-	8,428,781	7.71%
2020	681,618	681,618	-	8,606,288	7.92%
2021	707,323	707,323	-	8,700,160	8.13%
2022	760,104	760,104	-	9,016,655	8.43%
2023	749,719	749,719	-	8,768,643	8.55%
2024	792,241	792,241	-	9,054,183	8.75%
2025	820,226	820,226	-	9,374,011	8.75%

See notes to required supplementary information.

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TRA Retirement Fund

2024 Changes
Changes in Actuarial Assumptions
- Mortality tables were updated for active employees, retirees, disabled retirees, and contingent beneficiaries to recently published tables derived from public plan data known as the Pub-2010 family.
- Retirement rates were increased for some of the Tier II early retirement ages and some of the unreduced retirement rates were modified for both tiers to better align with actual experience.
- Probability that new female retirees elect either the Straight Life Annuity or 100% Joint and Survivor Annuity were refined to reflect the actual experience.
- Termination rates were reduced in the first 10 years of employment and slightly increased in years 16 to 25 to better match the observed experience.
- Disability rates were decreased beyond age 45 by 15% to reflect the continued lower than expected observations.

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

2023 Changes
Changes in Actuarial Assumptions
- None

2022 Changes
Changes in Actuarial Assumptions
- None

2021 Changes
Changes in Actuarial Assumptions
- The investment return assumption was changed from 7.5% to 7.0%.

2020 Changes
Changes in Actuarial Assumptions
- Assumed termination rates were changed to more closely reflect actual experience.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP 2015 scale.
- 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%.

TRA Retirement Fund (Continued)

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

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

2017 Changes
Changes in Actuarial Assumptions

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

TRA Retirement Fund (Continued)

2016 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes

Changes of Benefit Terms

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

Changes in Actuarial Assumptions

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

General Employees Fund

2024 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2023 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2022 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.5% to 2.25%.

General Employees Fund (Continued)

2020 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- 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.
- 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.

General Employees Fund (Continued)

2018 Changes (Continued)

Changes in Plan Provisions (Continued)

- 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.

Changes in Plan Provisions

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

2016 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

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

General Employees Fund (Continued)

2015 Changes (Continued)

Changes in Plan Provisions

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

Post Employment Health Care Plan

2025 Changes
Changes in Actuarial Assumptions
- The discount rate was changed from 3.77% to 4.34% based on updated investment return assumptions, 20-year municipal bond rates, and updated asset sufficiency projections.

2024 Changes
Changes in Actuarial Assumptions
- The discount rate was changed from 3.10% to 3.77% based on updated investment return assumptions, 20-year municipal bond rates, and updated asset sufficiency projections.

2023 Changes
Changes in Actuarial Assumptions
- The discount rate was changed from 3.04% to 3.10% based on updated investment return assumptions, 20-year municipal bond rates, and updated asset sufficiency projections.
- Healthcare trend rates were reset to reflect updated cost increase expectations.

2022 Changes
Changes in Actuarial Assumptions
- The discount rate was changed from 2.48% to 3.04% based on updated investment return assumptions, 20-year municipal bond rates, and updated asset sufficiency projections.
- The long-term investment return assumption was changed from 3.25% to 2.00% based on updated capital market assumptions.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience.
- Withdrawal, retirement, mortality, and salary increase rates were updated from the rates used in the 7/1/2019 PERA General Employees Plan and 7/1/2019 Teachers Retirement Association valuations to the rates used in the 7/1/2021 valuations.
- The percent of future retirees assumed to elect spouse coverage at retirement changed from 20% to 30% to reflect recent plan experience.
- The percent of future non Medicare eligible retirees electing each medical plan changed to reflect recent plan experience.

2021 Changes
Changes in Actuarial Assumptions
- The discount rate was changed from 2.83% to 2.48%.
- The index rate for 20-year, tax-exempt municipal bonds was changed from 2.45% to 1.92%.

Changes in Plan Provisions
- Retiree premiums and explicit subsidy benefits were updated to match updated contract language.

2020 Changes
Changes in Actuarial Assumptions
- The discount rate was changed from 3.18% to 2.83%.
- The index rate for 20-year, tax-exempt municipal bonds was changed from 3.13% to 2.45%.
- The inflation assumption was changed from 2.75% to 2.50%.

Post Employment Health Care Plan (Continued)

2020 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- Healthcare trend rates were reset and claims costs were adjusted to reflect recent experience.
- Mortality and salary increases were updated to rates used in the July 1, 2019, PERA and TRA valuations.
- Assumptions for retirees electing coverage were updated for recent plan experience.

Changes in Plan Provisions

- Retiree premiums and explicit subsidy benefits were updated to match updated contract language.

2019 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 3.50% to 3.18%.

Changes in Actuarial Assumptions (Continued)

- The index rate for 20-year, tax-exempt municipal bonds was changed from 3.62% to 3.13%.
- The percentage of future retirees eligible for a direct subsidy assumed to elect coverage at retirement changed from 85.00% to 100.00%.

Changes in Plan Provisions

- The direct subsidy benefits for certain individual contracts were updated from receiving the single medical premium for one year to a one-time flat dollar contribution amount.
- The direct subsidy benefits for the classified contract were updated from a $6,200 contribution amount to a $7,200 contribution amount.

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 3.52% to 3.50%.
- The index rate for 20-year, tax-exempt municipal bonds was changed from 3.53% to 3.62%.
- Healthcare trend rates were reset to reflect updated cost increase expectations and the impact of the Affordable Care Act's excise tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Withdrawal, retirement, and mortality rates were updated to reflect updated PERA and TRA plan valuation rates.
- Future retiree assumptions to elect coverage were updated to reflect recent plan experience.

Changes in Plan Provisions

- Retiree premiums were updated to current levels.
- Direct subsidy benefits were removed for the assistant elementary principal, director of curriculum, and director of technology.

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SUPPLEMENTARY INFORMATION

Independent School District No. 578
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2025

	Special Revenue Funds		
	Food Service	Community Service	Total Nonmajor Funds
Assets			
Cash and investments	$ 759,229	$ 289,328	$ 1,048,557
Current property taxes receivable	-	52,435	52,435
Delinquent property taxes receivable	-	1,759	1,759
Accounts receivable	-	1,500	1,500
Due from Department of Education	6,275	20,342	26,617
Due from other Minnesota school districts	5,126	-	5,126
Inventory	16,517	-	16,517
Total assets	$ 787,147	$ 365,364	$ 1,152,511
Liabilities			
Accounts payable	$ 1,032	$ 1,113	2,145
Salaries and benefits payable	39,611	(15,069)	24,542
Unearned revenue	8,902	-	8,902
Total liabilities	49,545	(13,956)	35,589
Deferred Inflows of Resources			
Unavailable revenue - delinquent property taxes	-	1,759	1,759
Property taxes levied for subsequent year's expenditures	-	114,564	114,564
Total deferred inflows of resources	-	116,323	116,323
Fund Balances			
Nonspendable			
Inventory	16,517	-	16,517
Restricted			
Community education programs	-	207,720	207,720
Early childhood and family education programs	-	42,541	42,541
School readiness	-	3,192	3,192
Community service	-	9,544	9,544
Food service	721,085	-	721,085
Total fund balances	737,602	262,997	1,000,599
Total liabilities, deferred inflows of resources, and fund balances	$ 787,147	$ 365,364	$ 1,152,511

Independent School District No. 578
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2025

	Special Revenue Funds		
	Food Service	Community Service	Total Nonmajor Funds
Revenues			
Revenue from local sources			
Property taxes	$ -	$ 92,435	$ 92,435
Earnings on investments	42,090	14,616	56,706
Other local and county revenues	8,565	190,671	199,236
Revenue from state sources	556,965	207,842	764,807
Revenue from federal sources	676,762	-	676,762
Sales and other conversion of assets	110,563	-	110,563
Total revenues	1,394,945	505,564	1,900,509
Expenditures			
Current			
Food service	1,291,301	-	1,291,301
Community education and services	-	495,733	495,733
Capital outlay			
Food service	204,932	-	204,932
Community education and services	-	9,585	9,585
Total expenditures	1,496,233	505,318	2,001,551
Net change in fund balances	(101,288)	246	(101,042)
Fund Balances			
Beginning of year	838,890	262,751	1,101,641
End of year	$ 737,602	$ 262,997	$ 1,000,599

Independent School District No. 578
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Fund
Year Ended June 30, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Revenues from local sources				
Earnings on investments	$ 12,775	$ 35,000	$ 42,090	$ 7,090
Other local and county revenues	11,779	8,000	8,565	565
Revenues from state sources	470,845	547,659	556,965	9,306
Revenues from federal sources	655,600	663,059	676,762	13,703
Sales and other conversion of assets	113,000	106,000	110,563	4,563
Total revenues	1,263,999	1,359,718	1,394,945	35,227
Expenditures				
Current				
Food service	1,333,564	1,288,668	1,291,301	2,633
Capital outlay				
Food service	-	200,000	204,932	4,932
Total expenditures	1,333,564	1,488,668	1,496,233	7,565
Net change in fund balances	$ (69,565)	$ (128,950)	(101,288)	$ 27,662
Fund Balance				
Beginning of year			838,890	
End of year			$ 737,602	

Independent School District No. 578
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget-
	Original	Final	Amounts	Over (Under)
Revenues				
Revenues from local sources				
Property taxes	$ 91,292	$ 91,292	$ 92,435	$ 1,143
Earnings on investments	5,000	15,000	14,616	(384)
Other local and county revenues	166,535	178,107	190,671	12,564
Revenues from state sources	159,816	202,147	207,842	5,695
Total revenues	422,643	486,546	505,564	19,018
Expenditures				
Current				
Community education and services	436,081	482,050	495,733	13,683
Capital outlay				
Community education and services	-	8,527	9,585	1,058
Total expenditures	436,081	490,577	505,318	14,741
Net change in fund balances	$ (13,438)	$ (4,031)	246	$ 4,277
Fund Balance				
Beginning of year			262,751	
End of year			$ 262,997	

Independent School District No. 578
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2025

		Audit	UFARS	Audit-UFARS
01 General Fund				
Total revenue		$ 24,958,241	$ 24,958,242	$ (1)
Total expenditures		24,127,887	24,127,883	4
Nonspendable:				
4.60	Nonspendable fund balance	195,553	195,553	-
Restricted/reserved:				
4.01	Student Activities	56,089	56,089	-
4.02	Scholarships	283,129	283,129	-
4.03	Staff Development	-	-	-
4.07	Capital Projects Levy	-	-	-
4.09	Alternative Facility Program	-	-	-
4.12	Literacy Incentive Aid	-	-	-
4.14	Operating Debt	-	-	-
4.16	Levy Reduction	-	-	-
4.20	American Indian Ed Aid	19,226	19,226	-
4.24	Operating Capital	1,385,864	1,385,864	-
4.26	$25 Taconite	-	-	-
4.27	Disabled Accessibility	-	-	-
4.28	Learning and Development	-	-	-
4.34	Area Learning Center	-	-	-
4.35	Contracted Alternative Programs	-	-	-
4.36	State Approved Alternative Learning Program	-	-	-
4.37	Quality Compensation - Alternative Teacher Professional Pay System	-	-	-
4.38	Gifted and Talented	670	670	-
4.39	English Learner	-	-	-
4.41	Basic Skills Programs	88,325	88,325	-
4.43	School Library Aid	-	-	-
4.48	Achievement and Integration	-	-	-
4.49	Safe Schools Revenue	-	-	-
4.51	QZAB Payments	-	-	-
4.56	Literacy Aid	-	-	-
4.57	Teacher Compensation for Read Act Training	38,969	38,969	-
4.59	Basic Skills Extended Time	-	-	-
4.67	Long-Term Facilities Maintenance	710,957	710,957	-
4.71	Student Support Personnel Aid	9,776	9,776	-
Restricted:				
4.72	Medical Assistance	7,469	7,469	-
4.64	Restricted fund balance	-	-	-
4.75	Title VII - Impact Aid	-	-	-
4.76	Payments in Lieu of Taxes	-	-	-
Committed:				
4.18	Committed for separation/ Retirement benefits	-	-	-
4.61	Committed for separation/	-	-	-
Assigned:				
4.62	Assigned fund balance	56,642	56,642	-
Unassigned:				
4.22	Unassigned fund balance	2,626,890	2,626,889	1
02 Food Service Fund		$ 1,394,945	$ 1,394,946	$ (1)
Total revenue		1,496,233	1,496,236	(3)
Total expenditures				
Nonspendable:				
4.60	Nonspendable fund balance	16,517	16,517	-
Restricted/reserved:				
4.52	OPEB liabilities not held in trust	-	-	-
Restricted:				
4.64	Restricted fund balance	721,085	721,086	(1)
Unassigned:				
4.63	Unassigned fund balance	-	-	-
04 Community Service Fund		$ 505,564	$ 505,564	$ -
Total revenue		505,318	505,317	1
Total expenditures				
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted/reserved:				
4.26	$25 Taconite	-	-	-
4.31	Community Education	207,720	207,720	-
4.32	ECFE	42,541	42,541	-
4.40	Teacher Development and Evaluation	-	-	-
4.44	School Readiness	3,192	3,192	-
4.47	Adult Basic Education	-	-	-
4.52	OPEB Liabilities not Held in Trust	-	-	-
Restricted:				
4.64	Restricted fund balance	9,544	9,545	(1)
Unassigned:				
4.63	Unassigned fund balance	-	-	-

		Audit	UFARS	Audit-UFARS
06 Building Construction Fund				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted/reserved:				
4.07	Capital Projects Levy	-	-	-
4.09	Alternative Facility Program	-	-	-
4.13	Building Projects Funded by COP/LP	-	-	-
Restricted:				
4.64	Restricted fund balance	-	-	-
Unassigned:				
4.63	Unassigned fund balance	-	-	-
07 Debt Service Fund				
Total revenue		$ 1,652,959	$ 1,652,958	$ 1
Total expenditures		1,513,885	1,513,885	-
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted/reserved:				
4.25	Bond refunding	-	-	-
4.33	Maximum effort loan aid			
4.51	QZAB payments	-	-	-
4.67	LTFM	-	-	-
Restricted:				
4.64	Restricted fund balance	588,517	588,516	1
Unassigned:				
4.63	Unassigned fund balance	-	-	-
08 Trust Fund				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
4.01	Student Activities	-	-	-
4.02	Scholarships	-	-	-
4.22	Net Assets	-	-	-
18 Custodial Fund				
Total revenue		$ -	-	-
Total expenditures		-	-	-
Unassigned:				
4.01	Student Activities	-	-	-
4.02	Scholarships	-	-	-
4.22	Achievement & 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		$ 17,133	$ 17,133	$ -
Total expenditures		-	-	-
Unassigned:				
4.22	Net position	1,009,156	1,009,156	-
47 OPEB Debt Service				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted:				
4.64	Restricted fund balance	-	-	-
Unassigned:				
4.63	Unassigned fund balance	-	-	-

Independent School District No. 578
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2025

Federal Funding Source	Federal Assistance Listing Number	Expenditures
Through Minnesota Department of Education		
U.S. Department of Agriculture		
Commodities Program (cluster)	10.555	$ 82,642
School Breakfast Program (cluster)	10.553	143,777
National School Lunch Program (cluster)	10.555	429,672
Summer Food Service Program (cluster)	10.559	11,947
Total Child Nutrition Cluster		668,038
State Administrative Expense Funds	10.560	2,449
U.S. Department of Education		
Title I, Part A	84.010	249,081
Special Education (Cluster)	84.027	9,365
Comprehensive Literacy Development	84.371	29,200
Title II, Part A - Improving Teacher Quality	84.367	41,247
COVID-19 ESSER III - 90% Learning Loss	84.425U	169,321
Carl Perkins	84.048	10,731
Total Federal Expenditures		$ 1,179,432

See notes to schedule of expenditures of federal awards.

Independent School District No. 578
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, 2025. 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 – PASS-THROUGH GRANT NUMBERS

All pass-through entities listed above use the same Assistance Listing numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 4 – 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 5 – 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. 578
Pine City, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 578, Pine City, Minnesota, as of and for the year ending June 30, 2025, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 11, 2025.

Report on Internal Control over Financial Reporting
In planning and performing our audit of the basic 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 basic 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance as audit finding 2025-001 that we consider to be a material weakness.

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 basic 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 the Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of the basic 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.

Berganklv, Ltd.

St. Cloud, Minnesota
December 11, 2025

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. 578
Pine City, Minnesota

Report on Compliance for each Major Federal Program

Opinion on Each Major Federal Program

We have audited Independent School District No. 578's, Pine City, 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 the District's major federal programs for the year ended June 30, 2025. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the District complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of the District and to meet our 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 Example Entity'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.

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.

Report on Internal Control over Compliance (Continued)
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

Bergan KDV, Ltd.

St. Cloud, Minnesota
December 11, 2025

Independent School District No. 578
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 2025-001
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	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 that are not considered to be material weakness(es)?	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:	10.553/10.555/10.556/10.559
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. 578
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2025-001

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 basic financial statements requires adequate segregation of accounting duties.

Condition:
During the year ended June 30, 2025, the District had a lack of segregation of accounting duties due to a limited number of office employees. This condition increases the risk that errors could occur which would not be prevented or detected and corrected in a timely manner.

Questioned Costs:
None

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

Cause:
There are a limited number of office employees.

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

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

Independent School District No. 578
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2025-001 (Continued)

Views of the Responsible Officials and Planned Corrective Actions:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   The District will take the necessary corrective action to address the lack of segregation of duties identified as an audit finding. The District will also evaluate other key accounting processes and procedures to ensure adequate segregation of duties is achieved.

3. Official Responsible for Ensuring CAP
   Jill Nolan, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The planned completion date for the CAP is June 30, 2026.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – PRIOR YEAR FEDERAL AWARD FINDING

None

Minnesota Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 578
Pine City, 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 basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 578, Pine City, Minnesota, as of and for the year ended June 30, 2025, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 11, 2025.

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

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
December 11, 2025