INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

FINANCIAL STATEMENTS

JUNE 30, 2025

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
TABLE OF CONTENTS

	PAGE
INTRODUCTORY SECTION	
Board of Education and Administration	i
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Balance Sheet - Governmental Funds	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of Net Position in the District-wide Financial Statements and Fund Balances in the Fund Basis Financial Statements	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	23
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Food Service Fund	24
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Community Service Fund	25
Fiduciary Fund	
Statement of Fiduciart Net Position	26
Statement of Changes in Fiduciary Net Position	27
Notes to the Financial Statements	28
Required Supplementary Information	
Schedule of Changes in District's Total OPEB Liability and Related Ratios	62
Schedule of District's Contributions - General Employees Retirement Funds	63
Schedule of District's Contributions - TRA Retirement Funds	63
Schedule of District's and Non-employer Proportionate Share of Net Pension Liability - General Employees Retirement Funds	64
Schedule of District's and Non-employer Proportionate Share of Net Pension Liability - TRA	64
SUPPLEMENTARY INFORMATION	
Comparative Balance Sheet - General Fund	65
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Debt Service Fund	66
Supplemental Cost Schedules	67
Tax Levy History	68

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
TABLE OF CONTENTS (CONTINUED)

	PAGE
OTHER REQUIRED REPORTS	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an audit of Financial Statements in accordance with *Government Auditing Standards*	69
Schedule of Findings and Responses	71
Corrective Action Plan	72
Uniform Financial Accounting and Reporting Standards - Compliance Table	73

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

INTRODUCTORY SECTION

JUNE 30, 2025

(This Page Left Blank Intentionally)

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2025

2024 - 2025

		Term Expires
Patrick Towey, Jr.	Chairperson	12/31/2028
Kathy Hegna-Zelinske	Vice-Chairperson	12/31/2028
Justin Holtan	Treasurer	12/31/2028
Chad O'Conner	Clerk	12/31/2026
Tyler Anderson	Director	12/31/2026
Curt Heydt	Director	12/31/2026
Heather Swygman	Director	12/31/2028

Superintendent

Gregg Slaathaug

(This Page Left Blank Intentionally)

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

FINANCIAL SECTION

JUNE 30, 2025

(This Page Left Blank Intentionally)

INDEPENDENT AUDITOR'S REPORT

Board of Education
Independent School District #203
Hayfield, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District #203, Hayfield, Minnesota, as of and for the year ended June 30, 2025, and the related notes to 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 the District as of June 30, 2025, and the respective changes in financial position, and the budgetary comparison for the General Fund and each major special revenue 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* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS 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 substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the 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 the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, and Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Supplementary Information (Continued)

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 supplementary information, Uniform Financial Accounting and Reporting Standards Compliance Table, and are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Summarized Comparative Information

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statement for the year ended June 30, 2024, from which such partial information was derived.

We have previously audited the District's 2024 financial statements and our report, dated November 15, 2024, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued a report dated November 21, 2025 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the internal control over financial reporting and 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.

Smith, Schafer and Associates, Ltd.

Rochester, Minnesota
November 21, 2025

(This Page Left Blank Intentionally)

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Independent School District #203 – Hayfield Schools' 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 follow this section.

FINANCIAL HIGHLIGHTS

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

- The total assets and deferred outflows are $36,697,435.
- Overall revenues for the General Fund were $9,932,090 while overall expenditures totaled $10,261,045.
- The General Fund Unassigned Fund Balance is $1,078,955. This represents a decrease of $175,496 from last fiscal year. The Restricted General Fund balances included State required reserves for operating capital, gifted and talented, and other items. These balances total $1,322,841 as compared to $1,549,983 last fiscal year.
- The General Fund total fund balance decreased by $322,086 from the prior year. This fund decreased due to spending restricted fund balance dollars.
- In November 2021 the voters approved a $862.26 per pupil unit plus inflation authority. The voter approved authority is unaffected by the actual annual inflation rate nor is subject to a reduction for the Local Optional Revenue levy, which is in the amount of $424, thus the districts combined levy authority is $1,286.26. The additional funding will help to maintain programs in the District and pay for general operating expenses.

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 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.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements. The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, 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 and liabilities and deferred inflows – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position is 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 in one category: Governmental activities. Most of the District's basic services are included here, such as elementary and secondary regular instruction, 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 (i.e. scholarship trust fund).

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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 following the governmental funds statements that explains the relationship (or difference) between them.

- ***Fiduciary funds.*** The District is the trustee, or fiduciary, for assets that belong to others, such as the custodial fund consisting of the scholarship fund. 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. The District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. The District excludes these activities from the district-wide financial statements because it 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 $5,349,822 on June 30, 2025. This was a decrease of $519,760 from the prior year primarily due to the effect of accounting for net position under full accrual accounting and change in net pension.

	Total	
	2025	2024
Assets		
Current and other assets	$ 11,865,836	$ 12,160,223
Capital assets	23,313,989	24,728,848
Total assets	35,179,825	36,889,071
Deferred Outflows of Resources		
Total deferred outflows of resources	1,517,610	1,685,082
Liabilities		
Current liabilities	353,140	665,399
Long-Term liabilities	26,448,117	28,435,519
Total liabilities	26,801,257	29,100,918
Deferred Inflows of Resources		
Total deferred inflows of resources	4,546,356	3,603,653
Net Position		
Net investment in capital assets	2,896,876	3,716,512
Restricted	6,186,440	6,001,937
Unrestricted	(3,733,494)	(3,002,533)
Total net position	$ 5,349,822	$ 6,715,916

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

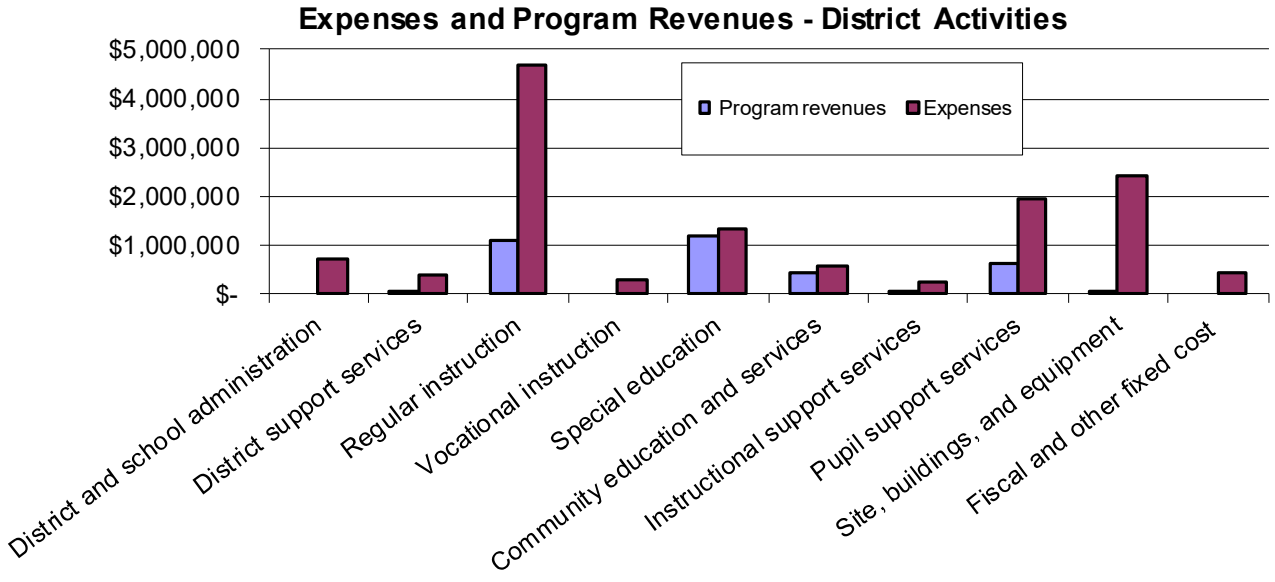
District's Revenue. The District's total revenues were $12,554,478 for the year ended June 30, 2025; compared to $11,891,885 for the year ended June 30, 2024. State sources accounted for 50% (compared to 50% the previous year) of the total revenue. Local property taxes (levies) accounted for 20% percent (compared to 19% the previous year) of the total revenue, with the remaining revenue coming from other sources.

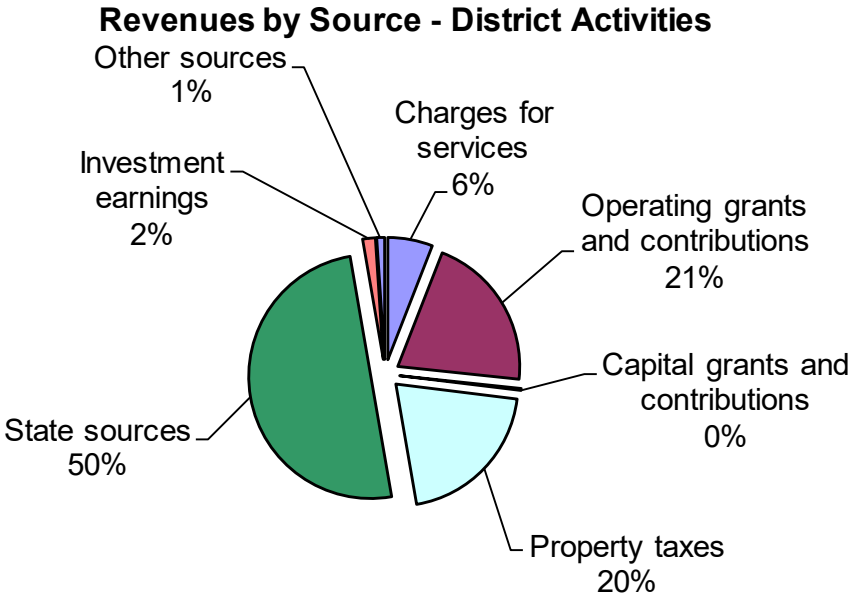
A condensed version of the Statement of Activities follows:

	Total	
	2025	2024
Revenue		
Program revenues:		
Charges for services	$ 743,230	$ 643,018
Operating grants and contributions	2,603,490	2,680,189
Capital grants and contributions	35,465	52,975
General revenues:		
Property taxes	2,553,038	2,232,258
State sources	6,276,995	5,897,907
Investment earnings	209,551	280,083
Other sources	132,709	105,455
Total revenues	12,554,478	11,891,885
Expenses		
District and school administration	740,151	717,887
District support services	399,078	550,967
Regular instruction	4,692,300	4,203,467
Vocational instruction	297,994	279,446
Special education	1,311,190	1,066,344
Community education and services	572,527	400,182
Instructional support services	247,778	168,304
Pupil support services	1,960,196	1,802,203
Site, buildings, and equipment	2,410,575	2,301,174
Fiscal and other fixed cost programs	442,449	446,665
Total expenses	13,074,238	11,936,639
Change in net position	(519,760)	(44,754)
Net Position - beginning as originally stated	6,715,916	6,760,670
Restatement (Note 14)	(846,334)	
Net Position - beginning as restated	5,869,582	6,760,670
Net Position - Ending	$ 5,349,822	$ 6,715,916

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Below are specific graphs that provide comparisons of the district activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.





FUND BASIS FINANCIAL ANALYSIS

Financial Analysis of the District's Funds

The financial performance of the District as a school is reflected in its governmental funds as well. As the District completed the year, its Governmental Funds reported a combined fund balance of $8,442,959.

History of enrollment measured by adjusted average daily membership (ADM):

Fiscal Year	ADM	% Change
2016	711.93	
2017	697.95	-2.0%
2018	699.26	0.2%
2019	707.02	1.1%
2020	702.61	-0.6%
2021	681.61	-3.0%
2022	674.93	-1.0%
2023	662.47	-1.8%
2024	639.00	-3.5%
2025	649.82	1.7%

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

Total General Fund Revenues decreased by $11,857 from the previous year primarily from federal funding. Basic general education revenue is determined by a state per student funding formula and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue includes excess levy referendum and the property tax shift also involves an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net revenue change.

Local property taxes are impacted by the state provided funds for school property tax relief. This relief was provided in two principle ways: 1) removal of the general education revenue property tax via a funding model of greater state aid; and 2) roll in of additional aid for referendum revenue into the basis formula for general education revenue.

FUND BASIS FINANCIAL ANALYSIS (Continued)

General fund revenues were as follows:

	2025	2024	Increase/ (Decrease)
Local property tax levies	$ 1,756,424	$ 1,686,922	$ 69,502
Other local and county sources	415,340	375,828	39,512
State sources	7,430,306	7,325,848	104,458
Federal sources	182,685	364,106	(181,421)
Investment income	147,335	191,243	(43,908)
Total General Fund Revenues	$ 9,932,090	$ 9,943,947	$ (11,857)

General fund expenditures were as follows:

	2025	2024	Increase/ (Decrease)
District and school administration	$ 771,673	$ 789,065	$ (17,392)
District support services	407,422	550,431	(143,009)
Regular instruction	4,594,023	4,427,449	166,574
Vocational instruction	302,616	274,200	28,416
Special education	1,349,414	1,141,395	208,019
Instructional support services	252,791	178,243	74,548
Pupil support services	1,298,981	1,325,396	(26,415)
Site, buildings, and equipment	1,189,448	1,329,809	(140,361)
Fiscal and other fixed cost programs	94,677	72,391	22,286
Total General Fund Expenditures	$ 10,261,045	$ 10,088,379	$ 172,666

The total General Fund balance on June 30, 2025, is $3,609,413 compared to $3,931,499 on June 30, 2024 (decrease of $322,086). Of the total amount, certain amounts are nonspendable, restricted, or assigned – leaving an amount of $1,078,955 in the Unassigned General Fund Balance.

FUND BASIS FINANCIAL ANALYSIS (Continued)

Food Service Fund. The Food Service Fund accounts for the activities related to providing child nutrition services to support K-12 academic programs. The fund operates with the goal that revenues exceed expenditures on day-to-day school breakfast and lunch operations so that the excess can be used to systematically replace and upgrade kitchen equipment. By operating in this manner, the child nutrition services program is self-supporting and does not rely upon resources from K-12 instruction programs other than for use of school facilities.

The Food Service Fund Balance decreased by $23,431. On June 30, 2025 the fund balance was $580,800; compared to the previous year's balance of $604,231.

The Food Service revenue for 2024-2025 totaled $643,303 compared to $603,308 the previous year – a increase of $39,995 primarily due to free breakfast and lunches from state revenues.

The Food Service expenditures for 2024-2025 totaled $666,734 compared to $493,251 the previous year – an increase in expenditures of $173,483 primarily due to an increase in the contracted per meal price.

Community Service Fund. The Community Service Fund accounts for the activities related to providing education and recreation programs for Pre-Kindergarten and Post-Grade 12 students. The fund operates on the goal of breaking even on a yearly basis so that is does not rely upon resources from K-12 instruction programs other than for use of school facilities.

The Community Service Fund Balance decreased by $106,244 during fiscal 2025.

Community Service Fund revenues for 2024-2025 totaled $480,358 compared to $389,539 the previous year - an increase of $90,819. This is primarily due to increased learning readiness fees and investment income.

Community Service Fund expenditures for 2024-2025 totaled $586,602 compared to $386,935 the previous year. This was an increase in expenditures of $199,667.

Debt Service Funds. The Debt Service funds exist to service the principal and interest 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% or pending debt service payments for a fiscal year. This rate is specified in statute to ensure that principal and interest payment can be made as scheduled even if there are late property tax payments or delinquencies that may arise.

The Debt Service Fund Balance is $3,867,101 as of June 30, 2025. This fund balance along with the 2024-2025 levy payable in 2025 and future state aid for debt service is sufficient to make pending principal and interest payments.

The Debt Service Fund Balance increased by $509,949 in 2024-2025. As debt is retired, these fund balances should become smaller on a year-to-year basis because a lower levy will be necessary to service remaining debt. Increase in CY is due to levy and state sources.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District provided a final Revised 2024-2025 Budget in February of 2025. The Revised FY25 Budget stated revenue sources being $391,083 more than the Original FY25 Budget.

The Actual FY25 revenue was $7,719 less than the Revised Budgeted Revenue. The District received a decrease in funding from federal sources, investment income and state sources.

The final Revised FY25 Budget stated expenditures were $665,356 more than the Original FY25 Budget. The Actual expenditures were $244,840 more than projected due to inflation causing higher than anticipated fees for services and supplies.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2025, the District had invested $23,313,989 (net of accumulated depreciation) in a broad range of capital assets including school buildings, athletic facilities, technology equipment, and other types of equipment. Capital assets are recorded at historical cost and depreciated over their estimated useful lives (excluding salvage value). The capitalization threshold is $5,000. Donated capital assets are recorded as their estimated acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the District-wide financial statements, but are not reported in the Fund financial statements.

	Total	
	2025	2024
Land	$ 1,100	$ 1,100
Land and building improvements	18,386,251	19,586,524
Buildings	4,550,085	4,735,082
Machinery and equipment	376,553	406,142
Total	$ 23,313,989	$ 24,728,848

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Long Term Liabilities. As of June 30, 2025, the District had $21,349,890 in bonds payable and bond premium outstanding. The District also had $104,754 in post separation and severance benefits payable at the end of the year. A summary of outstanding long-term liabilities as of June 30, 2025, is as follows:

	Total	
	2025	2024
General obligation bonds	$ 19,714,000	$ 20,259,000
Bond premium	703,113	753,336
Compensated absences payable	828,023	846,334
Severance payable	104,754	102,833
Total	$ 21,349,890	$ 21,961,503

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of voter-approved excess operating referendum, the District is dependent on the state of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The District is continuing to improve efficiencies and control spending to try to maintain a balanced budget. Through the support of referendum dollars that have been voter-approved, the District will continue to maintain a stable future. The District will carry on its long-standing commitment to academic excellence and educational opportunity for students within a framework of fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office, Independent School District #203, 9 Sixth Ave. SE, Hayfield, Minnesota, 55940.

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2025

(This Page is Left Blank Intentionally)

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2025

	Governmental Activities 2025
Assets	
Cash and cash equivalents	$ 5,307,934
Restricted cash	3,483,406
Taxes receivable	1,926,873
Other receivables	29,854
Due from other governmental units	1,023,124
Inventory	1,584
Prepaid items	93,061
Capital Assets:	
Non-depreciable	1,100
Depreciable, Net	23,312,889
TOTAL ASSETS	35,179,825
Deferred Outflows of Resources	
Deferred outflows from pension activities	1,297,758
Deferred outflows from postemployment benefit obligation	219,852
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,517,610
Liabilities	
Accounts payable	48,463
Due to other Minnesota school districts	107,825
Accrued interest payable	31,995
Unearned revenue	164,857
Long-Term Liabilities:	
Due within one year	625,222
Due in more than one year	20,724,668
Net pension liability	4,378,276
Other postemployment benefits	719,951
TOTAL LIABILITIES	26,801,257
Deferred Inflows of Resources	
Deferred inflows from pension activities	1,493,901
Deferred inflows from postemployment benefit obligation	86,549
Property taxes levied for subsequent year	2,965,906
TOTAL DEFERRED INFLOWS OF RESOURCES	4,546,356
Net Position	
Net investment in capital assets	2,896,876
Restricted:	
Operating capital purposes	282,660
State-Mandated restrictions	1,040,181
Food service	580,800
Community service	387,574
Debt service	3,895,225
Unrestricted	(3,733,494)
TOTAL NET POSITION	$ 5,349,822

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2025

	2025			
		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
District and school administration	$ 740,151	$	$	$
District support services	399,078		31	35,465
Regular instruction	4,692,300	269,935	850,495	
Vocational instruction	297,994			
Special education	1,311,190	19,379	1,170,302	
Community service	572,527	393,407	26,577	
Instructional support services	247,778		7	
Pupil support services	1,960,196	60,509	556,009	
Site, buildings, and equipment	2,410,575		69	
Fiscal and other fixed cost programs	442,449			
Total governmental activities	$ 13,074,238	$ 743,230	$ 2,603,490	$ 35,465
General Revenues:				
Property taxes levied for:				
General purposes				
Community Service				
Debt Service				
State aid not restricted to specific purposes				
Miscellaneous				
Investment income				
Total general revenues				
Change in net position				
Net Position - beginning as originally stated				
Restatement (Note 14)				
Net Position - beginning as restated				
Net Position - Ending				

See Notes to Financial Statements

2025
Net (Expense) Revenue and Changes in Net Position
Total Governmental Activities
$ (740,151)
(363,582)
(3,571,870)
(297,994)
(121,509)
(152,543)
(247,771)
(1,343,678)
(2,410,506)
(442,449)
(9,692,053)
1,792,992
41,470
718,576
6,276,995
132,709
209,551
9,172,293
(519,760)
6,715,916
(846,334)
5,869,582
$ 5,349,822

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2025
With Comparative Data As of June 30, 2024

	General	Food Service	Community Service
Assets			
Cash and cash equivalents	$ 3,615,035	$ 575,823	$ 404,638
Restricted cash			
Current property taxes receivable	791,710		19,859
Delinquent property taxes receivable	73,778		1,929
Accounts receivable	23,448	3,504	2,902
Due from Minnesota Department of Education	886,339		2,943
Due from Federal through Minnesota Department of Education	62,403		
Inventory		1,584	
Prepaid items	93,061		
TOTAL ASSETS	$ 5,545,774	$ 580,911	$ 432,271
Liabilities, Deferred Inflows of Resources, and Fund Balance			
Liabilities			
Accounts payable	$ 46,262	$	$ 2,201
Due to other governmental units			
Due to other Minnesota school districts	107,825		
Unearned revenue	164,746	111	
TOTAL LIABILITIES	318,833	111	2,201
Deferred Inflows of Resources			
Unavailable revenue:			
Taxes levied for subsequent year	1,543,750		42,496
Delinquent property taxes	73,778		1,929
TOTAL DEFERRED INFLOWS OF RESOURCES	1,617,528		44,425
Fund Balances			
Nonspendable	93,061	1,584	
Restricted	1,322,841	579,216	438,533
Assigned	1,114,556		
Unassigned	1,078,955		(52,888)
TOTAL FUND BALANCES	3,609,413	580,800	385,645
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 5,545,774	$ 580,911	$ 432,271

See Notes to Financial Statements

		Total Governmental Funds	
Debt Service		2025	2024
$	712,438	$ 5,307,934	$ 5,925,334
	3,483,406	3,483,406	2,985,036
	979,478	1,791,047	1,845,779
	60,119	135,826	99,258
		29,854	21,774
	71,439	960,721	931,361
		62,403	273,671
		1,584	853
		93,061	77,157
$	5,306,880	$ 11,865,836	$ 12,160,223
$		$ 48,463	$ 127,348
			167,830
		107,825	180,763
		164,857	155,117
		321,145	631,058
	1,379,660	2,965,906	3,045,136
	60,119	135,826	99,258
	1,439,779	3,101,732	3,144,394
		94,645	78,010
	3,867,101	6,207,691	6,007,497
		1,114,556	1,049,908
		1,026,067	1,249,356
	3,867,101	8,442,959	8,384,771
$	5,306,880	$ 11,865,836	$ 12,160,223

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2025
With Partial Comparative Data for the Year Ended June 30, 2024

	General	Food Service	Community Service
Revenues			
Local sources:			
Property tax levies	$ 1,756,424	$	$ 41,470
Other local and county sources	415,340		393,407
Investment income	147,335	24,643	17,750
State sources	7,430,306	286,852	27,731
Federal sources	182,685	271,485	
Sales and other conversions of assets		60,323	
TOTAL REVENUES	9,932,090	643,303	480,358
Expenditures			
District and school administration	771,673		
District support services	407,422		
Regular instruction	4,594,023		
Vocational instruction	302,616		
Special education	1,349,414		
Instructional support services	252,791		
Pupil support services	1,298,981	666,734	
Site, buildings, and equipment	1,189,448		
Fiscal and other fixed cost programs	94,677		
Community service			586,602
TOTAL EXPENDITURES	10,261,045	666,734	586,602
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(328,955)	(23,431)	(106,244)
Other Financing Sources (Uses)			
Sale of equipment	6,869		
NET CHANGE IN FUND BALANCES	(322,086)	(23,431)	(106,244)
FUND BALANCE - BEGINNING	3,931,499	604,231	491,889
FUND BALANCE - ENDING	$ 3,609,413	$ 580,800	$ 385,645

See Notes to Financial Statements

		Total Governmental Funds	
Debt Service		2025	2024
$ 718,576		$ 2,516,470	$ 2,156,259
		808,747	681,533
19,823		209,551	280,083
716,891		8,461,780	8,011,658
		454,170	631,352
		60,323	51,541
1,455,290		12,511,041	11,812,426
		771,673	789,065
		407,422	550,431
		4,594,023	4,427,449
		302,616	274,200
		1,349,414	1,141,395
		252,791	178,243
		1,965,715	1,818,647
		1,189,448	1,329,809
945,341		1,040,018	1,019,126
		586,602	386,935
945,341		12,459,722	11,915,300
509,949		51,319	(102,874)
		6,869	3,460
509,949		58,188	(99,414)
3,357,152		8,384,771	8,484,185
$ 3,867,101		$ 8,442,959	$ 8,384,771

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
DISTRICT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
June 30, 2025

Amounts reported for governmental activities in the statement of net position are different because:

Total governmental fund balances (pages 17 and 18)		$ 8,442,959
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	$ 35,229,997	
Less: Accumulated depreciation	11,916,008	
		23,313,989
Other long-term assets not available soon enough to pay for current-period expenditures and, therefore, are unavailable in the funds:		
Delinquent property taxes		135,826
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	$ (19,714,000)	
Unamortized bond premiums	(703,113)	
Net pension liability	(4,574,419)	
Compensated absences and severance payable	(932,777)	
Other post-employment benefits payable	(586,648)	
Accrued interest	(31,995)	
		(26,542,952)
Net position of governmental activities (page 14)		$ 5,349,822

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2025

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (pages 19 and 20)		$ 58,188
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 30,999	
Depreciation expense	(1,445,858)	
		(1,414,859)
Certain revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Delinquent property taxes		36,568
The governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligations bonds and related items is as follows.		
Principal retirement on long-term debt	$ 545,000	
Bond premium	50,223	
Change in accrued interest	2,346	
		597,569
In the statement of activities, certain operating expenses - net pension liability, compensated absences, and other postemployment benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
Net pension liability	$ 210,505	
Compensated absences and severance payable	16,390	
Other postemployment benefits payable	(24,121)	
		202,774
Change in net position of governmental activities (pages 15 and 16)		$ (519,760)

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2025
With Partial Comparative Data for the Year Ended June 30, 2024

	Budgeted Amounts		2025	Over (Under)	2024
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$ 1,763,739	$ 1,731,747	$ 1,756,424	$ 24,677	$ 1,686,922
Other local and county sources	275,405	169,260	415,340	246,080	375,828
Investment income	200,010	200,000	147,335	(52,665)	191,243
State sources	7,140,119	7,641,072	7,430,306	(210,766)	7,325,848
Federal sources	169,453	197,730	182,685	(15,045)	364,106
TOTAL REVENUES	9,548,726	9,939,809	9,932,090	(7,719)	9,943,947
Expenditures					
District and school administration	799,887	826,987	771,673	(55,314)	789,065
District support services	519,790	535,356	407,422	(127,934)	550,431
Regular instruction	3,931,374	4,173,569	4,594,023	420,454	4,427,449
Vocational instruction	308,383	296,783	302,616	5,833	274,200
Special education	1,155,761	1,254,403	1,349,414	95,011	1,141,395
Instructional support services	211,392	238,896	252,791	13,895	178,243
Pupil support services	1,154,948	1,258,665	1,298,981	40,316	1,325,396
Site, buildings, and equipment	1,176,764	1,315,611	1,189,448	(126,163)	1,329,809
Fiscal and other fixed cost programs	92,550	115,935	94,677	(21,258)	72,391
TOTAL EXPENDITURES	9,350,849	10,016,205	10,261,045	244,840	10,088,379
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	197,877	(76,396)	(328,955)	(252,559)	(144,432)
Other Financing Sources					
Sale of equipment	1,110	1,200	6,869	5,669	3,460
NET CHANGE IN FUND BALANCE	198,987	(75,196)	(322,086)	(246,890)	(140,972)
FUND BALANCE - BEGINNING	3,931,499	3,931,499	3,931,499		4,072,471
FUND BALANCE - ENDING	$ 4,130,486	$ 3,856,303	$ 3,609,413	$ (246,890)	$ 3,931,499

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOOD SERVICE FUND
For the Year Ended June 30, 2025
With Partial Comparative Data for the Year Ended June 30, 2024

	Budgeted Amounts		2025	Over (Under)	2024
	Original	Final	Actual	Final Budget	Actual
Revenues					
State sources	$ 310,050	$ 259,050	$ 286,852	$ 27,802	$ 259,819
Federal sources	177,000	251,000	271,485	20,485	267,246
Investment income	1,350	8,000	24,643	16,643	24,702
Sales and other conversions of assets	77,400	54,862	60,323	5,461	51,541
TOTAL REVENUES	565,800	572,912	643,303	70,391	603,308
Expenditures					
Pupil support services	452,349	557,505	666,734	109,229	493,251
NET CHANGE IN FUND BALANCES	113,451	15,407	(23,431)	(38,838)	110,057
FUND BALANCES - BEGINNING	604,231	604,231	604,231		494,174
FUND BALANCES - ENDING	$ 717,682	$ 619,638	$ 580,800	$ (38,838)	$ 604,231

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
For the Year Ended June 30, 2025
With Partial Comparative Data for the Year Ended June 30, 2024

	Budgeted Amounts		2025	Over (Under)	2024
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$ 44,390	$ 43,236	$ 41,470	$ (1,766)	$ 27,071
Other local and county sources	210,400	328,000	393,407	65,407	305,705
Investment income	1,450	8,000	17,750	9,750	25,853
State sources	30,016	29,375	27,731	(1,644)	30,910
TOTAL REVENUES	286,256	408,611	480,358	71,747	389,539
Expenditures					
Community services	247,298	487,688	586,602	98,914	386,935
NET CHANGE IN FUND BALANCES	38,958	(79,077)	(106,244)	(27,167)	2,604
FUND BALANCES - BEGINNING	491,889	491,889	491,889		489,285
FUND BALANCES - ENDING	$ 530,847	$ 412,812	$ 385,645	$ (27,167)	$ 491,889

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
For the Year Ended June 30, 2025

		Custodial
Assets		
Cash and cash equivalents	$	72,060
Investments		30,646
Total Assets	$	102,706
Net Position	$	102,706

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2025

	Custodial
Additions	
Other local and county sources	$ 5,200
Earnings on investments	38
Total Additions	5,238
Deductions	
Scholarships paid out	5,200
Total Deductions	5,200
CHANGE IN NET POSITION	38
NET POSITION - BEGINNING	102,668
NET POSITION - ENDING	$ 102,706

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Independent School District #203 was formed and operates pursuant to applicable Minnesota laws and statutes.

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 Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

Financial Reporting Entity

Independent School District #203 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting principles generally accepted in the United States of America (GAAP) require that the District's financial statements include all funds, account groups, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. Based on the aforementioned criteria, the District has no component units.

Basic Financial Statement Presentation

The District-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary fund. Fiduciary funds are reported only in the Statements of Fiduciary Net Position and Changes in Fiduciary Fund 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 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) 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 each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material inter-fund activity has been removed from the District-wide financial statements.

Separate Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The District-wide financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory “tax shift” described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

Governmental fund types are accounted for using the modified accrual basis of accounting. Under this method revenues are recognized when susceptible to accrual, i.e. both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual are property taxes, state aids, fees, and interest. For this purpose, the District considers all revenues to be available if they are collected within 60 days after the end of the current period.

Expenditures are generally recognized using the modified accrual basis of accounting when a related fund liability is incurred. Exceptions to this rule include (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued, and (2) principal and interest on general long-term debt which is recognized when due.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes are recognized in the year for which the tax is levied. Revenue form grants and donations are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements including timing requirements, which specify the year in when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

Unearned revenue is recorded when assets are recognized before revenue recognition criteria have been satisfied. Grants received before eligibility requirements other than time requirements are met and recorded as unearned revenue. Grants received before time requirements are met are recorded as a deferred inflow of resources.

Description of Funds

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, net position/fund balance, revenues and expenditures. District resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

1. Summary of Significant Accounting Policies (Continued)

Description of Funds (continued)

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources and transactions except those required to be accounted for in other funds.

The *food service fund* accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

The *community service fund* accounts for the resources designated for programs other than those for elementary and secondary students.

The *debt service fund* accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

The District reports the following fiduciary funds:

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. The District uses agency funds to account for scholarship accounts that have no administrative or direct financial involvement. This fund accounts for funds that the District is a fiscal host of flow-through funds for scholarships without a legally binding trust.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service and Debt Service Funds. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control for most funds is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Cash and Investments

Except where otherwise required, the District maintains all deposits in bank accounts in the name of the District. These deposits are invested on a short-term basis with interest income allocated to each fund based upon their relative account balance. The balances shown in each fund represents an equity interest in the commingled pool of cash and temporary cash investments, which is under the management of the District. Investments consist primarily of nonparticipating certificates of deposit recorded at cost, which approximates market.

The District has designated cash and cash equivalents as demand deposits and all investments with an original maturity of three months or less.

Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

Use of Estimates

The preparation of financial statements in conformity with United State generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, 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/expenditures) until that time. The District has two types of items which occur related to revenue recognition. The deferred outflows of resources are pension and OPEB related.

Deferred Inflows of Resources

In addition to liabilities, the financial statement will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net 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 items which occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year-end) under the modified accrual basis of accounting. The other types are pension and OPEB related.

Unearned Revenue

Unearned revenues are those in which resources are received by the district before it has a legal claim to them. The District has reported unearned revenues for fees collected for student meals not used and advanced payments for technology fees.

1. Summary of Significant Accounting Policies (Continued)

Inventories

Inventories are recorded using the consumption method of accounting and consist of food and commodities on hand at June 30, 2025. The food is recorded at the invoice cost. The food inventories are valued using the latest invoice cost, which approximates FIFO inventory method. Surplus commodities are stated at standardized commodities cost as determined by the Department of Agriculture.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

Property Taxes

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1. Taxes are due on May 15 and October 15. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the “tax shift”, which periodically changes the District’s recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year’s levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $83,627 of the property tax levy collectible in 2025 as revenue to the District is fiscal year 2024-2025. The remaining portion of the taxes collectible in 2025 is recorded as deferred inflows of resources.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred inflows of resources because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2025, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the district-wide financial statements. Net investment in 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 district-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

1. Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

Financial instruments which expose the District to a concentration of credit risk consist primarily of cash and investments. Credit risk associated with cash and investments are discussed in Note 3.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District maintains a capitalization threshold level of $5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the District-wide financial statement, but are not reported in the Fund financial statements. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Deprecation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	Useful Life in Years
Land improvements and buildings	25 - 50
Equipment	5 - 15

Capital assets not being depreciated include land.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

Long-term Obligations

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

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

Compensated Absences Payable

Eligible teachers with at least 15 years of service receive severance for up to 150 accumulated sick days. Severance is calculated by multiplying the number of accumulated sick days by 75% the employee's current per diem rate of pay. The total severance received cannot exceed $30,000. The payment is reduced by any 403(b) contributions the District made for the employees.

Eligible administrators with at least 10 years of service receive severance for up to 150 accumulated sick days. Severance is calculated by multiplying the number of accumulated sick days by 75% of the employee's current per diem rate of pay.

1. Summary of Significant Accounting Policies (Continued)

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses or revenues/income initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses or revenues/income in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Comparative Data

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data has not been presented since their inclusion would not provide meaningful comparisons. Certain amounts in the June 30, 2024 totals column have been reclassified to conform with the current year presentation.

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 (DTRFA) in 2015.

Other Postemployment Benefits Payable

Under the provisions of the various employee and union contracts the District provides Health and Dental Care coverage until age 65 if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB Statement No. 75.

Leases

For leases with a term exceeding 12 months, the District recognizes a lease liability and a right to use lease asset in the government-wide financial statements.

The right to use lease asset is calculated at the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus certain initial direct costs incurred, minus any lease incentives received. Subsequently, the right to use lease asset is amortized on a straight-line basis over its useful life. The District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of the lease payments made. Remeasurement of the right to use lease asset and lease liability occurs when certain changes occur that are likely to have a significant impact on the lease liability.

Right to use lease assets are reported with capital assets and lease liabilities are reported with long-term debt on the statement of net position.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Implementation of New Accounting Principles

During the year, the District implemented GASB Statement No. 101, *Compensated Absences*. This Statement provides guidance on accounting and financial reporting for reporting a liability for certain types of leave (compensated absences). Under this Statement, government organizations are required to recognize a liability for employee's compensated absences if the leave is attributable to employee's services already rendered, if the leave accumulates, or if it is more likely than not to be used for time off or paid in cash upon separation. The liability is measured using an employee's rate of pay at the date of the financial statements. The liability and associated expense are reported in the government-wide statements. The Statement has been implemented and a liability has been reported on the government-wide financial statements.

2. Stewardship and Accountability

Excess expenditures over appropriations at the individual fund level during 2025 is as follows:

	Budget	Expenditures	Excess
General Fund	$ 10,016,205	$ 10,261,045	$ 244,840
Food Service Fund	557,505	666,734	109,229
Community Service	487,688	586,602	98,914

Excess expenditures were the result of planned processes.

3. Cash and Investments

Summary of Cash and Investments

As of June 30, 2025, the District's cash and investments consisted of the following items:

Deposits	$	1,383,707
Cash on Hand		4,910
Restricted Cash		3,483,406
MSDLAF+ Liquid Class		3,475,502
MSDLAF+ Max Class		541,394
Non-Negotiable Certificate of Deposit		5,127
Total Cash and Investments		8,894,046
Less: Fiduciary funds cash and cash equivalents		102,706
Total Cash and Investments reported on the Statement of Net Position	$	8,791,340

Restricted Cash and Investments Held by Fiscal Agent	$	3,483,406
Cash and Investments per Statement of Net Position		5,307,934
Total Cash and Investments per Statement of Net Position	$	8,791,340

3. Cash and Investments (Continued)

Summary of Cash and Investments (Continued)

The District is authorized by Minnesota Statues to invest idle funds as follows:

a) Direct obligations or obligations guaranteed by the United States or its agencies.

b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.

c) General obligations rated "A" or better; revenue obligations rated "AA" or better.

d) General obligations of the Minnesota Housing Finance Agency rated "A" or better.

e) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.

f) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies and maturing in 270 days or less.

g) 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, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

h) Guaranteed Investments 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.

Fair Value Measurement

Fair value measurements are determined utilizing the framework established by the Governmental Accounting Standards Board. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data. Inputs to the valuation methodology include:
    - Quoted prices for similar assets or liabilities in active markets
    - Quoted prices for identical assets or liabilities in inactive markets
    - Inputs other than quoted prices that are observable for the asset or liability
    - Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specific (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

3. Cash and Investments (Continued)

Fair Value Measurement (Continued)

The District had the following investments at fiscal year-end:

	Credit Risk		Fair Value Measurements	Interest Risk - Maturity Duration in Years				
Investment Type	Rating	Agency	Using	No Maturity Date	Less than 1	1 to 5	6 to 10	Total
MSDLAF+ Liquid Class	AAA	S&P	N/A	$ 3,475,502	$	$	$	$ 3,475,502
MSDLAF+ Max Class	AAA	S&P	N/A	541,394				541,394
Total Investments				$ 4,016,896	$	$	$	$ 4,016,896

N/A - Not applicable

The Minnesota School District Liquid Asset Fund (MSDLAF) Plus Liquid Class and MSDLAF Plus Max Class are external investment pools not registered with the Securities and Exchange Commission regulated by Minnesota Statues. The District's investments in these investment pools are measured at the net asset value per share provided by the pool, which is based on amortized cost method that approximates fair value. For the MSDLAF Plus Liquid Class and MSDLAF Plus Max Class investment pools, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice required.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's policy for custodial credit risk follows Minnesota Statutes for deposits. The District's deposits are entirely covered by federal depository insurance or by collateral held by the District's custodial banks in the District's name.

Minnesota Statues require that all District deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank must equal 110% of the deposits not covered by insurance or surety bonds. Authorized collateral includes certain state of local government obligations and legal investments. Minnesota Statues also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

Credit Risk

The District's investment policy limits its investment choices to those allowed by Minnesota Statutes.

Concentration of Credit Risk

The District places limits on the amount the District may invest in the investment types stated above. The District's policy limits investment in items f) and g) to no more than 50%, and no more than 90% in interest bearing accounts, CD's, or other investments constituting direct obligations of any bank.

Interest Rate Risk

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

4. Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2025 are as follows:

Fund	Minnesota Department of Education	Federal Government Through MDE	Total
General	$ 886,339	$ 62,403	$ 948,742
Community Service	2,943		2,943
Debt Service	71,439		71,439
	$ 960,721	$ 62,403	$ 1,023,124

5. Capital Assets

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

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 1,100	$	$	$ 1,100
Total capital assets, not being depreciated	1,100			1,100
Capital assets, being depreciated:				
Buildings	10,211,038			10,211,038
Land and building improvements	24,010,782			24,010,782
Equipment	976,078	30,999		1,007,077
Total capital assets, being depreciated	35,197,898	30,999		35,228,897
Less accumulated depreciation for:				
Buildings	5,475,956	184,997		5,660,953
Land and building improvements	4,424,258	1,200,273		5,624,531
Equipment	569,936	60,588		630,524
Total accumulated depreciation	10,470,150	1,445,858		11,916,008
Total capital assets, being depreciated, net	24,727,748	(1,414,859)		23,312,889
Governmental activities capital assets, net	$ 24,728,848	$ (1,414,859)	$	$ 23,313,989

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Administration	$ 438
District support services	117
Regular instruction	179,899
Vocational instruction	2,573
Pupil support services	5,283
Site, buildings and equipment	1,257,548
Total depreciation expense - governmental activities	$ 1,445,858

6. Long-Term Liabilities

The long-term debt obligations outstanding and related maturities and interest rates are summarized in the following schedules. General Obligation Bonds are serviced by the Debt Service Fund. They are backed by the full faith and credit of the District. The compensated absences payable is serviced by the General Fund.

A summary of interest rates, maturities and June 30, 2025 balances is as follows:

	Original Amount of Debt	Range of Interest Rates	Final Maturity	Balance June 30, 2025
General Obligation Bonds:				
Taxable Facilities Maintenance Bonds, 2017A	$ 9,694,000		2038	$ 9,694,000
School Building Bonds, 2017B	13,200,000	3.00 - 5.00%	2038	10,020,000
Bond Premium, Net				703,113
Other Liabilities:				
Compensated Absences Payable				828,023
Severance Payable				104,754
Long-term Liabilities				$ 21,349,890

Compensated absences are presented as the net change of increases and decreases to arrive at the presentation of the ending balance.

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2025:

		Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES						
Bonds Payable:						
General Obligation Bonds:						
Taxable Facilities Maintenance Bonds, 2017A		$ 9,694,000	$	$	$ 9,694,000	$
School Building Bonds, 2017B		10,565,000		545,000	10,020,000	575,000
Bond Premium, Net		753,336		50,223	703,113	50,222
Other Liabilities:						
Compensated Absences Payable	*	846,334		18,311	828,023	
Severance Payable		102,833	1,921		104,754	
Long-term Liabilities		$ 21,961,503	$ 1,921	$ 613,534	$ 21,349,890	$ 625,222

*Beginning balance was restated as described in footnote 14.

Compensated absences are presented as the net change of increases and decreases to arrive at the presentation of the ending balance.

6. Long-Term Debt (Continued)

The annual requirements to amortize all long-term debt outstanding as of June 30, 2025, over the life of the debt, are summarized below:

	General Obligation Bonds		
Years	Principal	Interest	Total
Governmental Activities			
2026	$ 575,000	$ 371,550	$ 946,550
2027	605,000	342,800	947,800
2028	635,000	312,550	947,550
2029	665,000	280,800	945,800
2030	700,000	247,550	947,550
2031-2035	3,935,000	804,600	4,739,600
2036-2038	12,599,000	183,300	12,782,300
Totals	$ 19,714,000	$ 2,543,150	$ 22,257,150

Qualified Zone Academy Bond

On September 1, 2017 the District entered into an agreement with Dubuque Bank & Trust for $9,694,000 of Taxable General Obligation Facilities Maintenance Bonds, Series 2017A (Qualified Zone Academy Bonds). The proceeds of this issue were used to fund the cost of indoor air quality improvements at Hayfield ISD. The bonds do not bear interest. Semi-annual payments of $248,564 will be made to a reserve account a Dubuque Bank & Trust. The reserve account holds the cash until the bonds' maturity on August 1, 2037, at which time the balance in the reserve account will pay off the bonds. The balance in the reserve account is $3,483,406 as of June 30, 2025. The District will levy property taxes for the retirement of these bonds. Escrow and principal payments on these bonds are recorded in the Debt Service Fund.

7. Net Position/Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained to due constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

Assignment of fund balances can be made by the District Superintendent, Business Manager, or the School Board. Assignments so made are to be reported to the School Board on a monthly basis.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of the unrestricted fund balance when expenditures are made.

The District has a formal minimum fund balance policy for the General Fund Unassigned Fund Balance to be between five and eight percent of the projected annual expenditures.

Restriction of fund balance indicates that a portion of the fund balance is legally segregated for a specific future use. The following is a summary of the restricted fund balances for the governmental funds:

Restricted for Scholarships - Represents the resources available for the scholarship funds.

Restricted for Student Activities – Represents the resources available for the extracurricular activity funds raised by students.

Restricted for Staff Development – Represents unspent staff development revenues set aside from General Education Revenue.

7. Net Position/Fund Balance (Continued)

Restricted for Operating Capital – The District levies taxes and receives state aid to be used for the purchase of equipment, books, and vehicles and to purchase, rent, improve, and repair school facilities as allowed by state statue. The cumulative excess of such revenues over equipment and facilities expenditure is reported as a restriction of fund balance in the General Fund.

Restricted for Gifted and Talented – Represents general education aid resources to be expended for gifted and talented programs.

Restricted for Basic Skills – The fund balance restriction represents the resources available within the General Fund to provide for basic skills programs.

Restricted for Safe School - Represents the unspent resources available from the safe schools levy and must be restricted in this account for future use.

Restricted for Long-Term Facilities Maintenance – Represents available resources to be used for LTFM projects in accordance with the 10-year plan.

Restricted for Medical Assistance – The fund balance restriction represents resources to be used for Medical Assistance expenditures.

Restricted for Community Ed – Represents available resources within the Community Service Fund for enrichment programs for any age level that are not part of the K-12 education program that are not taken for credit or required for graduation.

Restricted for Early Child/Family Ed – Represents available resources within the Community Service Fund whose focus is to improve parenting skills of new and expectant parents, and/or to provide learning experiences for parents and children.

Restricted for School Readiness – Represents the resources available to provide for services for school readiness programs.

Restricted for QZAB Payments – Represents resources required by agreement to be segregated for future payments of Qualified Zone Academy Bond (QZAB) debt instrument.

7. Net Position/Fund Balance (Continued)

The following is a summary of fund balances as of June 30, 2025 with comparative totals as of June 30, 2024:

	General	Food Service	Community Service	Debt Service	2025 Totals	2024 Totals
Nonspendable						
Inventory	$	$ 1,584	$	$	$ 1,584	$ 853
Prepaid items	93,061				93,061	77,157
Total nonspendable	93,061	1,584			94,645	78,010
Restricted						
Student activities	13,690				13,690	12,356
Scholarships	6,193				6,193	6,796
Staff development	236,055				236,055	387,533
Operating capital	282,660				282,660	289,240
Literacy incentive aid						19,702
Read Act	2,938				2,938	
Gifted and talented	54,192				54,192	45,341
Basic skills	77,744				77,744	77,675
Safe school	25,792				25,792	25,667
Long-term facilities maintenance	520,424				520,424	597,803
Medical assistance	103,153				103,153	87,870
Food service		579,216			579,216	603,378
Community education			433,979		433,979	423,754
Early childhood and family education programs			4,554		4,554	4,554
School readiness						68,676
Community service						
QZAB payments				3,484,132	3,484,132	2,985,762
Debt service				382,969	382,969	371,390
Total restricted	1,322,841	579,216	438,533	3,867,101	6,207,691	6,007,497
Assigned						
Student activities	226,648				226,648	226,648
Wellness program	3,868				3,868	3,868
Technology	413,879				413,879	429,232
Transportation	67,265				67,265	67,265
Curriculum	294,715				294,715	214,715
Facility/Property	5,348				5,348	5,348
Accrued severance payable	102,833				102,833	102,832
Total assigned	1,114,556				1,114,556	1,049,908
Unassigned	1,078,955		(52,888)		1,026,067	1,249,356
Total Fund Balance	$3,609,413	$ 580,800	$ 385,645	$3,867,101	$8,442,959	$8,384,771

7. Net Position/Fund Balance (Continued)

Below is a reconciliation between the fund balances following GASB standards and UFARS reporting standards.

	GASB Balance	Reconciling Balance	UFARS Balance June 30, 2025	UFARS Balance June 30, 2024
Nonspendable				
Inventory	$ 1,584	$	$ 1,584	$ 853
Prepaid items	93,061		93,061	77,157
Total nonspendable	94,645		94,645	78,010
Restricted				
Student activities	13,690		13,690	12,356
Scholarships	6,193		6,193	6,796
Staff development	236,055		236,055	387,533
Operating capital	282,660		282,660	289,240
Literacy incentive aid				19,702
Read Act	2,938		2,938	
Gifted and talented	54,192		54,192	45,341
Basic skills	77,744		77,744	77,675
Safe school	25,792		25,792	25,667
Long-term facilities maintenance	520,424		520,424	597,803
Medical assistance	103,153		103,153	87,870
Food service	579,216		579,216	603,378
Community education	433,979		433,979	423,754
Early childhood and family education programs	4,554		4,554	4,554
School readiness		(51,179)	(51,179)	68,676
Community service		(1,709)	(1,709)	(5,095)
QZAB payments	3,484,132		3,484,132	2,985,762
Debt service	382,969		382,969	371,390
Total restricted	6,207,691	(52,888)	6,154,803	6,002,402
Assigned				
Student activities	226,648		226,648	226,648
Wellness program	3,868		3,868	3,868
Technology	413,879		413,879	429,232
Transportation	67,265		67,265	67,265
Curriculum	294,715		294,715	214,715
Facility/Property	5,348		5,348	5,348
Accrued severance payable	102,833		102,833	102,832
Total assigned	1,114,556		1,114,556	1,049,908
Unassigned	1,026,067	52,888	1,078,955	1,251,065
Total Fund Balance	$ 8,442,959	$	$ 8,442,959	$ 8,381,385

8. Commitments and Contingencies

The District participates in a number of federal and state agency assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District does not anticipate any audit adjustments or disallowed program expenditures that would be material in relation to the general-purpose financial statements taken as a whole.

9. Defined Benefit Pension Plans – Statewide

Plan Description

1. General Employees Retirement Plan

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

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

2. Teachers Retirement Association (TRA)

The 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 school, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage within one year of eligible employment or elect coverage through the Define Contribution Plan (DCR) administered by the State of Minnesota. A teacher employed by Minnesota State and electing DCR plan is not a member of TRA except for purposes of social security coverage.

Benefits Provided

1. General Employees Plan Benefits

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.

9. Defined Benefit Pension Plans – Statewide (Continued)

Benefits Provided (Continued)

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. The 2024 annual increase was 1.5 percent. 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.

2. TRA Benefits

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

9. Defined Benefit Pension Plans – Statewide (Continued)

Benefits Provided (Continued)

With these provisions:

a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

b) 3 percent per year early retirement reduction factor for all years under normal retirement age.

c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Or

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for coordinated members and 2.7 percent for Basic members applies. An early retirement reduction is applied to members retiring prior to age 65. 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 benefit 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 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 also 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.

Contributions

1. General Employees Fund Contributions

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

General Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2025 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2025 were $68,761. The District's contributions were equal to the required contributions as set by the state statute.

9. Defined Benefit Pension Plans – Statewide (Continued)

Contributions (Continued)

2. TRA 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 the TRA Fund for the year ended June 30, 2025 were $362,687. The District's contributions were equal to the required contributions as set by the state statute.

Pension Costs

1. General Employees Fund Pension Costs

At June 30, 2025, the District reported a liability of $400,471 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 $10,355.

District's proportionate share of the net pension liability	$ 400,471
State of Minnesota's proportionate share of the net pension liability associated with the District	10,355
Total	$ 410,826

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 0.0108 percent at the end of the measurement period and 0.0116 percent for the beginning of the period.

For the year ended June 30, 2025, the District recognized pension expense of $67,627 for its proportionate share of General Employees Plan's pension expense. In addition, the District recognized $278 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual $16 million contribution.

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 schedules 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 $1,837 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 General Employees Fund.

9. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 38,494	$
Changes in actuarial assumptions	2,057	159,414
Net difference between projected and actual earnings on pension plan investments		102,556
Changes in proportion	22,866	32,187
Employer contributions subsequent to the measurement date	79,941	
Total	$ 143,358	$ 294,157

The $79,941 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 deferred inflows of resources related to General Employee Plan's pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2026	$ (110,341)
2027	(28,983)
2028	(60,724)
2029	(30,692)

2. TRA Pension Costs

On June 30, 2025, the District reported a liability of $3,977,805 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 that date July 01, 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. The District's proportionate share was 0.0626 percent at the end of the measurement period and 0.0612 percent for the beginning of the period.

9. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (Continued)

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 the net pension liability	$	3,977,805
State of Minnesota's proportionate share of the net pension liability associated with the District		260,018
Total	$	4,237,823

For the year ended June 30, 2025, the District recognized pension expense of 142,878. It also recognized ($3,181) as a decrease to 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 $1,102 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.

At 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 economic experience	$ 188,953	$ 50,791
Net difference between projected and actual investment earnings on pension plan investments		552,923
Changes of assumptions	403,690	474,364
Changes in proportion	179,231	121,666
District contributions subsequent to the measurement date	382,526	
Total	$ 1,154,400	$ 1,199,744

The $382,526 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.

9. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (Continued)

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

Year ending June 30:	Pension Expense Amount
2026	$ (228,139)
2027	395,217
2028	(300,896)
2029	(250,541)
2030	(43,511)

Aggregate Pension Costs

Pension expense recognized by the District for the fiscal year ended June 30, 2025 is as follows:

General Employees Retirement Fund	$ 67,905
TRA	142,878
Total	$ 210,783

Long-Term Expected Return on Investment

1. General Employees Fund Long-Term Expected Return on Investment

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Equity	16.50%	5.30%
Total	100%	

9. Defined Benefit Pension Plans – Statewide (Continued)

Long-Term Expected Return on Investment (Continued)

2. TRA Long-Term Expected Return on Investment

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	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Equity	16.50%	5.30%
Total	100%	

Actuarial Methods and Assumptions

1. General Employees Fund 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% 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% is within that range.

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

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

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

9. Defined Benefit Pension Plans – Statewide (Continued)

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.

2. TRA Actuarial Methods and 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 Studies	August 2, 2023 (demographic and economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Price Inflation	2.50%
Wage Growth Rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increase	2.85% to 8.85% before July 1, 2028 and 3.25% to 9.25% after June 30, 2028
Cost of Living Adjustment	1.0% 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.
Healthy Retirees:	PubT-2010 (A) Retiree Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Beneficiaries:	Pub-2010 (A) Contingent Survivor Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
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.

9. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Methods and Assumptions (Continued)

Changes in actuarial assumptions since the 2022 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 Pub2010 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 & 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.

Discount Rate

1. General Employees Fund Discount Rate

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

2. TRA Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. 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.

9. Defined Benefit Pension Plans – Statewide (Continued)

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
General Employees Retirement Fund Discount Rate	6.00%	7.00%	8.00%
District's proportionate share of the General Employees Retirement Fund net pension liability	$ 874,694	$ 400,471	$ 10,380
TRA Discount Rate	6.00%	7.00%	8.00%
District's proportionate share of the TRA net pension liability	$ 7,005,147	$ 3,977,805	$ 1,486,230

Pension Plan Fiduciary Net Position

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

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive 400, St. Paul, Minnesota, 55103-4000; or by calling (651) 296-2409 or 1-800-657-3669.

10. Other Post Employment Benefit Plan

The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions for the year ended June 30, 2025.

Plan Description

The District provides health insurance benefits for certain retired employees under a single-employer plan. The District provides benefits for retirees as required by state statute to active employees when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and if they do not participate in any other health benefits program providing similar coverage.

Benefits Provided

These retirees will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the District's health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active retiree population, the retirees are receiving an implicit rate subsidy. As of June 30, 2025 there were approximately 85 active participants and 9 retired participants in the District's group health plan.

Funding Policy

The required contribution is based on projected pay-as-you-go method under which contributions to the plan are generally made at the same time and in the same amount as retiree benefits and expenses become due.

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2025, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of July 1, 2023. The components of the total OPEB liability of the District at year-end were as follows:

Total OPEB liability	$ 719,951
Valuation Salary	4,701,582
Total OPEB liability as percentage of payroll	15.31%

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

10. Other Post Employment Benefit Plan (Continued)

The total OPEB liability was determined by an actuarial valuation as of July 1, 2023, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Economic Assumptions:	
Discount Rate	4.10%
20-Year Municipal Bond Yield	4.10%
Inflation Rate	2.50%
Salary Increase	See sample rates in actuarial valuation report
Medical Trend Rate	6.25% in 2024 grading to 5.00% over 5 years and then to 4.00% over the next 48 years
Dental	N/A
Other Assumptions	
Mortality	Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale
Disability Withdrawal Retirement Expenses	None See sample rates in actuarial valuation report See sample rates in actuarial valuation report Assumed paid outside of Plan
Percent Married	Current Retirees: Actual retiree/spouse elections used. Future Retirees: Males 85%, Females 65%
Age Difference	Actual spouse birthdate for current retirees (if provided). For all others, males assumed to be 3 years older than females.
Retiree Plan Participation	**Future Retirees Electing Coverage:** Pre-65 subsidy available: Superintendent 100% Teachers 50% Pre-65 subsidy not available: Para-professionals 10% All others 35% Note: 100% of retirees eligible for the medical subsidy are assumed to receive it.
Percent of Married Retirees Electing Spouse Coverage	**Percent Future Retirees Electing Pre-65 Spouse Coverage:** Spouse subsidy available: 100% Spouse subsidy not available: 25%
Benefits Not Included	Hayfield Community Schools provides access to life insurance during retirement. However, the implicit rate liability is not significant for life insurance and has not been included in this valuation.

The following changes in OPEB actuarial assumptions were changed since the prior valuation:

- The discount rate was changed from 3.90% to 4.10%

10. Other Post Employment Benefit Plan (Continued)

Changes in Total OPEB Liability

	Total OPEB Liability
Beginning Balance 7/1/2024	$ 772,548
Changes for the Year	
Service Cost	33,233
Interest	29,311
Assumption Changes	(5,646)
Benefit Payouts	(109,495)
Net Changes	(52,597)
Balance End of Year 6/30/2025	$ 719,951

Total OPEB Liability Sensitivity to Discount and Health-Care Cost Trend Rate Changes

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	Total OPEB Liability
1% decrease in Discount Rate (3.10%)	$ 753,379
Current Discount Rate (4.10%)	719,951
1% increase in Discount Rate (5.10%)	687,397

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	Total OPEB Liability
1% decrease in Trend Rates	$ 674,226
Current Trend Rates	719,951
1% increase in Trend Rates	773,133

10. Other Post Employment Benefit Plan (Continued)

OPEB Related Deferred Outflows of Resources and Deferred Inflows of Resources

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability losses/gains	$ 112,555	$ 59,188
Change in actuarial assumption	15,303	27,361
Contributions paid to OPEB subsequent to the measurement date	91,994	
Total	$ 219,852	$ 86,549

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

Year ending June 30:	Other Post-Employment Expense Amount
2026	$ 9,092
2027	5,273
2028	5,269
2029	22,616
2030	(941)

11. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District carries commercial insurance. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There was no reduction in insurance coverage during 2025.

The District has joined together with other school districts in southeastern Minnesota in the Southeast Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as a common risk management and insurance program for member districts. The District pays annual premium to this plan for its health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

The district continues to carry commercial insurance for all other risks of loss. There has been no significant reduction in insurance coverage from the previous year in any of the districts policies. In addition, there have been no settlements in excess of the District's insurance coverage in any of the prior four years.

12. Jointly Governed Organization

The Zumbro Education District No. 61-6012 was established by an act of the 1987 Legislature of the State of Minnesota. The primary objective of the District is to provide, by a cooperative effort, comprehensive educational programs and other related services can be effectively operated by its six member districts. Each member district shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements and other charges for services. The education district is able to recover the cost of its programs through the previously mentioned revenue sources. The jointed governed organization's financial statements are audited and available for inspection.

13. Tax Abatement

The District may enter into tax abatement agreements as authorized by Minnesota Abatement Laws under State Statutes Sections 469.1812, 469.1813 and 469.1815. Any parcel of property in the District qualifies for tax abatement. The District negotiates tax abatement agreements on an individual basis generally with the purpose of adding employment and or increasing the tax capacity of the parcel.

The District has made no commitments, other than tax abatement, under the agreements. The taxpayer submits property taxes annually and is reimbursed by the District for the abatement amount if the taxpayer has filed reports substantiating that it has met the employment levels stipulated in the agreement. The District had the following tax abatement agreements as of June 30, 2025.

Legacy of Brownsdale, LLC

The District entered into a tax abatement agreement in May 2018 for the purpose of construction of an assisted living facility with 32 beds and 25 employees. Under the agreement, 25.52% of the property taxes on facility improvements are abated annually for a fifteen-year period through 2033. There was no abatement of property taxes in the current year.

14. Restatement

During the year, the District implemented GASB Statement No. 101, Compensated Absences. This Statement provides guidance on accounting and financial reporting for reporting a liability for certain types of leave (compensated absences). Under this Statement, government organizations are required to recognize a liability for employee's compensated absences if the leave is attributable to employee's services already rendered, if the leave accumulates, or if it is more likely than not to be used for time off or paid in cash upon separation. The liability is measured using an employee's rate of pay at the date of the financial statements. The liability and associated expense are reported in the government-wide statements. The Statement has been implemented and a liability has been reported on the government-wide financial statements.

	Net Position at June 30, 2024 as Previously Reported	Restatement	Net Position at June 30, 2024 as Restated
Governmental Activities	$ 6,715,916	$ (846,334)	$ 5,869,582

(This Page is Left Blank Intentionally)

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2025

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

Schedule of Changes in the District's Total OPEB
Liability and Related Ratios

Total OPEB Liability

	2025	2024	2023	2022	2021	2020	2019	2018
Service cost	$ 33,233	$ 33,181	$ 26,780	$ 33,303	$ 39,973	$ 35,017	$ 34,689	$ 32,847
Interest cost	29,311	23,908	15,163	21,644	29,892	25,302	25,002	25,979
Changes of assumptions	(5,646)	6,480	(39,651)	16,724	22,939	(9,789)		
Plan Changes		545				21,749	24,919	
Difference between expected and actual		168,833		(138,108)		272,149		
Benefit payments	(109,495)	(111,687)	(92,084)	(121,347)	(175,113)	(84,142)	(68,203)	(110,281)
Net change in total OPEB liability	(52,597)	121,260	(89,792)	(187,784)	(82,309)	260,286	16,407	(51,455)
Total OPEB Liability - beginning of year	772,548	651,288	741,080	928,864	1,011,173	750,887	734,480	785,935
Total OPEB Liability - end of year	$ 719,951	$ 772,548	$ 651,288	$ 741,080	$ 928,864	$ 1,011,173	$ 750,887	$ 734,480
Total OPEB Liability - End of Year	$ 719,951	$ 772,548	$ 651,288	$ 741,080	$ 928,864	$ 1,011,173	$ 750,887	$ 734,480
Covered-Employee Payroll	$ 4,701,582	$ 4,564,643	$ 4,608,658	$ 4,474,425	$ 4,060,579	$ 3,942,310	$ 3,947,567	$ 3,832,589
Total OPEB Liability as a Percentage of Covered-Employee Payroll	15.31%	16.92%	14.13%	16.56%	22.88%	25.65%	19.02%	19.16%

Note: There are no assets in a trust to pay related benefits.

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

Schedule of District's Contributions
PERA General Employee Retirement Funds
Last Ten Years

Fiscal Year Ended June 30	Pension Plan	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Payroll (b/c)
2016	PERA	$ 60,627	$ 60,627	$	$ 808,360	7.50%
2017	PERA	61,229	61,229		816,387	7.50%
2018	PERA	55,891	55,891		745,213	7.50%
2019	PERA	57,119	57,119		761,587	7.50%
2020	PERA	58,834	58,834		784,453	7.50%
2021	PERA	58,303	58,303		777,373	7.50%
2022	PERA	53,778	53,778		717,040	7.50%
2023	PERA	64,181	64,181		855,747	7.50%
2024	PERA	69,470	69,470		926,267	7.50%
2025	PERA	68,761	68,761		916,813	7.50%

Schedule of District's Contributions
TRA Retirement Funds
Last Ten Years

Fiscal Year Ended June 30	Pension Plan	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Payroll (b/c)
2016	TRA	$ 274,561	$ 274,561	$	$ 3,660,813	7.50%
2017	TRA	258,230	258,230		3,443,067	7.50%
2018	TRA	254,445	254,445		3,392,600	7.50%
2019	TRA	256,223	256,223		3,416,307	7.50%
2020	TRA	266,124	266,124		3,451,673	7.71%
2021	TRA	275,719	275,719		3,481,301	7.92%
2022	TRA	306,294	306,294		3,767,454	8.13%
2023	TRA	326,409	326,409		3,913,777	8.34%
2024	TRA	332,920	332,920		3,893,801	8.55%
2025	TRA	362,687	362,687		4,144,994	8.75%

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

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

Fiscal Year Ended June 30	District's Portion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) Associated With the District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the District (a+b)	Covered Payroll (c)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0140%	$ 725,553	$	$ 725,553	$ 808,360	90%	78.20%
2016	0.0132%	1,071,775	13,922	1,085,697	816,387	133%	68.90%
2017	0.0116%	740,536	9,286	749,822	745,213	101%	75.90%
2018	0.0113%	626,878	20,614	647,492	761,587	85%	79.53%
2019	0.0111%	613,694	18,999	632,693	784,453	81%	80.23%
2020	0.0109%	653,505	20,087	673,592	777,373	87%	79.06%
2021	0.0100%	427,045	13,034	440,079	717,040	61%	87.00%
2022	0.0114%	902,884	26,618	929,502	855,747	109%	76.70%
2023	0.0116%	648,659	18,002	666,661	926,267	72%	83.10%
2024	0.0108%	400,471	10,355	410,826	916,813	45%	89.10%

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

Fiscal Year Ended June 30	District's Portion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) Associated With the District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the District (a+b)	Covered Payroll (c)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0721%	$ 4,460,098	$ 546,778	$ 5,006,876	$ 3,660,813	137%	76.80%
2016	0.0662%	15,790,280	1,583,958	17,374,238	3,443,067	505%	44.90%
2017	0.0630%	12,575,943	1,215,852	13,791,795	3,392,600	407%	51.57%
2018	0.0618%	3,883,802	364,655	4,248,457	3,416,307	124%	78.07%
2019	0.0608%	3,875,405	343,062	4,218,467	3,451,673	122%	78.07%
2020	0.0599%	4,425,492	370,756	4,796,248	3,481,301	138%	75.48%
2021	0.0630%	2,757,068	232,482	2,989,550	3,767,454	79%	86.63%
2022	0.0633%	5,068,729	375,923	5,444,652	3,913,777	139%	76.17%
2023	0.0612%	5,052,809	354,013	5,406,822	3,893,801	139%	76.42%
2024	0.0626%	3,977,805	260,018	4,237,823	4,144,994	102%	82.07%

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

SUPPLEMENTARY INFORMATION

JUNE 30, 2025

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
COMPARATIVE BALANCE SHEET
GENERAL FUND
June 30, 2025 and 2024

	2025	2024
Assets		
Cash and cash equivalents	$ 3,615,035	$ 4,086,900
Current property taxes receivable	791,710	821,391
Delinquent property taxes receivable	73,778	66,235
Accounts receivable	23,448	16,929
Due from Minnesota Department of Education	886,339	888,921
Due from Federal through Minnesota Department of Education	62,403	273,671
Prepaid items	93,061	77,157
TOTAL ASSETS	$ 5,545,774	$ 6,231,204
Liabilities		
Accounts payable	$ 46,262	$ 121,550
Due to other governmental units		167,830
Due to other Minnesota school districts	107,825	180,763
Unearned revenue	164,746	145,800
TOTAL LIABILITIES	318,833	615,943
Deferred Inflows of Resources		
Unavailable revenue:		
Property taxes	73,778	66,235
Taxes levied for subsequent year	1,543,750	1,617,527
TOTAL DEFERRED INFLOWS OF RESOURCES	1,617,528	1,683,762
Fund Balances		
Nonspendable	93,061	77,157
Restricted	1,322,841	1,549,983
Assigned	1,114,556	1,049,908
Unassigned	1,078,955	1,254,451
TOTAL FUND BALANCES	3,609,413	3,931,499
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 5,545,774	$ 6,231,204

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended June 30, 2025
With Partial Comparative Data for the Year Ended June 30, 2024

	Budgeted Amounts		2025	Over (Under)	2024
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$ 1,383,219	$ 234,841	$ 718,576	$ 483,735	$ 442,266
Investment income	2,500	1,062	19,823	18,761	38,285
State sources	394,387	643,621	716,891	73,270	395,081
TOTAL REVENUES	1,780,106	879,524	1,455,290	575,766	875,632
Expenditures					
Fiscal and other fixed cost programs	946,479	946,479	945,341	(1,138)	946,735
NET CHANGE IN FUND BALANCES	833,627	(66,955)	509,949	576,904	(71,103)
FUND BALANCE - BEGINNING	3,357,152	3,357,152	3,357,152		3,428,255
FUND BALANCE - ENDING	$ 4,190,779	$ 3,290,197	$ 3,867,101	$ 576,904	$ 3,357,152

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA
SUPPLEMENTAL COST SCHEDULES
For the Year Ended June 30, 2025 and 2024
(Unaudited)

Fiscal year Ended June 30, 2025	2024 - 2025 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	$ 771,673	$ 1,188
District support services	407,422	627
Regular instruction	4,594,023	7,070
Vocational instruction	302,616	466
Special education	1,349,414	2,077
Community education and services	586,602	903
Instructional support services	252,791	389
Pupil support services	1,965,715	3,025
Site, buildings, and equipment	1,189,448	1,830
Fiscal and other fixed cost programs	1,040,018	1,600
TOTALS	$ 12,459,722	$ 19,174

2024 - 2025 Adjusted Average Daily Membership - 649.82

Fiscal year Ended June 30, 2024	2023 - 2024 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	$ 789,065	$ 1,235
District support services	550,431	861
Regular instruction	4,427,449	6,929
Vocational instruction	274,200	429
Special education	1,141,395	1,786
Community education and services	386,935	606
Instructional support services	178,243	279
Pupil support services	1,818,647	2,846
Site, buildings, and equipment	1,329,809	2,081
Fiscal and other fixed cost programs	1,019,126	1,595
TOTALS	$ 11,915,300	$ 18,647

2023 - 2024 Adjusted Average Daily Membership - 639.00

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

TAX LEVY HISTORY

	24 Pay 25 Fiscal 26	23 Pay 24 Fiscal 25	22 Pay 23 Fiscal 24	21 Pay 22 Fiscal 23	20 Pay 21 Fiscal 22
Tax Levy*					
General	$ 1,627,332	$ 1,697,474	$ 1,625,073	$ 1,504,446	$ 1,487,971
Community Service	42,476	44,390	38,250	43,117	37,462
Debt Redemption (Net)	1,379,715	1,383,219	771,948	1,386,717	1,305,218
TOTAL TAX LEVY	$ 3,049,523	$ 3,125,083	$ 2,435,271	$ 2,934,280	$ 2,830,651

* The tax levy includes property tax apportionments from Dodge, Mower, and Olmsted Counties and state aid credits from the State of Minnesota.

(This Page is Left Blank Intentionally)

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

OTHER REQUIRED REPORTS

JUNE 30, 2025

(This Page is Left Blank Intentionally)

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Independent School District #203
Hayfield, 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)*, and the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Section 6.65, the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Independent School District #203, Hayfield, Minnesota (the District), as of and for the year ended June 30, 2025, and the related notes to financial statements, which collectively comprises the District's basic financial statements and have issued our report thereon dated November 21, 2025.

Report On Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report On Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Responses as finding 2025-001.

Minnesota Legal Compliance

In connection with our audit, we noted the District failed to comply with depositories of public funds and public investments of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant § 6.65, insofar as they related to accounting maters as described in the Schedule of Findings and Responses as item 2025-01. Also, in connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the contracting – bid laws, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for Minnesota school districts (UFARS) sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Purpose of 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.

Smith, Schafer and Associates, Ltd.

Rochester, Minnesota
November 21, 2025

INDEPENDENT SCHOOL DISTRICT #203
9 SIXTH AVE. SE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2025

FINDING – 2025-001: COMPLIANCE

Condition:	In accordance with MN Statute § 118A.03 the District needs to furnish collateral over ten percent of the amount on deposit at the close of the financial institution's banking day. As of June 30th, 2025 the Citizens State Bank checking accounts were undercollateralized by $389,550.12.
Criteria:	The District should have a policy and process in place to prevent or detect when accounts are undercollateralized.
Questioned Costs:	None.
Cause:	The District was not monitoring collateral and deposits as of year end.
Effect:	No effect on the financial statements.
Recommendation:	We recommend that the District adopt a policy and process to comply with MN Statute § 118A.03 and perform internal review to ensure compliance is monitored and changes are made as necessary.
Views of Responsible Officials and Planned Corrective Action Plan:	Management agrees with the recommendation. See corresponding Corrective Action Plan.

CORRECTIVE ACTION PLAN (CAP):

The District respectfully submits the following corrective action plan for the year ended June 30, 2025.

The finding from the schedule of findings and responses is discussed below. The finding is numbered consistently with the number assigned in the schedule.

RESPONSES: FINDING 2025-001:

Corrective Action Plan (CAP)
The District will implement proper controls to ensure compliance with the Minnesota Legal Compliance Audit Guide for School Districts related to obtaining collateral for uninsured deposits.

Management Explanation of Disagreements with Audit Finding
There is no disagreement with the audit finding.

Official Responsible for Ensuring CAP
Scott Marine, Contracted Business Manager, is the official responsible for ensuring the planned responses.

Planned Completion Date of CAP
Change will be done immediately.

Plan to Monitor Completion of CAP
Gregg Slaathaug, Superintendent, will monitor this process.

INDEPENDENT SCHOOL DISTRICT #203
HAYFIELD, MINNESOTA

COMPLIANCE TABLE

JUNE 30, 2025

(This Page is Left Blank Intentionally)

Fiscal Compliance Report - 6/30/2025
District: HAYFIELD (203-1)

	Audit	UFARS	Audit - UFARS
01 GENERAL FUND			
Total Revenue	$9,932,090	$9,932,087	$3
Total Expenditures	$10,261,045	$10,261,043	$2
Non Spendable:			
4.60 Non Spendable Fund Balance	$93,061	$93,061	$0
Restricted / Reserved:			
4.01 Student Activities	$13,690	$13,690	$0
4.02 Scholarships	$6,193	$6,193	$0
4.03 Staff Development	$236,055	$236,055	$0
4.07 Capital Projects Levy	$0	$0	$0
4.08 Cooperative Revenue	$0	$0	$0
4.12 Literacy Incentive Aid	$0	$0	$0
4.14 Operating Debt	$0	$0	$0
4.16 Levy Reduction	$0	$0	$0
4.17 Taconite Building Maint	$0	$0	$0
4.20 American Indian Education Aid	$0	$0	$0
4.24 Operating Capital	$282,660	$282,660	$0
4.26 $25 Taconite	$0	$0	$0
4.27 Disabled Accessibility	$0	$0	$0
4.28 Learning & Development	$0	$0	$0
4.34 Area Learning Center	$0	$0	$0
4.35 Contracted Alt. Programs	$0	$0	$0
4.36 State Approved Alt. Program	$0	$0	$0
4.37 Q Comp	$0	$0	$0
4.38 Gifted & Talented	$54,192	$54,192	$0
4.39 English Learner	$0	$0	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.41 Basic Skills Programs	$77,744	$77,744	$0
4.43 School Library Aid	$0	$0	$0
4.48 Achievement and Integration	$0	$0	$0
4.49 Safe Schools Levy	$25,792	$25,792	$0
4.51 QZAB Payments	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.53 Unfunded Sev & Retiremt Levy	$0	$0	$0
4.56 READ Act - Literacy Aid	$0	$0	$0
4.57 READ Act - Tchr Training Compensation	$2,938	$2,938	$0
4.59 Basic Skills Extended Time	$0	$0	$0
4.67 LTFM	$520,424	$520,424	$0
4.71 Student Support Personnel Aid	$0	$0	$0
4.72 Medical Assistance	$103,153	$103,153	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
4.75 Title VII Impact Aid	$0	$0	$0
4.76 Payments in Lieu of Taxes	$0	$0	$0
Committed:			
4.18 Committed for Separation	$0	$0	$0
4.61 Committed Fund Balance	$0	$0	$0
Assigned:			
4.62 Assigned Fund Balance	$1,114,556	$1,114,556	$0
Unassigned:			
4.22 Unassigned Fund Balance	$1,078,955	$1,078,956	($1)
02 FOOD SERVICES			
Total Revenue	$643,303	$643,303	$0
Total Expenditures	$666,734	$666,735	($1)
Non Spendable:			
4.60 Non Spendable Fund Balance	$1,584	$1,584	$0
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$579,216	$579,215	$1
Unassigned:			
4.63 Unassigned Fund Balancee	$0	$0	$0
04 COMMUNITY SERVICE			
Total Revenue	$480,358	$480,358	$0
Total Expenditures	$586,602	$586,602	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.26 $25 Taconite	$0	$0	$0
4.31 Community Education	$433,979	$433,979	$0
4.32 E.C.F.E	$4,554	$4,554	$0
4.37 Q Comp	$0	$0	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.44 School Readiness	($51,179)	($51,179)	$0
4.47 Adult Basic Education	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.56 READ Act - Literacy Aid	$0	$0	$0
4.57 READ Act - Tchr Training Compensation	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	($1,709)	($1,708)	($1)

	Audit	UFARS	Audit - UFARS
06 BUILDING CONSTRUCTION			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.07 Capital Projects Levy	$0	$0	$0
4.13 Funded by COP/FP	$0	$0	$0
4.67 LTFM	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0
07 DEBT SERVICE			
Total Revenue	$1,455,290	$1,455,289	$1
Total Expenditures	$945,341	$945,340	$1
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.25 Bond Refundings	$0	$0	$0
4.33 Maximum Effort Loan Aid	$0	$0	$0
4.51 QZAB Payments	$3,484,132	$3,484,132	$0
4.67 LTFM	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$382,969	$382,969	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0
08 TRUST			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Restricted / Reserved:			
4.01 Student Activities	$0	$0	$0
4.02 Scholarships	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0
18 CUSTODIAL			
Total Revenue	$5,238	$5,238	$0
Total Expenditures	$5,200	$5,200	$0
Restricted / Reserved:			
4.01 Student Activities	$0	$0	$0
4.02 Scholarships	$102,706	$102,706	$0
4.48 Achievement and Integration	$0	$0	$0
4.64 Restricted Fund Balance	$0	$0	$0
20 INTERNAL SERVICE			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0
25 OPEB REVOCABLE TRUST			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0
45 OPEB IRREVOCABLE TRUST			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0
47 OPEB DEBT SERVICE			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted:			
4.25 Bond Refundings	$0	$0	$0
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0