

**INDEPENDENT SCHOOL  
DISTRICT 701  
HIBBING, MINNESOTA**

**Financial Report**

**For the Fiscal Year Ended June 30, 2025**

## Table of Contents

	<u>Page No.</u>
<b>Independent Auditor's Report</b>	1
<b>Required Supplementary Information (Unaudited)</b>	
Management's Discussion and Analysis	4
<b>Basic Financial Statements</b>	
District-Wide Financial Statements	
Statement of Net Position	17
Statement of Activities	18
Fund Financial Statements	
<i>Governmental Funds</i>	
Balance Sheet	19
Reconciliation of the Balance Sheet to the Statement of Net Position	20
Statement of Revenues, Expenditures and Changes in Fund Balance	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	22
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	23
Notes to Financial Statements	24
<b>Required Supplementary Information (Unaudited)</b>	
Schedule of Changes in the District's Net OPEB Liability and Related Ratios and Notes	50
Schedule of Employer's Share of Net Pension Liability and Schedule of Employer Contributions and Notes - Teachers Retirement Association (TRA)	51
Schedule of Employer's Share of Net Pension Liability and Schedule of Employer Contributions and Notes - Public Employees Retirement Association (PERA)	54
<b>Supplementary Information</b>	
Combining Statements Non-Major Governmental Funds	
Combining Balance Sheet	57
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	58
Individual Fund Statements	
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	59
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Food Service Special Revenue Fund	62
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Community Service Special Revenue Fund	63
Uniform Financial Accounting and Reporting Standards Fiscal Compliance Report	64

	<u>Page No.</u>
<b>Single Audit</b>	
Schedule of Expenditures of Federal Awards	66
Notes to the Schedule of Expenditures of Federal Awards	67
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 <i>Government Auditing Standards</i>	68
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance	70
Schedule of Findings and Questioned Costs	73
Summary Schedule of Prior Audit Findings	79
<b>Minnesota Legal Compliance</b>	
Independent Auditor's Report on Minnesota Legal Compliance	80



## Independent Auditor's Report

To the Members of the  
School Board  
Independent School District 701  
Hibbing, MN

### *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 Independent School District 701, Hibbing, Minnesota, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information, and the budgetary comparison information of the general fund of the Independent School District 701 (the District), Hibbing, Minnesota, as of June 30, 2025, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 Responsibility for the Audit of the Financial Statements*

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, 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 on pages 4 through 16, the schedule of changes in net OPEB liability and related ratios and notes on page 50 and the schedule of employer's share of net pension liability and employer contributions and notes on pages 51 through 56 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 prove any assurance.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report December 9, 2025 on our consideration of the Independent School District 701, Hibbing Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Independent School District 701, Hibbing, Minnesota's internal control over financial reporting and compliance.

*Sterle & Co, Ltd*

December 9, 2025

**INDEPENDENT SCHOOL DISTRICT #701  
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
June 30, 2025**

The discussion and analysis of Independent School District 701's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2025. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance. The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Boards (GASB) in their Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.

**FINANCIAL HIGHLIGHTS**

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*Government-Wide/ Fully Accrual Highlights*

Net position, or the difference between the District's assets/deferred outflows and liabilities/deferred inflows, is one way to measure the District's overall financial health. For the District-wide presentation, total assets and deferred outflows of resources are reported at \$74,638,867. Total liabilities and deferred inflows of resources are \$90,002,197. This leaves the total district wide net position with an overall deficit of \$15,363,330 a decrease in the deficit of \$431,947 from the prior year. Of the District's net position on the government-wide perspective, \$23,773,954 is held in capital asset investments (net of debt) and another \$10,663,781 is held in state mandated and debt agreement restrictions. Therefore, the unrestricted portion of the net position for the district as a whole is a deficit of \$50,801,065 – a change of \$1,504,631 from the previous year unrestricted deficit of \$49,296,434.

Long term obligations for the District include severance and separation commitments of \$1,540,082 and compensated absence commitments of \$491,160 to eligible employees. The District also has actuarial determined liabilities including those related to TRA/PERA of \$16,728,406 and an OPEB of \$32,964,974. These obligations to current and prior staff along with the \$19,025,051 in debt obligations have significant financial impact on the District's overall deficit net position

As reported on the Statement of Activities, the District experienced an increase in net position of \$431,947. District expenses under this full accrual government wide perspective were \$44,625,620. The District received \$882,065 in charges for services and \$14,092,154 in operating and capital grants awarded by local, state and federal sources to help offset these expenditures. That leaves \$29,651,401 in costs to be covered through property taxes, general aids and grants.

**INDEPENDENT SCHOOL DISTRICT #701  
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)  
June 30, 2025**

*Governmental Funds/Modified-Accrual Highlights*

Overall fund balances per the Statement of Revenues, Expenditures and Changes in Fund Balance for the governmental funds decreased by \$1,832,472 as compared to \$1,840,484 in the prior year. Total governmental fund balances were \$12,358,819 with \$10,663,781 restricted by state sources, \$4,183,759 committed by the board, \$131,290 assigned, and \$37,851 nonspendable, leaving a deficit of \$2,657,862 as unassigned. The unassigned portion of the General Fund once again realized a *net decrease* in fund balance during the 2024-25 fiscal year of \$3,203,535. The net decrease reflected in the 2023-2024 year was \$3,192,306. Various factors to consider for the change in the overall fund balances of the governmental funds are:

The general fund reported \$40,897,801 in total revenues with \$43,616,149 in total expenditures. Expenditures included \$2,921,449 in capital outlay.

The debt service fund reported total expenditures for principal and interest/fiscal charges of \$710,938. Local property tax levies and other state and local sources generated \$1,542,320 in revenues for that fund resulting in an overall increase of \$831,382. However, the fund balance of \$8,390,847 is entirely restricted under Minnesota statutes and is not available for general operations.

Other nonmajor governmental funds (which include the food service and the community service funds) experienced a net increase of \$12,698. The food service fund experienced a decrease of \$6,750 in fund balance and the community service fund experienced a \$19,448 increase.

It should be noted that salary and benefits were the greatest increase in expenses for fiscal year 2025. Also, additional special education staff were added as required, along with the negotiated contract salary settlement. Health insurance premiums increased by 12% for fiscal year 2025, with the majority of the burden taken by the district.

The District made significant reductions in fiscal year 2025 for fiscal year 2026. The impacts should be reflected in the District's fiscal year 2026 financials. In November 2025, the District asked voters two questions for an operating referendum and a capital projects referendum. This effort failed and additional reductions will be necessary.

**INDEPENDENT SCHOOL DISTRICT #701  
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)  
June 30, 2025**

**USING THIS ANNUAL FINANCIAL REPORT**

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This annual report consists of a series of financial statements. There is the Management Discussion and Analysis (this section) and a series of financial statements and notes to those statements. These statements are organized so that the reader can understand the District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The first two statements are district-wide financial statements-the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District’s overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District’s operations in more detail than the district-wide statements. The governmental funds statements tell how general District services are financed in the short term as well as what remains for future spending. Proprietary fund statements offer short-and long-term financial information about the activities that the District operates like a business. Fiduciary fund statements provide information about financial relationships where the District acts in a custodial capacity for others. As of June 30, 2025, the District did not hold any proprietary or fiduciary funds.

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

**OVERVIEW OF FINANCIAL STATEMENTS**

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*District-Wide Statements*

The district-wide statements, which are reported on pages 17 and 18, 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 and liabilities. 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, or the difference between the District’s assets/deferred outflows and liabilities/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 are an indication of whether its financial health is improving or deteriorating, respectively.

**INDEPENDENT SCHOOL DISTRICT #701  
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)  
June 30, 2025**

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 enrollment trends of its students.

The district-wide financial statements of the District are categorized as follows:

- *Governmental activities* – All of the District's basic services are included here, such as instruction, administration and community services. Property taxes, state and federal subsidies and grants finance most of these activities. The District's Internal Service Fund is deemed to be a governmental activity since its main function is to serve the other District's governmental funds.
  
- *Business type activities* - The District has no business type activities as of this date.

*Fund Financial Statements*

The District's fund financial statements, which begin on page 19, provide detailed information about the most significant funds-not the District as a whole. Some funds are required by state law and by bond requirements.

*Governmental funds* - Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

*Proprietary funds* - These funds are used to account for the District activities that are similar to business operations in the private section; or where the reporting is on determining net income, financial position, and changes in financial position. A significant portion of funding is provided through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The District currently does not hold any proprietary funds.

**INDEPENDENT SCHOOL DISTRICT #701  
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)  
June 30, 2025**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

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The District’s total net position was \$(15,363,330) and a (\$15,795,277) deficit at June 30, 2025 and 2024, respectively.

Table A-1  
Fiscal Years ended June 30, 2025 and 2024  
Net Position

	<u>June 30,2025</u>	<u>June 30,2024</u>
		<u>Governmental Activities</u>
Current assets	\$ 11,327,938	\$ 13,684,672
Capital assets	44,017,362	44,435,691
Noncurrent assets	<u>8,585,144</u>	<u>7,794,778</u>
Total assets	<u>\$ 63,930,444</u>	<u>\$ 65,915,141</u>
Deferred outflows of resources	<u>\$ 10,708,423</u>	<u>\$ 10,297,667</u>
Current Liabilities	\$ 12,668,692	\$ 5,473,591
Long-term liabilities	<u>61,978,245</u>	<u>73,768,477</u>
Total Liabilities	<u>\$ 74,646,937</u>	<u>\$79,242,068</u>
Deferred inflows of resources	<u>\$ 15,355,260</u>	<u>\$ 12,766,017</u>
Net Position		
Net investment in capital assets	\$ 24,773,954	\$ 24,010,926
Restricted	10,663,781	9,490,231
Unrestricted	<u>(50,801,065)</u>	<u>(49,296,434)</u>
Total Net Position	<u>\$(15,363,330)</u>	<u>\$ (15,795,277)</u>

Most of the District’s net position is invested in capital assets (buildings, land, and equipment). \$10,663,781 is restricted under state mandates as prescribed by the Minnesota Department of Education. That leaves \$50,801,065 deficit as unrestricted – with a net increase of \$1,504,631 from the prior year deficit of \$49,296,434.

The District’s overall net position increased by \$431,947 from the previous year. The results of this year’s operations as a whole are reported in the Statement of Activities on page 18. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District’s activities that are supported by other general revenues. The two largest general revenues are the general education formula provided by the State of Minnesota and the local taxes assessed to community taxpayers.

See further discussions regarding these changes in the district-wide governmental activities under the financial highlights.

**INDEPENDENT SCHOOL DISTRICT #701  
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)  
June 30, 2025**

Table A-2 takes the information from that Statement, rearranges it slightly, so you can see our total revenues for the year.

Table A-2  
Fiscal Years ended June 30, 2025 and 2024  
Changes in Net Position

	<u>Governmental Activities</u>	
	For the Year Ended June 30, 2025	For the Year Ended June 30, 2024
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 882,065	\$ 877,855
Operating grants and contributions	12,513,471	10,477,864
Capital grants and contributions	1,578,683	1,257,234
General revenues		
Taxes	8,573,953	7,339,161
Grants, subsidies and contributions, unrestricted	20,914,934	21,425,175
Other	<u>580,643</u>	<u>402,750</u>
Total revenues	<u>\$ 45,043,749</u>	<u>\$41,780,039</u>
<b>Expenses</b>		
District and school administration	\$ 1,583,572	\$ 1,738,644
District support services	1,769,259	1,784,636
Instruction – regular	14,350,406	16,122,553
Instruction – vocational	582,276	163,614
Instruction – exceptional	10,663,164	10,715,595
Community education and services	765,689	1,317,108
Instructional support services	2,856,284	2,513,771
Pupil support services	2,445,939	2,754,234
Site, buildings and equipment	5,604,852	5,720,458
Fiscal and other fixed cost programs	305,892	213,629
Food service	1,728,499	1,625,139
Interest and fiscal charges	383,020	495,803
Depreciation – unallocated	<u>1,586,768</u>	<u>1,613,052</u>
Total expenses	<u>\$44,625,620</u>	<u>\$46,778,236</u>
Special item–Gain equipment sales	<u>13,818</u>	<u>\$ 263,521</u>
<b>Change in net position</b>	<b>\$ 431,947</b>	<b>\$ (4,734,676)</b>
<b>Net Position – Beginning of the year</b>	<b><u>(15,795,277)</u></b>	<b><u>(11,060,601)</u></b>
<b>Net Position – End of the year</b>	<b><u>\$ (15,363,330)</u></b>	<b><u>\$ (15,795,277)</u></b>

**INDEPENDENT SCHOOL DISTRICT #701  
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)  
June 30, 2025**

For the year ending June 30, 2025, the majority of the change in net position was a result of the District’s change in proportion for the recognition of the net pension liability and pension costs under PERA/TRA as well as the decrease in the OPEB actuarial determined liability. In addition, the District received \$1,578,683 in capital grants which is reflected on the statement of activities; however, the outlay for these funds is reported as capital assets in the statement of financial position and expensed via depreciation. The funds received in the current year exceed the amount of the depreciation.

Table A-3 shows the total cost and net cost of each of the District’s functions-District and school administration; district support services; instruction – regular, vocational, special education; community education and service; instructional support; pupil support; site, buildings and equipment; fiscal and other fixed costs programs and food service. Net cost is the total cost less revenue generated by each activity.

Table A-3  
Fiscal Years ended June 30, 2025 and 2024  
Governmental Activities

<b><u>Functions/Programs</u></b>	<b><u>Total Cost of Services</u></b>		<b><u>Net Cost of Services</u></b>	
	<u>June 30, 2025</u>	<u>June 30,2024</u>	<u>June 30, 2025</u>	<u>June 30,2024</u>
District and school administration	\$ 1,583,572	\$ 1,738,644	\$ 1,583,572	\$ 1,738,644
District support services	1,769,259	1,784,636	1,769,259	1,784,636
Instruction – regular	14,350,406	16,122,553	11,657,460	14,205,881
Instruction – vocational	582,276	163,614	562,517	140,577
Instruction – special education	10,663,164	10,715,595	3,117,193	4,108,983
Community education and services	765,689	1,317,108	74,592	681,423
Instructional support services	2,856,284	2,513,771	2,856,284	2,513,771
Pupil support services	2,445,939	2,754,234	2,445,939	2,754,234
Site, buildings and equipment	5,604,852	5,720,458	3,377,107	4,044,301
Fiscal and other fixed cost programs	305,892	213,629	305,892	231,629
Food service	1,728,499	1,625,139	(68,202)	(129,651)
Interest and fiscal charges	383,020	495,803	383,020	495,803
Depreciation – unallocated	<u>1,586,768</u>	<u>1,613,052</u>	<u>1,586,768</u>	<u>1,613,052</u>
Total governmental activities	\$44,625,620	\$ 46,778,236	\$ 29,651,401	\$ 34,165,283

**INDEPENDENT SCHOOL DISTRICT #701  
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)  
June 30, 2025**

**THE DISTRICT’S FUNDS**

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At June 30, 2025, the District governmental funds reported a combined fund balance of \$12,358,819, which is a decrease of \$1,832,472 from the June 30, 2024 balances. Overall revenues for the District were \$45,034,257, while total expenditures were \$46,908,525. The District also sold equipment for \$41,796 as reported as an other financing source.

The general fund is the primary fund used by the District. The Debt Service fund is reported as a major fund in the accompanying statements. As a result, the following are presented for analysis regarding these funds separately. Additional discussion on the remaining aggregate nonmajor funds is also noted.

**General Fund - Revenues:**

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

The following schedule presents a summary of General Fund Revenues:

	Year Ended <u>June 30, 2025</u>	Year Ended <u>June 30, 2024</u>	Amount of Increase (Decrease)
Local Sources			
Taxes	\$ 7,956,739	\$ 6,640,733	\$1,316,006
Interest Earnings	201,894	362,896	(161,002)
Other	1,865,676	2,019,495	(153,819)
State Sources	29,395,903	27,017,230	2,378,673
Federal Sources	1,465,564	1,663,124	(197,560)
Sales and Conversions	<u>12,025</u>	<u>11,275</u>	<u>750</u>
Total General Fund Revenue	\$ 40,897,801	\$37,714,753	\$ 3,183,048

Overall total general fund revenue increased by \$3,183,048 from the previous year. The largest increase was in the state sources for \$2,378,673. Some factors include a 4% increase to the state funding formula, state increases to compensatory revenue due to direct certification, and an increase in the payable 2025 levy. The district also received approximately an \$800,000 mineral lease payment from St. Louis County that related to prior years .

**INDEPENDENT SCHOOL DISTRICT #701  
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)  
June 30, 2025**

**Enrollment Trends:**

The following chart shows the number of students served in the District over the last several years, which can contribute to changes in the general fund revenues:

<u>YEAR</u>	<u>STUDENTS SERVED</u>		<u>PERCENT CHANGE</u>
	<u>STUDENTS SERVED</u>	<u>ANNUAL CHANGE</u>	
2004-05	2,543.57	(74.21)	(2.8%)
2005-06	2,475.79	(67.78)	(2.7%)
2006-07	2,441.18	(34.61)	(1.4%)
2007-08	2,391.17	(50.01)	(2.0%)
2008-09	2,325.34	(65.83)	(2.8%)
2009-10	2,337.08	11.74	0.5%
2010-11	2,388.46	51.38	2.2%
2011-12	2,346.37	(42.09)	(1.8%)
2012-13	2,382.64	36.27	1.5%
2013-14	2,376.62	(6.02)	(0.3%)
2014-15	2,403.20	26.58	1.1%
2015-16	2,418.84	15.64	.6%
2016-17	2,410.61	(16.55)	(1.4%)
2017-18	2,411.12	8.83	.4%
2018-19	2,381.46	(29.66)	(1.2%)
2019-20	2,267.33	(114.13)	(4.8%)
2020-21	2,189.82	(77.51)	(3.4%)
2021-22	2,139.23	(53.62)	(2.4%)
2022-23	2,127.29	(13.04)	(.01%)
2023-24	2,135.00	7.71	.003%
2024-25	2,101.52	(32.48)	(1.5%)

The District experienced a decrease of 32.48 students served in the current fiscal year which contributed to the decrease in unassigned balances as the District continues to take steps to adjust operations due to these enrollment changes. Management is expecting stable or slightly decreasing class sizes in Fiscal Year 2026.

**General Fund - Expenditures:**

The following schedule presents a summary of General Fund Expenditures:

	Year Ended <u>June 30, 2025</u>	Year Ended <u>June 30, 2024</u>	Amount of Increase (Decrease)
Salaries	\$ 21,576,262	\$ 20,943,389	\$ 632,873
Employee Benefits	10,015,679	9,166,363	849,316
Purchased Services	6,494,830	6,795,721	(300,891)
Supplies and Materials	1,530,295	1,253,134	277,161
Capital Expenditures	2,921,449	2,828,701	92,748
Debt Service	953,557	1,214,657	(261,100)
Other Expenditures	<u>124,077</u>	<u>341,017</u>	<u>(216,940)</u>
Total General Fund Expenditures	\$43,616,149	\$ 42,542,982	\$1,073,167

Total General Fund expenditures increased by \$1,073,167 due to increase in salary and benefits over the prior year. Additional special education staff were added as required, along with the negotiated contract salary settlement. Also, health insurance premiums increased by 12% for fiscal year 2025, with the majority being covered by the district.

**INDEPENDENT SCHOOL DISTRICT #701  
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)  
June 30, 2025**

**General Fund Balance Information:** In 2024-25, the general fund revenues were less than expenditures by \$2,676,552 impacting the general fund balance. The District has restricted funds set aside as required under UFARS of \$1,076,685 along with a committed set aside for the future funding of retiree medical costs of \$4,183,759. In addition, the District has assigned balance for student activities of \$6,539. That leaves the District with an unassigned deficit balance of \$(1,729,946) under GASB presentations.

The following chart shows Unassigned General Fund Balance information after to the GASB #54 Standards adoption:

**UNASSIGNED GENERAL FUND BALANCE UNDER GASB 54 PRESENTATION**

<u>YEAR</u>	<u>FUND BALANCE</u>	<u>ANNUAL CHANGE</u>	<u>PERCENT CHANGE</u>
2009-10	\$1,841,808	\$ -----	-----
2010-11	\$1,833,863	\$ (7,945)	(0.4%)
2011-12	\$2,516,217	\$682,364	37.2%
2012-13	\$2,622,021	\$105,804	4.2%
2013-14	\$3,445,646	\$823,625	31.4%
2014-15	\$5,034,912	\$1,589,266	46.1%
2015-16	\$6,311,924	\$1,277,012	25.3%
2016-17	\$7,751,438	\$1,439,514	18.6%
2017-18	\$9,409,246	\$1,657,808	21.4%
2018-19	\$8,443,963	\$ (965,283)	(10.3%)
2019-20	\$8,157,728	\$ (286,235)	(3.4%)
2020-21	\$6,906,372	\$(1,251,356)	(15.3%)
2021-22	\$6,190,252	\$ (716,120)	(10.3%)
2022-23	\$3,786,992	\$(2,403,260)	(38.8%)
2023-24	\$1,396,133	\$(2,390,859)	(63.1%)
2024-25	\$(1,729,946)	\$(3,126,079)	(223.9%)

The chart above is the single best measure of overall financial health. The unassigned general fund balance on June 30, 2025 represents less than one day of operations (compared to 12 days in the past year) of operations. As reported in Note 9 to the financial statements, the unassigned balance under UFARS as of June 30, 2025 was \$20,423. However, for GASB presentation, this must be reduced by the allowable deficit reserved fund balance under UFARS for safe schools of (\$1,474,551) as well as the deficit allowable UFARS restriction for LTFM of (\$275,818). Both are required to offset unassigned balances for GASB presentations resulting in a net deficit of \$1,729,946 as reported in the accompanying statements.

**INDEPENDENT SCHOOL DISTRICT #701  
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)  
June 30, 2025**

**General Fund Budget**

During the fiscal year, the School Board did not authorize any revisions to the original budget. A schedule showing the District’s original and final budget amounts compared with amounts actually paid and received is provided on page 23.

The final budgeted revenues were \$37,395,824. The final budgeted expenditures were \$38,172,133. Actual expenditures exceeded actual revenues by \$2,676,552.

**Debt Service Major Fund**

The debt service fund had an increase of \$831,382 for the year. Revenues reported in the fund totaled \$1,542,320 for the year. The debt service fund has a remaining fund balance of \$8,390,847 at the end of June 30, 2025 which primarily represents the balance of the escrow account as required to pay for the Qualified School Construction Bonds issued for the High School Indoor Air Quality project. There is a one-time debt payment \$7.5 million due on January 1, 2026.

**Other Governmental Funds Information - Other Nonmajor Governmental Funds**

The District’s remaining funds (food service and community service) are combined in the aggregate and reported as nonmajor funds in the accompanying financial statements also found on pages 19 and 21. More details on these funds are in the supplemental schedules found on pages 62 and 63. Overall those funds experienced an increase of \$12,698 due to total revenues of \$2,594,136 over expenditures of \$2,581,438.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

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**CAPITAL ASSETS**

At June 30, 2025, the District had \$44,017,362 invested in a broad range of capital assets, including land, buildings and furniture and equipment, net of accumulated depreciation of \$44,433,317. This amount represents a net decrease (including additions, deletions and depreciation) of \$418,329 from last year.

Table A-4  
Governmental Activities  
Capital assets-net of depreciation

	2025	2024
Land and Improvements	\$ 5,942,624	\$ 6,251,804
Buildings	34,902,114	35,944,823
Equipment	2,191,690	2,082,569
Right to use assets – equipment	126,988	10,278
Construction in progress	853,946	146,217

Major capital additions for the year in the amount of \$ 2,451,383 were for building improvements.

**INDEPENDENT SCHOOL DISTRICT #701  
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)  
June 30, 2025**

**DEBT ADMINISTRATION**

As of June 30, 2025, the District had total outstanding bond principal of \$18,760,722. \$1,264,603 was made in principal payments in the current fiscal year.

Table A-5  
Outstanding Debt

	2025	2024
General Obligation Taxable Alternative Facilities		
- Bonds, Series 2010A	\$7,500,000	\$7,500,000
General Obligation Taxable Bonds,		
- Series 2021B	\$2,955,000	\$3,200,000
General Obligation Tax Abatement		
- Bonds, Series 2014A	\$ -	\$ 105,000
General Obligation Bonds, Series 2017A	\$ 345,000	\$ 510,000
iPad Capital Lease Payable	\$ 195,722	\$ 545,325
Certificate of Participation, Series 2021A	\$ 7,765,000	\$8,165,000

Other obligations include accrued vacation pay and sick leave for specific employees of the District which included \$32,964,974 in an estimated OPEB liability, \$16,728,406 in estimated net pension liability, \$1,540,082 in a severance liability and \$491,160 for compensated absences. More detailed information about our long-term liabilities is included in notes 5,6, and 7 to the financial statements.

**FACTORS BEARING ON THE DISTRICT’S FUTURE**

Without a current voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. The Minnesota state legislature has provided consistent increases to the funding formula in recent years. Funding was approved at 2% per pupil in FY 25 and is aligned with inflation thereafter not to exceed 3% under current legislation. These increases provide for stability in regards to revenue per student. Even with these funding increases, an unknown factor for the District’s future is whether the legislature will continue to provide funding increases. The District held a special election in November 2025 to ask voters to support an operating referendum to alleviate ongoing budget deficits. This effort failed and additional budget reductions will be required in FY 26.

The District saw a 1.5% decrease in enrollment, following years of decline in enrollment, with the exception of a slight increase in FY24. The COVID-19 pandemic, beginning in March 2020, may continue to contribute to enrollment changes. Lingering factors may be attributed to online education options, homeschool, and the general demographic trends of the community. Management continues to develop a plan to address enrollment changes. PSEO enrollment continues to be a significant factor the District is monitoring and hoping to address.

The District has continued to see high health insurance usage and several high claims. The district must continue to strive to reduce overall health care costs through increased premium contributions for both retired and active employees, or by moving all employees to a more affordable plan with a deductible. The District made significant progress with decreasing its share of health care costs in the settled 2023-2025 labor agreements.

**INDEPENDENT SCHOOL DISTRICT #701  
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)  
June 30, 2025**

All bargaining groups agreed to absorb 30% of the increase for the FY 2026 renewal, which was an increase of 13.9%, resulting in some savings. Further progress should remain a goal of the District.

An actuarial valuation report for fiscal year ending June 30, 2025 estimates the total OPEB accrued liability to be approximately \$32.9 million, an increase from the prior year of about \$1.2 million, primarily due to actuarial assumptions and actual experience. This is an unfunded long-term liability but it should be noted this liability is not currently due and the district has the authority to levy for this cost as needed, providing relief to the district. The school board passed a resolution in June 2019 to invest future earnings from committed funds to severance, separation, and OPEB. As noted previously, the impact on the net position of the District is evident for the recognition of benefits to be paid out in future years for current obligations to District personnel. Management may consider recommending Board approval to release the committed funds and cease investing future earnings to help addressing short-term budget deficits in the upcoming fiscal year.

The District generates some revenue based on taconite production in the District and taconite production employs a significant number of people in the area, which can have an effect on enrollment stability. The District should remain aware of the current state and health of taconite producers and use this information to plan for the future.

Finally, the school district will need to keep track of the General Fund operating referendums that are currently in place. In August, 2013, the district adopted a resolution to approve a five-year school board adopted referendum in the amount of \$300 per pupil, and also to accept the Location Equity Revenue (now known as Local Optional Revenue) for approximately \$424 per pupil. As required by the Minnesota Department of Education and as required by the laws in place at this time, the District’s Board of Education adopted another resolution to extend the \$300 per pupil referendum for an additional five-year period in August 2018. Legislation was later passed which no longer requires the Board to renew this resolution. Prior referendums that were passed before fiscal year 2014 will no longer need to be renewed, as the new legislation for Local Optional Revenue will automatically increase as the old referendums expire. The Board of Education should continue to renew this resolution as the District depends on this additional funding.

**CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

Our financial report is designated to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District’s finances and to show the Board’s accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Alex Kaczor, Business Manager at Hibbing School District, 800 East 21<sup>st</sup> Street, Hibbing, MN 55746, or call (218) 208-0849.

# INDEPENDENT SCHOOL DISTRICT 701

## STATEMENT OF NET POSITION

June 30, 2025

	Governmental Activities
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 971,979
Investments	930,340
Receivables	
Taxes - current	2,121,091
Taxes - delinquent	86,750
Accounts	211,924
Interest	2,961
Other governments	6,986,042
Less - allowance for uncollectible taxes	(21,000)
Inventory	37,851
Total Current Assets	<u>11,327,938</u>
<b>Capital Assets</b>	
Land	376,377
Land improvements	8,325,883
Buildings	72,910,742
Equipment	5,794,074
Intangible right-to-use asset: equipment	189,657
Work in progress	853,946
	<u>88,450,679</u>
Less - accumulated depreciation and amortization	<u>(44,433,317)</u>
Total Capital Assets	<u>44,017,362</u>
<b>Noncurrent Assets</b>	
Cash and cash equivalents - restricted for capital and debt service	3,715,659
Investments - restricted for capital and debt service	4,869,485
Total Noncurrent Assets	<u>8,585,144</u>
Total Assets	<u>63,930,444</u>
<b>Deferred Outflows of Resources</b>	
Related to OPEB	7,129,383
Related to net pension liability	3,579,040
Total Deferred Outflows of Resources	<u>10,708,423</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 74,638,867</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 1,035,958
Salaries payable	2,206,643
Accrued expenses	436,306
Accrued interest	91,368
Current portion of long-term obligations	8,520,722
Current portion of long-term lease obligations: right-to-use assets	36,318
Current portion of compensated absences payable	82,139
Current portion of separation and severance payable	259,238
Total Current Liabilities	<u>12,668,692</u>
<b>Noncurrent Liabilities</b>	
Long-term debt obligations	10,504,329
Long-term lease obligations: right-to-use assets	90,671
Compensated absences payable	409,021
Separation and severance payable	1,280,844
Net pension liability	16,728,406
Other post employment benefit payable (OPEB)	32,964,974
Total Noncurrent Liabilities	<u>61,978,245</u>
Total Liabilities	<u>74,646,937</u>
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent years expenditures	3,727,467
Related to OPEB	5,986,633
Related to net pension liability	5,641,160
Total Deferred Inflows of Resources	<u>15,355,260</u>
<b>Net Position</b>	
Net investment in capital assets	24,773,954
Restricted for state mandated requirements	10,663,781
Unrestricted	(50,801,065)
Total Net Position	<u>(15,363,330)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 74,638,867</u>

# INDEPENDENT SCHOOL DISTRICT 701

## STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
District and school administration	\$ 1,583,572	\$ -	\$ -	\$ -	\$ (1,583,572)
District support services	1,769,259	-	-	-	(1,769,259)
Instruction					
Regular	14,350,406	350,773	2,342,173	-	(11,657,460)
Vocational	582,276	-	19,759	-	(562,517)
Special education	10,663,164	-	7,545,971	-	(3,117,193)
Community education and services	765,689	265,629	425,468	-	(74,592)
Instructional support services	2,856,284	-	-	-	(2,856,284)
Pupil support services	2,445,939	-	-	-	(2,445,939)
Site, buildings and equipment	5,604,852	-	649,062	1,578,683	(3,377,107)
Fiscal and other fixed cost programs	305,892	-	-	-	(305,892)
Food service	1,728,499	265,663	1,531,038	-	68,202
Interest and fiscal charges on long term debt	383,020	-	-	-	(383,020)
Depreciation - unallocated*	1,586,768	-	-	-	(1,586,768)
	<u>\$ 44,625,620</u>	<u>\$ 882,065</u>	<u>\$ 12,513,471</u>	<u>\$ 1,578,683</u>	<u>(29,651,401)</u>
<b>General Revenues</b>					
<b>Taxes</b>					
					7,953,106
					86,926
					533,921
					20,914,934
					580,643
					13,818
					<u>30,083,348</u>
					431,947
					(15,795,277)
					<u>\$ (15,363,330)</u>

\*This amount does not include the depreciation that is included in other functional expense categories

**INDEPENDENT SCHOOL DISTRICT 701**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2025

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 481,559	\$ -	\$ 490,420	\$ 971,979
Cash and cash equivalents - restricted	-	3,715,659	-	3,715,659
Investments	930,340	-	-	930,340
Investments - restricted	-	4,869,485	-	4,869,485
Receivables				
Taxes - current	1,821,983	299,108	-	2,121,091
Taxes - delinquent	86,750	-	-	86,750
Accounts	134,674	-	77,250	211,924
Interest	2,961	-	-	2,961
Other governments	6,871,069	64,662	50,311	6,986,042
Due from other funds	238,076	-	-	238,076
Inventory	-	-	37,851	37,851
<b>Total Assets</b>	<b>10,567,412</b>	<b>8,948,914</b>	<b>655,832</b>	<b>20,172,158</b>
<b>Deferred Outflows of Resources</b>				
Total Assets and Deferred Outflows of Resources	\$ 10,567,412	\$ 8,948,914	\$ 655,832	\$ 20,172,158
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 991,064	\$ -	\$ 44,894	\$ 1,035,958
Due to other funds	-	-	238,076	238,076
Salaries payable	2,175,232	-	31,411	2,206,643
Accrued expenses	405,988	-	30,318	436,306
Compensated absences payable	77,190	-	4,949	82,139
<b>Total Liabilities</b>	<b>3,649,474</b>	<b>-</b>	<b>349,648</b>	<b>3,999,122</b>
<b>Deferred Inflows of Resources</b>				
Property taxes levied for subsequent years expenditures	3,169,400	558,067	-	3,727,467
Delinquent property taxes	86,750	-	-	86,750
<b>Total Deferred Inflows of Resources</b>	<b>3,256,150</b>	<b>558,067</b>	<b>-</b>	<b>3,814,217</b>
<b>Fund Balance</b>				
Fund balance - nonspendable	-	-	37,851	37,851
Fund balance - restricted (General)	1,076,685	-	-	1,076,685
Fund balance - restricted (Special Revenue)	-	-	1,196,249	1,196,249
Fund balance - restricted (Debt Service)	-	8,390,847	-	8,390,847
Fund balance - committed	4,183,759	-	-	4,183,759
Fund balance - assigned	131,290	-	-	131,290
Fund balance - unassigned	(1,729,946)	-	(927,916)	(2,657,862)
<b>Total Fund Balance</b>	<b>3,661,788</b>	<b>8,390,847</b>	<b>306,184</b>	<b>12,358,819</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 10,567,412</b>	<b>\$ 8,948,914</b>	<b>\$ 655,832</b>	<b>\$ 20,172,158</b>

The accompanying notes are an integral part of these financial statements.

**INDEPENDENT SCHOOL DISTRICT 701**

**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS**

June 30, 2025

Total Fund Balances - Governmental Funds	\$	12,358,819
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets		88,450,679
Less - accumulated depreciation and amortization		(44,433,317)
Net delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds. (\$86,750 less allowance of \$21,000)		
		65,750
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in the governmental funds balance sheet but is recorded in the governmental activities.		
		(91,368)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.		
Long-term liabilities at year end consist of:		
Bonds and capital leases		(18,760,722)
Unused premium		(264,329)
Right-to-use lease obligations		(126,989)
Compensated absences payable		(409,021)
Separation and severance payable		(1,540,082)
OPEB liability		(32,964,974)
Net pension liability		(16,728,406)
The recognition of net pension liability is effected by timing and treatment of certain items that are not recognized in the governmental funds:		
Deferred outflows of resources as related to OPEB liability		7,129,383
Deferred outflows of resources as related to net pension liability		3,579,040
Deferred inflows of resources as related to OPEB liability		(5,986,633)
Deferred inflows of resources as related to net pension liability		(5,641,160)
Total Net Position - Governmental Activities	\$	(15,363,330)

## INDEPENDENT SCHOOL DISTRICT 701

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2025

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 7,956,739	\$ 533,921	\$ 86,926	\$ 8,577,586
Other local and county	2,067,570	359,337	309,348	2,736,255
State sources	29,395,903	649,062	990,772	31,035,737
Federal sources	1,465,564	-	941,427	2,406,991
Sales and other conversions of assets	12,025	-	265,663	277,688
Total Revenues	40,897,801	1,542,320	2,594,136	45,034,257
Expenditures				
Current				
District and school administration	1,772,793	-	-	1,772,793
District support services	1,814,615	-	-	1,814,615
Instruction				
Regular	14,711,501	-	-	14,711,501
Vocational	598,339	-	-	598,339
Special education	11,185,817	-	-	11,185,817
Community education and services	-	-	746,400	746,400
Instructional support services	2,825,119	-	-	2,825,119
Pupil support services	2,405,781	-	-	2,405,781
Site, buildings and equipment	4,121,286	-	-	4,121,286
Fiscal and other fixed cost programs	305,892	-	-	305,892
Food service	-	-	1,702,213	1,702,213
Capital Outlay	2,921,449	-	132,825	3,054,274
Debt Service				
Principal	749,603	515,000	-	1,264,603
Interest and fiscal charges	203,954	195,938	-	399,892
Total Expenditures	43,616,149	710,938	2,581,438	46,908,525
Excess of Revenues Over (Under) Expenditures	(2,718,348)	831,382	12,698	(1,874,268)
Other Financing Sources				
Proceeds from sale of equipment	41,796	-	-	41,796
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(2,676,552)	831,382	12,698	(1,832,472)
Fund Balance - Beginning of the year	6,338,340	7,559,465	293,486	14,191,291
Fund Balance - End of the year	\$ 3,661,788	\$ 8,390,847	\$ 306,184	\$ 12,358,819

The accompanying notes are an integral part of these financial statements.

**INDEPENDENT SCHOOL DISTRICT 701**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2025

Total Net Change in Fund Balance - Governmental Funds	\$ (1,832,472)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of these assets are allocated over the estimated useful lives as depreciation expense.</p>	
Capital outlays	2,360,736
Depreciation and amortization expense	(2,779,065)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds until due and payable such as interest.</p>	
	15,737
<p>Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>	
	(3,633)
<p>In the statement of activities, certain operating expenses - compensated absences and special termination benefits - are measured by the amounts earned during the year. In the government funds, however, expenditures for these items are measured by the amount of financial resources used (essentially amounts actually paid.)</p>	
Compensated absences, special termination benefits including OPEB	1,136,269
Long term debt payments	1,264,603
<p>In the statement of activities, net pension liability (NPL) is measured considering the change in deferred inflows and outflows under GASB 68. In the governmental funds, pension contribution is measured based on employer contributions. This is the difference between the recognition methods.</p>	
	252,900
<p>In the statement of activities, premiums on long term debt issuances are amortized over the life of the bond. In the governmental funds, the amounts are presented net of the proceeds.</p>	
	16,872
Change in Net Position - Governmental Activities	\$ 431,947

## INDEPENDENT SCHOOL DISTRICT 701

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Fiscal Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 6,248,435	\$ 6,248,435	\$ 7,956,739	\$ 1,708,304
Other local and county	1,092,610	1,092,610	2,067,570	974,960
State sources	28,760,484	28,760,484	29,395,903	635,419
Federal sources	1,289,295	1,289,295	1,465,564	176,269
Sales and other conversions of assets	5,000	5,000	12,025	7,025
Total Revenues	37,395,824	37,395,824	40,897,801	3,501,977
Expenditures				
Current				
District and school administration	1,628,449	1,628,449	1,772,793	144,344
District support services	1,436,712	1,436,712	1,814,615	377,903
Instruction				
Regular	14,758,348	14,758,348	14,711,501	(46,847)
Vocational	157,882	157,882	598,339	440,457
Special education	8,497,721	8,497,721	11,185,817	2,688,096
Instructional support services	2,372,031	2,372,031	2,825,119	453,088
Pupil support services	2,737,639	2,737,639	2,405,781	(331,858)
Site, buildings and equipment	4,570,492	4,570,492	4,121,286	(449,206)
Fiscal and other fixed cost programs	257,700	257,700	305,892	48,192
Debt service	757,288	757,288	953,557	196,269
Capital Outlay	997,871	997,871	2,921,449	1,923,578
Total Expenditures	38,172,133	38,172,133	43,616,149	5,444,016
Excess of Expenditures Over Revenues	(776,309)	(776,309)	(2,718,348)	(1,942,039)
Other Financing Sources				
Proceeds from sale of equipment	200,000	200,000	41,796	(158,204)
Excess of Expenditures Over Revenue and Other Financing Sources	\$ (576,309)	\$ (576,309)	(2,676,552)	\$ (2,100,243)
Fund Balance - Beginning of the year			6,338,340	
Fund Balance - End of the year			\$ 3,661,788	

The accompanying notes are an integral part of these financial statements.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

The financial statements of Independent School District 701, Hibbing, Minnesota have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

#### **Reporting Entity**

Independent School District 701, Hibbing, Minnesota, was established pursuant to applicable Minnesota laws and statutes to provide public education facilities to every child of school age residing within the District.

The governing body consists of a six member board elected by eligible voters of the District. Three members are elected every two years. The powers and duties of the Board are provided in Minnesota Statutes.

The District's financial statements include the accounts of all the District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Government Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*, amends GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* by clarifying requirements for the reporting of component units. Consideration for inclusion as a component unit include whether the organization is legally separate, the District holds the corporate powers of the organization, the District appoints a voting majority of the board, the District is able to impose its will, whether the organization has the potential to impose a financial burden/benefit on the District and the level of fiscal dependency. GASB 61 expanded the definitions found within Statement 14 as well as clarified many of the criteria used to determine the financial benefit and burden relationships. Based upon the application of these criteria, there were no component units requiring inclusion with the reporting entity.

With the adoption of GASB Statement No. 84, *Fiduciary Activities*, extracurricular funds under board control are now reported within the general fund. They are no longer presented as a separate reporting unit.

#### **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 funds. The fiduciary funds are only reported in the Statements of Fiduciary Net Position and Changes in Net Position at the fund financial statement level. As of June 30, 2025, the District did not hold any fiduciary funds.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted net position are available. Depreciation expense which can be specifically identified by function are included in the direct expenses of each function, while indirect expenses are reflected separately. Interest on general long-term debt is considered an indirect expense and is also reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the district-wide financial statements.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining governmental funds is reported in a single column in the fund financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges for employee health and dental costs. Operating expenses for the internal service fund include the cost of insurance premiums for these services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. As of June 30, 2025, the District did not hold any proprietary funds.

The fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (other than the district) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the district-wide statements. As of June 30, 2025, the District did not hold any fiduciary funds.

#### **Measurement Focus and Basis of Accounting**

##### ***District-Wide Financial Statements***

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund and fiduciary fund financial statements. Revenues are recorded when

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts recognized in advance in accordance with a statutory tax shift. Grants and similar items are recognized when all eligible requirements imposed by the provider have been met. Program revenues include charges paid by the recipient of the services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

#### ***Governmental Fund Financial Statements***

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

#### *Revenue recognition*

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

#### *Recording of Expenditures*

Expenditures are generally recorded when a liability is incurred and is anticipated to be paid within a reasonable amount of time after year end (generally assumed to be within 60 days). The exception to this general rule is that interest and principal expenditures in the Debt Service Fund are recognized on their due dates.

#### **Description of Funds**

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent reporting unit. A description of the funds included in this report are as follows:

#### ***Major Governmental Funds***

##### *General Fund*

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

##### *Debt Service Fund*

The Debt Service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

#### ***Nonmajor Governmental Funds***

##### *Food Service Special Revenue Fund*

The Food Service Fund is used to account for food service revenues and expenditures.

##### *Community Service Special Revenue Fund*

The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adults or early childhood programs, or other similar services.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Budgeting**

An annual appropriated budget is adopted for all of the District's funds and is adopted on a basis consistent with the financial statements. The budget is adopted prior to July 1 for the next school year. All annual appropriations lapse at year end. No revisions of the budget were made during the year.

#### **Cash and Cash Equivalents**

The District pools the cash balances of all funds primarily into three common demand deposit accounts, with the exception of the its internal service fund for which separate checking accounts are maintained. For financial statement purposes cash and cash equivalents consist of checking, savings, money market accounts and funds held in the Minnesota Liquid Asset Fund (LAF).

#### **Investments**

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements. Investments are stated at fair value. The District uses a fair value hierarchy established by generally accepted accounting principles. The hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs - other than quoted prices included within level 1 - that are observable either directly or indirectly. Level 3 inputs are unobservable inputs. The fair value was obtained through information provided by third party sources. The District considers certificates of deposit as investments due to anticipated long term maturities.

#### **Accounts Receivable**

No allowance for uncollected accounts receivable is considered necessary.

#### **Inventories**

Inventories are recorded using the consumption method of accounting and consist of purchased food and surplus commodities received from the federal government. Food purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standardized costs, as determined by the Department of Agriculture.

#### **Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption. The District did not have any significant prepaids as of June 30, 2025.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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 fair value at the date of donation. The District maintains a threshold of \$5,000 or more for capitalizing assets. 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 outlay reported at the fund statement level reflects all expenditures that are capital in nature including those that fall below the \$5,000 capitalization threshold.

Capital assets are recorded in the district-wide statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include land and any construction in progress.

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

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow (expense/expenditure) until then. The District has items that qualify for reporting in this category relating to the recognition of the net pension liability under GASB 68 and OPEB liabilities under GASB 75.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has reported items in relation to the recording and reporting of property taxes levied for subsequent years expenditures and property tax reporting as well as deferred items in relation to the net pension liability recognized under GASB 68 and OPEB liabilities under GASB 75 in the accompanying financial statements.

#### Compensated Absences

District employees are eligible to receive paid vacation and sick leave benefits. The amount of such benefits that an employee is entitled to depends on the bargaining unit to which he or she is a member and also on his or her years of service.

The District records a liability for vested vacation and sick leave benefits used within sixty days after year end as a liability in the fund financial statements. The total amount earned as of June 30 is recorded in the district-wide statements.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Severance Pay

The District has implemented the provisions of GASB Statement No. 75 which recognizes other postemployment benefit (OPEB) costs and anticipated benefits to be paid over remaining lives once an employee retires from service. See additional disclosures in Note 7.

In addition to providing the health and dental benefits, employees may be eligible to receive direct severance payments. The District records a liability in the respective funds for those eligible retirees who have retired and are entitled to benefits and will be paid out within the first 60 days of June 30 in the fund financial statements. The total amount of all employees eligible to retire (whether they've given notice or not to retire) as of June 30, 2025 is recorded in the district-wide financial statements.

#### Long-Term Debt Obligations

In the district-wide financial statements, bonds payable and other long-term debt 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 applicable bond premium or discounts. Bond issuance costs under GASB Statement 65 are expensed as debt service costs as incurred.

In the fund financial statements, governmental fund types recognized 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.

#### Risk Management

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

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Net Position

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

#### Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

*Nonspendable* - consists of amounts that are not in spendable form, such as inventories and prepaids.

*Restricted* - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - consists of internally imposed constraints. These constraints are established by formal resolution of the District's board. These amount cannot be used for any other purposes unless the Board modifies or rescinds the motion.

*Assigned* - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the District's intended use. These constraints are established by the Board and/or management. The Board has authorized the superintendent and/or the business manager to establish assignments of fund balance.

*Unassigned* - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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

When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed 2) assigned and 3) unassigned.

#### *Minimum Unassigned Fund Balance Policy*

The District has formally adopted a policy regarding the minimum unassigned fund balance for the General Fund. The most significant revenue source of the general fund is state funded educational aid and property taxes. As such the district set a policy to strive to maintain a minimum unassigned general fund balance of 8 percent of the annual budget. The District did not meet this benchmark as of June 30, 2025.

#### Property Taxes

The School Board annually adopts a tax levy and certifies it to the County for collection. The County is responsible for collecting all property taxes for the District. These taxes attach an enforceable lien on taxable property within the District on January 1 and are payable by the property tax owners by May 15 and October 15 of each year. The taxes are collected by the County and tax settlements are made to the District.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes payable on qualifying property are partially reduced by homestead, agricultural, and taconite aid credits. The credits are paid to the District by the State in lieu of taxes levied against the property.

Current property taxes receivable are recorded for taxes levied in 2024 and payable in 2025. A portion of the current property taxes are recognized as revenue in the fiscal year ended June 30, 2025 in accordance with state statutes and the remaining balance is deferred for subsequent years operations. Revenue from these delinquent property taxes that are not collected within 60 days of year-end are deferred in the fund financial statements because it is not known to be available to finance the operations of the District in the current year. For the District-wide statements, an allowance has been recorded to account for the estimated amount of uncollectible taxes.

#### 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 Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA) and additions to/deductions from TRA's/PERA fiduciary net position have been determined on the same basis as they are reported by TRA/PERA. 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. This 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 the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

### NOTE 2 CASH AND INVESTMENTS

Minnesota Statutes require that all deposits which are not U.S. government securities be protected by insurance, surety bond, or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes legal investments, as well as certain first mortgage notes, and certain other state and local government obligations. State statutes require that securities pledged as collateral be held in safekeeping by the District or in a financial institution other than that furnishing the collateral.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The District does not have a formal deposit policy for custodial credit risk other than to follow the Statutes required under the State of Minnesota. At June 30, 2025, the amount of the District's funds on deposit was \$11,138,913. As of June 30, 2025, all of the District's deposits were adequately covered with deposit insurance or collateral held in the District's name.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 2 CASH AND INVESTMENTS (Continued)

#### Cash and Cash Equivalents

The District holds the following cash and cash equivalent accounts as of June 30.

Deposits in banks - checking and savings	\$ 897,813
Money market cash funds	2,095,616
MN Liquid Asset Fund	1,694,209
	<u>\$ 4,687,638</u>
Current Assets - unrestricted	\$ 971,979
Noncurrent assets - restricted for capital and debt service	3,715,659
	<u>\$ 4,687,638</u>

The liquid asset fund values were obtained from statements provided by the Minnesota School District Liquid Asset fund administrator. The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the SEC that follows the same regulatory rules of the SEC under rule 2a7 and is managed by the Board and Minnesota Statutes. They are valued at amortized cost, which approximates fair value. The investment in the MN Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40.

#### Investments

The schedule below is a categorization of the District's investments (with maturities by years) as of June 30.

	<u>1-5 years</u>	<u>6-10 years</u>	<u>Total</u>
Certificates of deposit (at cost - not rated)	\$ 930,340	\$ -	\$ 930,340
Municipal bonds (fair value using level 2)	4,869,485	-	4,869,485
	<u>\$ 5,799,825</u>	<u>\$ -</u>	<u>\$ 5,799,825</u>
Current Assets - unrestricted			\$ 930,340
Noncurrent assets - restricted for capital and debt service			4,869,485
			<u>\$ 5,799,825</u>

The following schedule reports the fair value and rating assigned by Moody's/S&P obtained from the District's investment advisors:

Certificates of deposits	FDIC insured - not rated	\$ 399,578
Municipal bonds	Aa3/Moody's	119,731
Municipal bonds	Aa2/Moody's	553,011
Municipal bonds	Aa1/Moody's	1,805,461
Municipal bonds	AA/S&P	420,252
Municipal bonds	AA+/S&P	526,434
Municipal bonds	AA-/S&P	315,771
Municipal bonds	AAA/S&P	729,247
		<u>\$ 4,869,485</u>

Investments measured at level 1 of the fair value hierarchy are valued using prices quotes in active markets for those securities. Level 2 are valued using other observable inputs and level 3 are those that do not have significant fair value inputs available. All the District's investments required to be reported at fair value are measured using level 2 measurement basis.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 2 CASH AND INVESTMENTS (Continued)

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The District does not have a formal deposit policy for custodial credit risk outside of statutory limits.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment risk policy.

Credit risk is defined as the risk that an issuer or other counterparts to an investment in debt securities will not fulfill its obligation. State statutes limit investments to obligations of the U.S. Treasury commercial paper, corporate bonds and repurchase agreements. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a in a single issuer. The District placed no limit on the amount the District may invest in any one issue.

### NOTE 3 RECEIVABLE FROM OTHER GOVERNMENTS

The District has amounts due from other governments at June 30 as follows:

	General	Debt Service Fund	Other Governmental Funds	Total District- Wide
Due from the Dept. of Education	\$ 2,914,731	\$ 64,662	\$ 44,143	\$ 3,023,536
Due from the federal government through the Dept. of Education	1,290,303	-	-	1,290,303
Due from other governmental units	2,666,035	-	6,168	2,672,203
	<u>\$ 6,871,069</u>	<u>\$ 64,662</u>	<u>\$ 50,311</u>	<u>\$ 6,986,042</u>

### NOTE 4 CAPITAL ASSETS

The following is a summary of changes in the capital assets during the year:

	Balance June 30, 2024	Additions	Retirements	Balance June 30, 2025
Land	\$ 376,377	\$ -	\$ -	\$ 376,377
Land improvements	8,274,494	51,389	-	8,325,883
Buildings	71,898,651	1,012,091	-	72,910,742
Equipment	5,338,043	500,795	44,764	5,794,074
Intangible right-to-use assets: equipment	160,108	179,379	149,830	189,657
Construction in progress	146,217	707,729	-	853,946
	<u>\$ 86,193,890</u>	<u>\$ 2,451,383</u>	<u>\$ 194,594</u>	<u>\$ 88,450,679</u>

Accumulated depreciation and amortization activity for the year ended June 30, 2025 is as follows:

	Accumulated Depreciation June 30, 2024	Additions	Retirements	Accumulated Depreciation June 30, 2025
Land improvements	\$ 2,399,067	\$ 360,570	\$ -	\$ 2,759,637
Buildings	35,953,828	2,054,799	-	38,008,627
Equipment	3,255,474	363,696	16,785	3,602,385
Intangible right-to-use assets: equipment	149,830	62,668	149,830	62,668
	<u>\$ 41,758,199</u>	<u>\$ 2,841,733</u>	<u>\$ 166,615</u>	<u>\$ 44,433,317</u>

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 4 CAPITAL ASSETS (Continued)

Capital assets, net of accumulated depreciation and amortization, as of June 30, 2025 is as follows:

Land (not being depreciated)	\$ 376,377
Land improvements	5,566,246
Buildings	34,902,115
Equipment	2,191,689
Intangible right-to-use assets: equipment	126,989
Construction in progress (not currently being depreciated until placed in service)	853,946
	\$ 44,017,362

Depreciation and amortization expense of \$2,779,065 for the year ended June 30, 2025 was charged to the following governmental functions:

District and school administration	\$ 743
Instruction - regular	119,391
Instruction - vocational	18,363
Instruction - special education	1,712
Community education	185,512
Food service	26,286
Instruction support services	9,074
Pupil support services	213,836
Site, buildings and equipment	617,380
Unallocated	1,586,768
	\$ 2,779,065

#### *Intangible Right-to-Use Assets*

The District implemented the guidance in GASB No. 87, *Leases*, and recognized the value of copiers and a postage machine leased under long-term contracts. The lease agreements have remaining terms ranging from one to four years on the lease period. The District has recorded the value of the leased assets in the amount of \$189,656 and corresponding accumulated amortization of \$62,668 for a net remaining value of \$126,989 that will be amortized over the remaining estimated lives of the assets.

### NOTE 5 LONG-TERM DEBT

General obligation bonds and notes are direct obligations and pledge the full faith and credit of the District. General obligation debt and other lease obligations at June 30, 2024 is comprised of the following:

\$7,500,000 General Obligation Taxable Alternative Facilities Bonds, Series 2010A, due in annual interest only installments of \$105,000 through July 1, 2025. As of January 1, 2026 a one time principal payment of \$7,500,000 will be due, interest rate of 1.4%.	\$ 7,500,000
\$3,665,000 General Obligation Taxable Bonds, Series 2021B, due in annual installments of \$220,000 to \$270,000 through February 1, 2037. Interest rate of .45 to 2.75%.	2,955,000
\$9,355,000 Certificate of Participation, Series 2021A, dated April 21, 2021, due in annual installments of \$385,000 to \$580,000 through March 1, 2041. Interest rate of 2.0 to 3.0%.	7,765,000

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 5 LONG-TERM DEBT (Continued)

\$1,550,000 General Obligation Bonds, Series 2017A, dated February 13, 2017 due in annual installments of \$120,000 to \$175,000 through February 1, 2027. Interest rate of 2.0 to 3.0%.	345,000
Purchase agreement with Apple, Inc. for technology equipment with annual installments of \$198,670 through July 2027, interest rate of 1.496%.	195,722
	<u>18,760,722</u>
Plus: unamortized bond premiums	264,329
Less: current portion of long-term obligations	<u>(8,520,722)</u>
	<u>\$ 10,504,329</u>

As noted under Note 4 regarding right-to-use assets, with the implementation of GASB No.87, *Leases*, the District records a related intangible asset and corresponding obligation for these transactions. The District leases a variety of copiers and a postage machine for a term of 60 months with outstanding balances as of June 30, 2025 of \$126,989.

Lease agreements for copiers with annual installments of \$2,150 to \$3,936 through 2028. \$ 126,989

Minimum principal and interest payments required to retire long-term liabilities are as follows:

		Lease payments - Right-to-use assets				
		Principal	Interest	Principal	Interest	Total
Ending June 30	2026	\$ 36,318	\$ 4,748	\$ 8,520,722	\$ 310,191	\$ 8,871,979
	2027	36,585	3,227	850,000	243,678	1,133,490
	2028	35,605	1,665	675,000	226,428	938,698
	2029	15,404	448	695,000	213,928	924,780
	2030	3,076	40	710,000	200,028	913,144
	2031-2035	-	-	3,590,000	756,280	4,346,280
	2036-2040	-	-	3,140,000	334,763	3,474,763
	2041	-	-	580,000	17,400	597,400
		<u>\$ 126,988</u>	<u>\$ 10,128</u>	<u>\$ 18,760,722</u>	<u>\$ 2,302,696</u>	<u>\$ 21,200,534</u>

During the year, the following changes occurred in the District's long-term debt:

	General Obligation Debt	Right-to-use Lease Obligations	Severance Payable	Compensated Absences Payable
Beginning of Year	\$ 20,306,526	\$ 11,134	\$ 1,605,182	\$ 389,429
Increases	-	115,855	-	101,731
Decreases	(1,264,603)	-	(65,100)	-
Premium	(16,872)	-	-	-
End of Year	<u>\$ 19,025,051</u>	<u>\$ 126,989</u>	<u>\$ 1,540,082</u>	<u>\$ 491,160</u>

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 5 LONG-TERM DEBT (Continued)

The liabilities are reported on the District-wide statements as follows:

	General Obligation Debt	Right-to-use Lease Obligations	Severance Payable	Compensated Absences Payable
Current liabilities	\$ 8,520,722	\$ 36,318	\$ 259,238	\$ 82,139
Long-term obligations	10,504,329	90,671	1,280,844	409,021
	<u>\$ 19,025,051</u>	<u>\$ 126,989</u>	<u>\$ 1,540,082</u>	<u>\$ 491,160</u>

The general and the debt service funds will liquidate the long term debt in future years for the general obligation bond and the general fund, food service or community education funds will finance the severance, and compensated absences liabilities in relation to the funds where the original salaries were paid.

See Notes 6 and 7 for further discussions on pension and OPEB liabilities for the District.

### NOTE 6 PENSION PLANS

Substantially all employees of the District are required by State law to belong to pension plans administered by the Teachers Retirement Association (TRA) or the Public Employees Retirement Association (PERA), both of which are administered on a statewide basis.

#### *TEACHERS RETIREMENT ASSOCIATION*

##### **A Plan Description**

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement plan. 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 educational institutions maintained by the state (except those employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined 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.

##### **B Benefits Provided**

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service. 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.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 6 PENSION PLANS (Continued)

#### *TEACHERS RETIREMENT ASSOCIATION (Continued)*

##### Tier I Benefits

	<u>Step Rate Formula</u>	<u>Percentage</u>
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

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 for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 with 30 years of service have a lower (more favorable to the member) reduction rate applied.

##### Tier II Benefits

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

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

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

### **C Contributions**

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rate for the fiscal year 2025 for coordinated were 7.75% for the employee and 8.75% for the employer. Basic rates were 11.25% for the employee and 12.75% for the employer. The District's contributions to TRA for the plan's fiscal year ending June 30, 2025 were \$1,363,456. The District's contributions were equal to the required contributions for each year as set by state statute.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 6 PENSION PLANS (Continued)

#### *TEACHERS RETIREMENT ASSOCIATION (Continued)*

##### **D Actuarial Assumptions**

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

##### Key Methods and Assumptions Used in Valuation of Total Pension Liability

###### *Actuarial Information*

Experience Studies	August 2, 2023 (demographic and economic assumptions)	
Actuarial Cost Method	Entry Age Normal	
Actuarial Assumptions:		
Investment Rate of Return	7%	
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 - 8.85%	before July 1, 2028 and 3.25% to 9.25% after June 30, 2028
Cost of living adjustment	1%	for January 2019 through January 2023, then increasing by .1% each year up to 1.5% annually.

###### *Mortality Assumption*

Pre-retirement	PubT-2010(A) Employee Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Healthy Retirees	PubT-2010(A) Employee Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Beneficiaries	PubT-2010(A) Employee Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Disables Retirees	PubT-2010(A) Employee Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.

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.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 6 PENSION PLANS (Continued)

#### *TEACHERS RETIREMENT ASSOCIATION (Continued)*

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Geometric Mean)</u>
Domestic Equity	35.5%	5.10%
International Equity	16.5%	5.30%
Private Markets	25.0%	5.90%
Fixed income	25.0%	0.75%
Total	100%	

Changes in actuarial assumptions since the last valuation:

- Mortality tables were updated for active employees, retirees, disabled retirees, and contingent beneficiaries to recently published tables derived from the 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.

#### **E Discount Rate**

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

#### **F Net Pension Liability**

On June 30, 2025, the District reported a liability of \$14,309,931 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2024. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.2252% at the end of the measurement period and 0.2162% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the district as its proportionate share of the net pension liability, the direct aid, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of net pension liability	\$ 14,309,931
State's proportionate share of the net pension liability associated with the district	396,727
Total	<u>\$ 14,706,658</u>

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 6 PENSION PLANS (Continued)

#### *TEACHERS RETIREMENT ASSOCIATION (Continued)*

For the year ended June 30, 2025, the District recognized pension expense of \$992,274. It also recognized \$11,448 as an increase 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 \$396,727 for year ended June 30, 2025 as revenue and an offsetting reduction of the net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the fund.

On June 30, 2025, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 614,625	\$ 130,683
Change in actuarial assumptions	-	1,706,498
Net difference between projected and actual earnings on plan investments	-	2,024,660
Change in proportion	619,217	215,722
Contributions paid subsequent to year end	1,363,456	
	<u>\$ 2,597,298</u>	<u>\$ 4,077,563</u>

\$1,363,456 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.

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

2026	\$ (1,584,228)
2027	626,496
2028	(985,274)
2029	(798,727)
2030	(101,988)

#### **G Pension Liability Sensitivity**

The following presents the net pension liability of TRA calculated using the discount rate of 7%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (6%) or 1% higher (8%) than the current rate

District Proportionate Share of NPL		
1 percent decrease (6%)	Current (7%)	1 percent increase (8%)
\$ 25,200,625	\$ 14,309,931	\$ 5,346,631

#### **H Pension Plan Fiduciary Net Position**

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

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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### NOTE 6 PENSION PLANS (Continued)

#### ***PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)***

##### **A Plan Description**

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

##### *General Employees Retirement Plan (General Plan)*

Membership in the plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments.

Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

##### **B Benefits Provided**

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

General employee 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 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. Only the level formula is used for members hired after June 30, 1989. Under the step formula, plan members receive 1.2% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the level formula, plan members receive 1.7% of highest 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 retirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25% for each month the member is younger than age 62. The level formula allows plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989 Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

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

For recipients receiving the annuity or benefit for at least one month but less than a full year as of June 30 before the effective date of the increase will receive a reduced prorated increase.

##### **C Contributions**

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

General Plan members were required to contribution 6.5% of their annual covered salary in fiscal year 2025; the District was required to contribute 7.5% for General Plan members. The District's contributions to the GERF for the year ended June 30, 2025 were \$451,754. The District's contributions were equal to the required contributions for each year as set by state statute.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 6 PENSION PLANS (Continued)

#### *PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)*

##### **D Pension Costs**

At June 30, 2025, the District reported a liability of \$2,418,475 for its proportionate share of the plan's net pension liability. The 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 \$62,537.

District's proportionate share of the net pension liability	\$ 2,418,475
State of Minnesota's proportionate share of the net pension liability association with the District	62,537
	<u>\$ 2,481,012</u>

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 proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for the employer payroll dates from July 1, 2023 through June 30, 2024, relative to the total employer contributions received from all PERA's participating employers. The District's proportionate share was .0654% at the end of the measurement period and .060% at the beginning of the period.

There were no provision changes during the measurement period.

For the year ended June 30, 2025, the District recognized pension expense of \$123,645 for its proportionate share of GERS's pension expense. In addition, the District recognized an additional \$476 as pension expense (and 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 plan. The State of Minnesota is not included as a non-employer contributing entity in the 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 \$62,537 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 plan.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 220,635	\$ -
Change in actuarial assumptions	10,396	859,987
Net difference between projected and actual earnings on plan investments	-	703,610
Change in proportion	335,099	-
Contributions paid subsequent to year end	415,612	-
	<u>\$ 981,742</u>	<u>\$ 1,563,597</u>

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 6 PENSION PLANS (Continued)

#### *PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)*

\$415,612 reported as deferred outflows of resources related to pensions resulting from District contributions to GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026. Other amount reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

2025	\$	(565,570)
2026		(32,543)
2027		(213,996)
2028		(185,358)

#### **E Long-term Expected Return on Investment**

The State Board of Investment, which manages the investments, 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Domestic equity	33.5%	5.10%
International equity	16.5%	5.30%
Fixed income	25.0%	0.75%
Private markets	25.0%	5.90%
Total	100%	

#### **F Actuarial Methods and Assumptions**

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2024, using the entry age normal actuarial cost method. The long-term rate of return is 7%. This 7% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7% is within that range.

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

Salary growth assumptions range in annual increments from 10.25% after one year of service to 3% after 27 years of service.

Mortality rates for the plan are based on Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions 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.

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

##### Changes in Actuarial Assumptions:

- Rates of merit and sonority 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.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 6 PENSION PLANS (Continued)

#### *PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)*

- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

#### Changes in Plan Provisions:

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

#### **G Discount Rate**

The discount rate used to measure the total pension liability in 2024 was 7.0%.

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

#### **H Pension Liability Sensitivity**

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

District Proportionate Share of NPL		
1 percent decrease (6%)	Current (7%)	1 percent increase (8%)
\$ 5,282,338	\$ 2,418,475	\$ 62,686

#### **I Pension Plan Fiduciary Net Position**

Detailed information about the defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at [www.pera.org](http://www.pera.org).

#### **Total Disclosures Reported in the Accompanying Financial Statements as follows:**

The total of the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA) pension liabilities and deferred items are reflected in the accompanying District wide statement of financial position as follows:

	TRA	PERA	Total
Deferred outflows of resources	\$ 2,597,298	\$ 981,742	\$ 3,579,040
Deferred inflows of resources	4,077,563	1,563,597	5,641,160
Noncurrent liability - Net Pension Liability	14,309,931	2,418,475	16,728,406

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 6 PENSION PLANS (Continued)

#### *PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)*

##### *Defined Contribution Plan*

The District's board members are covered by defined contribution plan, a multiple-employer deferred compensation plan administered by PERA. The defined contribution plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D and 356 specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For salaried employees there is a fixed percentage of salary. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by the District during fiscal year 2025 were:

Contribution Amounts		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$453	\$453	5%	5%	5%

### NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

#### *Plan Description*

The District's defined benefit OPEB plan provides a single-employer defined benefit health care plan to eligible retirees. The plan offers both medical and dental coverage. No assets have been set aside in a trust.

#### *Benefits*

The District provides medical, dental, and life insurance to employees of the School District who are covered by an employment contract which provides for such post-employment benefits. At retirement, employees of the District receiving a retirement or disability benefit, or eligible to receive a benefit, from a Minnesota public pension plan may continue to participate in the District's group insurance plan. District employees are participants in either PERA/general employees retirement plan or Teachers Retirement Association (TRA) of Minnesota. Earliest retirement and disability eligibility for these plans are as follows:

Retirement: First hired before July 1, 1989 (Tier 1):

- Age 55 and vested; or
- Age 65 and one year of service; or
- Any age with 30 years of service; or
- Rule of 90; age plus service totals 90.

First hired after June 30, 1989 (Tier 2)

- Age 55 and vested; or
- Normal Retirement Age and one year of service.

Disability: Total and permanent disability and 3 years of service.

Vesting: 100% vested after 3 years of service.

Under the administrative, confidential, non-aligned and united educators contract - eligibility equates to age 55 and 10 years of service or any age with 20 years of service and hired before July 1, 2008. The District will pay 82% and 76% (for 2025 the bargaining groups agreed to split 30% of the health insurance increase with the

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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### NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (Continued)

District based on a one-year MOU. The percentages in the contracts are assumed to resume for 2026 and subsequent years once the MOU expires.

Under the AFSCME contract, eligibility is determined at age 62 and 10 years of service or any age with 20 years of service and hired before July 1, 2008. The District will pay premiums similar to the previous contracts.

Under the superintendent's contract eligibility is at age 55 and 10 years of service or 20 years of service.

The District will cover 100% of single and dependent coverage for medical and dental until age 65. After that, 100% of single monthly medical with the retiree option to pay the difference for family coverage. The retiree will be assessed an admin fee of \$65 per month for all ages.

The District also pays for post-employment life insurance benefits. For employees under the Administrative and Non-aligned contracts, as well as the Superintendent, the District pays for \$8,000 of coverage. For Confidential Unit employees, the coverage payment is limited to \$6,000 and for AFSCME and the United Educators employees are given up to \$5,000 for coverage payment.

#### **Contributions**

Contribution requirements for employees and retirees are set by the District and employment contracts.

The required contributions are based on projected pay-as-you go financing requirements. For the current fiscal year, the District contributed \$2,216,512 to the plan.

#### **Members**

As of the valuation date of June 30, 2024, the District has 268 retirees and 181 active employees electing coverage and used in the determination of the OPEB valuation for the June 30, 2025 reporting year.

#### **Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of June 30, 2024 using the following assumptions applied to all periods included in the measurement period, unless otherwise specified.

- Discount rate 3.97%
- Inflation rate 2.50%
- Mortality For teachers rates were based on the Pub-2010 teacher mortality tables with projected mortality improvements based on scale MP-2021, and other adjustments. For non-teachers, rates were based on the Pub-2010 general mortality tables with projected mortality improvements based on scale MP-2021 and other adjustments.
- Health care cost trend rate Not Medicare eligible - 8.6% for FY2025, gradually decreasing over several decades to an ultimate rate of 3.9% in FY2076 and later. Medicare eligible, medical - 5% for FY2025, gradually decreasing over several decades to an ultimate rate of 3.9% in FY2076 and later. Medicare eligible, prescription drug - 8.6% for FY2025, gradually decreasing over several decades to an ultimate rate of 3.9% in FY2076 and later years.

#### **Total OPEB Liability**

The District's total OPEB liability of \$31,769,957 was measured as of June 30, 2024 and was determined by an actuarial valuation date using June 30, 2024 census data. This information is reported in the District's June 30, 2025 financials as allowed under the GASB standards.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (Continued)

	Total OPEB Liability
Changes in the total OPEB liability is as follows:	
Balance as of June 30, 2024	\$ 31,769,957
Changes for the year:	
Service cost	334,309
Interest cost	1,196,446
Differences between expected and actual experience	2,025,253
Changes in assumptions	1,037,825
Changes in benefit terms	(1,182,304)
Benefit payments	(2,216,512)
Net changes	1,195,017
Balance as of June 30, 2025	\$ 32,964,974

#### ***OPEB Liability Sensitivity***

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

	1% Decrease 2.97%	Current 3.97%	1% Increase 4.97%
Total OPEB Liability	\$ 36,836,385	\$ 32,964,974	\$ 29,726,526

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower and 1% higher than the current health cost rate.

	1% Decrease	Current	1% Increase
Total OPEB Liability	\$ 29,741,510	\$ 32,964,974	\$ 36,821,692

#### ***OPEB Expense and Deferred Outflows and Inflows of Resources***

For the year ended June 30, 2025, the District recognized OPEB expense of \$316,799. As of June 30, 2025, the District reported deferred inflows and outflows related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual liability	\$ 2,830,695	\$ -
Change in assumptions	2,215,854	5,986,633
Contributions between measurement and reporting date	2,082,834	-
	\$ 7,129,383	\$ 5,986,633

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

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

Fiscal year ended	2026	\$	(262,530)
	2027		(421,756)
	2028		(470,183)
	2029		(557,510)
	2030		395,731
	Thereafter		376,164

### NOTE 8 CONTINGENT LIABILITIES

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

### NOTE 9 EXPENDITURES IN EXCESS OF BUDGET

The general fund actual expenditures exceeded the budget by \$5,444,016 for the year ending June 30, 2025. The food service fund (non-major) exceeded its final expenditure budget by \$317,460.

### NOTE 10 INTERFUND BORROWING

As of June 30, 2025, the Community Service fund (a special revenue fund) had a temporary shortfall of operating cash of \$238,076. The general fund temporarily loaned the community service fund the amount to assist with cash flow. The amount is anticipated to be fully repaid within the next fiscal year.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO FINANCIAL STATEMENTS

June 30, 2025

### NOTE 11 FUND BALANCES

Fund balances were reserved as follows at June 30:

	General	Debt Service	Other Nonmajor	Total Funds
Nonspendable:	\$ -	\$ -	\$ 37,851	\$ 37,851
Restricted for:				
Student Activities	52,533	-	-	52,533
Scholarships	144,784	-	-	144,784
Literacy aid	87,748	-	-	87,748
Teacher Comp Read Act	22,479	-	-	22,479
EC/FE*	-	-	(897,887)	(897,887)
Community Education	-	-	80,212	80,212
School Readiness	-	-	605,886	605,886
Safe Schools levy*	(1,474,551)	-	-	(1,474,551)
LTFM*	(275,818)	-	-	(275,818)
Medical assistance	769,141	-	-	769,141
Debt Service	-	8,390,847	-	8,390,847
Food Service	-	-	510,151	510,151
Total Restricted per UFARS	(673,684)	8,390,847	298,362	8,015,525
UFARS/GASB 58 reclassifications*	1,750,369	-	897,887	2,648,256
Total Restricted per GASB 54	1,076,685	8,390,847	1,196,249	10,663,781
Committed to: Severance	4,183,759	-	-	4,183,759
Assigned to: Student Activities	131,290	-	-	131,290
Unassigned:				
Unassigned, UFARS	20,423	-	(30,029)	(9,606)
UFARS/GASB 54 reclassifications*	(1,750,369)	-	(897,887)	(2,648,256)
Total Unassigned/GASB 54	(1,729,946)	-	(927,916)	(2,657,862)
	<u>\$ 3,661,788</u>	<u>\$ 8,390,847</u>	<u>\$ 306,184</u>	<u>\$ 12,358,819</u>

Nonspendable - Represents a portion of the fund balance that is not available since the amounts have already been spent on inventory.

Restricted for student activities - Represents resources for extracurricular activities raised by students with District admin control.

Restricted for scholarships - Represents resources available for scholarship funds with District administrative control.

Restricted for literacy aid - Represents resources available for evidence based literacy support for children in pre-k through grade 12.

Restricted for teacher comp read act - Represents resources available for compensation for read act training.

Restricted for EC/FE - Represents resources available to provide for service for early childhood programming.

Restricted for community education - Represents resources available to provide programming for community education.

Restricted for school readiness - Represents resources available to provide services for school readiness program.

Restricted for safe schools crime - Represents available resources for future projects.

Restricted for long term facility maintenance (LTFM) - Represent program income from specific revenue sources to be used for capital.

Restricted for medical assistance - Represent unspent resources set aside for special education services.

Restricted for debt service - Represents resources required to be set aside for future debt payments.

Restricted for food service - Represents resources required by statute to be segregated for food services.

Committed for - future estimated costs of second ensuing year retirement payments and equipment purchases. A majority vote of the board is required to commit a fund balance to a specific purpose. The Board passed a resolution as of June 30, 2019 to commit investment earnings from the original \$3.5 million for future fiscal years for severance.

Assigned for - transportation and general student activities under board control.

\*UFARS allows deficit restrictions per statute but reclassification is required to unassigned for GASB 54 presentation.

Deficit Fund Balances - No funds had overall deficit fund balances as of June 30, 2025.

**INDEPENDENT SCHOOL DISTRICT 701**

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CHANGES IN THE DISTRICT'S  
NET OPEB LIABILITY AND RELATED RATIOS AND NOTES**

For the Fiscal Year Ended June 30, 2025

	2018	2019	2020	2021	2022	2023	2024	2025
<b>Total OPEB Liability</b>								
Service cost	\$ 845,916	\$ 752,330	\$ 561,286	\$ 660,302	\$ 649,410	\$ 775,305	\$ 338,810	\$ 334,309
Interest	1,108,065	1,262,419	1,329,946	1,213,146	938,638	789,478	1,185,303	1,196,446
Differences between expected and actual experience	-	2,255,821	-	2,511,535	83,907	485,800	189,077	2,025,253
Changes in assumptions	(3,256,572)	(1,215,961)	2,061,816	(2,867,737)	2,821,902	(8,593,567)	(613,237)	1,037,825
Changes of benefit terms	-	-	-	-	-	-	-	(1,182,304)
Benefit payments	(1,642,601)	(1,798,813)	(1,975,818)	(2,088,674)	(1,817,855)	(1,807,851)	(2,226,426)	(2,216,512)
Net change in total OPEB liability	(2,945,192)	1,255,796	1,977,230	(571,428)	2,676,002	(8,350,835)	(1,126,473)	1,195,017
Total OPEB liability - Beginning of the year	38,854,857	35,909,665	37,165,461	39,142,691	38,571,263	41,247,265	32,896,430	31,769,957
Total OPEB liability - End of the year	\$ 35,909,665	\$ 37,165,461	\$ 39,142,691	\$ 38,571,263	\$ 41,247,265	\$ 32,896,430	\$ 31,769,957	\$ 32,964,974
<b>Plan Fiduciary Net Position</b>								
Employee contributions	-	-	-	-	-	-	-	-
Employer contributions	1,642,601	1,798,813	1,975,818	2,088,674	1,817,855	1,807,851	2,226,426	2,216,512
Net investment income	-	-	-	-	-	-	-	-
Other additions	-	-	-	-	-	-	-	-
Benefit payments	(1,642,601)	(1,798,813)	(1,975,818)	(2,088,674)	(1,817,855)	(1,807,851)	(2,226,426)	(2,216,512)
Administrative expense	-	-	-	-	-	-	-	-
Other deductions	-	-	-	-	-	-	-	-
Net change in plan fiduciary net position	-	-	-	-	-	-	-	-
Plan Fiduciary Net Position - Beginning of the year	-	-	-	-	-	-	-	-
Plan Fiduciary Net Position - End of the year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>NET OPEB LIABILITY - END OF THE YEAR</b>	<b>\$ 35,909,665</b>	<b>\$ 37,165,461</b>	<b>\$ 39,142,691</b>	<b>\$ 38,571,263</b>	<b>\$ 41,247,265</b>	<b>\$ 32,896,430</b>	<b>\$ 31,769,957</b>	<b>\$ 32,964,974</b>
Fiduciary net position as a percentage of total OPEB liability	NA							
Payroll for the measurement period	\$ 15,492,894	\$ 15,970,544	\$ 13,709,880	\$ 15,873,048	\$ 16,292,982	\$ 16,554,795	\$ 16,840,262	\$ 19,883,094
Net OPEB liability as a % of employee payroll	231.8%	232.7%	285.5%	243.0%	253.2%	198.7%	188.7%	165.8%

Note 1

The District implemented the provisions of GASB Statement No. 75 in the fiscal year ending June 30, 2018. This schedule is intended to present a 10-year trend information. Additional years will be added as they become available.

The District does not have a formal funding policy and does not calculate an Actuarially Determined Contribution (ADC) as such the disclosure of the a Schedule of Contributions is not required.

The District does not have funds placed in a trust to offset the total OPEB liability. As such a schedule of investment returns is not required.

# INDEPENDENT SCHOOL DISTRICT 701

## REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - TEACHERS RETIREMENT ASSOCIATION (TRA)

June 30, 2025

### Schedule of Employer's Share of Net Pension Liability - Teachers Retirement Association

District FYE	TRA's Measure Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability		District's Covered Employee Payroll	District's Proportionate Share of the NPL (asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
				Associated with the District	Total			
6/30/2016	6/30/2015	0.2116%	\$13,089,553	\$1,605,864	\$14,695,417	\$10,738,461	136.85%	76.77%
6/30/2017	6/30/2016	0.2127%	\$50,734,026	\$5,091,295	\$55,825,321	\$11,062,827	458.6%	44.88%
6/30/2018	6/30/2017	0.2101%	\$41,939,771	\$4,054,013	\$45,993,784	\$11,308,915	370.9%	51.57%
6/30/2019	6/30/2018	0.2079%	\$13,059,119	\$1,227,204	\$14,286,323	\$11,487,187	113.7%	78.07%
6/30/2020	6/30/2019	0.2151%	\$13,710,519	\$1,213,155	\$14,923,674	\$12,213,541	112.3%	78.07%
6/30/2021	6/30/2020	0.2193%	\$16,202,178	\$1,357,915	\$17,560,093	\$12,746,361	127.1%	75.48%
6/30/2022	6/30/2021	0.2203%	\$9,640,987	\$813,178	\$10,454,165	\$13,184,589	73.1%	86.63%
6/30/2023	6/30/2022	0.2202%	\$17,632,451	\$1,307,438	\$18,939,889	\$13,610,464	129.55%	76.17%
6/30/2024	6/30/2023	0.2162%	\$17,849,956	\$1,250,124	\$19,100,080	\$13,748,207	129.83%	76.42%
6/30/2025	6/30/2024	0.2252%	\$14,309,931	\$396,727	\$14,706,658	\$14,924,433	95.89%	82.07%

### Schedule of Employer's Contributions - Teachers Retirement Association

District FYE	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	District's Covered Employee Payroll	Contributions as a Percentage of Covered-Employee
					Payroll
6/30/2016	\$829,712	\$829,712	-	\$11,062,827	7.50%
6/30/2017	\$848,169	\$848,169	-	\$11,308,915	7.50%
6/30/2018	\$861,539	\$861,539	-	\$11,487,187	7.50%
6/30/2019	\$941,664	\$941,664	-	\$12,213,541	7.71%
6/30/2020	\$1,009,513	\$1,009,513	-	\$12,746,361	7.92%
6/30/2021	\$1,071,908	\$1,071,908	-	\$13,184,589	8.13%
6/30/2022	\$1,135,114	\$1,135,114	-	\$13,610,464	8.34%
6/30/2023	\$1,174,517	\$1,174,517	-	\$13,748,207	8.55%
6/30/2024	\$1,305,881	\$1,305,881	-	\$14,924,433	8.75%
6/30/2025	\$1,363,456	\$1,363,456	-	\$15,584,441	8.75%

# INDEPENDENT SCHOOL DISTRICT 701

## REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - TEACHERS RETIREMENT ASSOCIATION (TRA)

June 30, 2025

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### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

#### Note 1 Changes in Assumptions and Benefit Terms

For 2024 the 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 continue lower than expected observations.

The 2023 Tax Finance and Policy Bill, effective July 1, 2025 changed the employer rate from 8.75% to 9.5% on July 1, 2025. The employee contribution rate will increase from 7.75% to 8%. The pension adjustment rate will increase to reflect the .75% employer contribution rate increase. The 2024 Omnibus Pensions and Retirement Bill factored the normal retirement age (NRA) for active and eligible Tier II members at 65 effective July 1, 2024. The amortization rate will remain the same at 2048. There were no changes in the discount rate.

2022 there were no changes in actuarial assumptions or changes in benefit and funding terms.

2021 changes in actuarial assumptions included the investment return assumption was changed from 7.5% to 7%.

2020 changes in actuarial assumptions included the assumed termination rates were changed to more closely reflect actual experience. The pre-retirement mortality assumptions were changed to the RP2014 white collared employee table, male rates et back five years and female rates set back seven. Generational projection uses the MP 2015 scale. Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

2019 had no changes in actuarial assumptions.

2018 changes in actuarial assumptions included the COLA was reduced from 2.0% each January 1 to 1.0% effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 2028. Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt. The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated. Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt. Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018. The employer contribution rate is increased each July 1 over the next 6 years. (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.5% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2017 changes in actuarial assumptions included the cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2015. The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years. Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%. The investment return assumption was changed from 8.0% to 7.5%. The price inflation assumption was lowered from 2.75% to 2.5%. The payroll growth assumption was lowered from 2.5% to 3.0%. The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter. The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

# INDEPENDENT SCHOOL DISTRICT 701

## REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - TEACHERS RETIREMENT ASSOCIATION (TRA)

June 30, 2025

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### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

#### Note 1 Changes in Assumptions and Benefit Terms

2016 changes in actuarial assumptions included the COLA was not assumed to increase for funding or the GASB calculations. It remained at 2% for all future years. The price inflation assumption was lowered from 3% to 2.75%. The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%. Minor changes included durations for the merit scale of the salary increase assumption. The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale. The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale. The post-disability mortality assumption was changed to the RP 2014 disable retiree mortality table, without adjustment. Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility. Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience. A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

# INDEPENDENT SCHOOL DISTRICT 701

## REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

June 30, 2025

### Schedule of Employer's Share of Net Pension Liability - Public Employees Retirement Association

District FYE	PERA's Measure Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability		District's Covered Employee Payroll	District's Proportionate Share of the NPL (asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
				Associated with the District	Total			
6/30/2016	6/30/2015	0.0541%	\$2,803,743	-	\$2,803,743	\$3,226,208	86.9%	78.19%
6/30/2017	6/30/2016	0.0536%	\$4,352,054	\$56,839	\$4,408,893	\$3,332,850	130.5%	68.91%
6/30/2018	6/30/2017	0.0549%	\$3,504,780	\$44,084	\$3,548,864	\$3,547,725	98.7%	75.90%
6/30/2019	6/30/2018	0.0545%	\$3,023,436	\$99,196	\$3,122,632	\$3,638,920	83.1%	79.53%
6/30/2020	6/30/2019	0.0553%	\$3,057,413	\$94,996	\$3,152,409	\$3,910,494	78.2%	80.23%
6/30/2021	6/30/2020	0.0573%	\$3,435,396	\$105,995	\$3,541,391	\$4,003,652	85.8%	79.06%
6/30/2022	6/30/2021	0.0564%	\$2,408,533	\$73,650	\$2,482,183	\$4,051,372	59.4%	87.00%
6/30/2023	6/30/2022	0.0576%	\$4,561,939	\$133,542	\$4,695,481	\$4,322,781	105.5%	76.67%
6/30/2024	6/30/2023	0.0600%	\$3,355,133	\$92,408	\$3,447,541	\$4,760,945	70.5%	83.10%
6/30/2025	6/30/2024	0.0654%	\$2,418,475	\$62,537	\$2,481,012	\$5,538,513	43.7%	89.08%

### Schedule of Employer's Contributions - Public Employees Retirement Association

District FYE	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	District's Covered Employee Payroll	Contributions as a Percentage
					of Covered-Employee Payroll
6/30/2016	\$249,965	\$249,965	-	\$3,332,850	7.50%
6/30/2017	\$266,082	\$266,082	-	\$3,547,725	7.50%
6/30/2018	\$272,919	\$272,919	-	\$3,638,920	7.50%
6/30/2019	\$293,258	\$293,258	-	\$3,910,494	7.50%
6/30/2020	\$296,934	\$296,934	-	\$4,003,652	7.50%
6/30/2021	\$303,856	\$303,856	-	\$4,051,372	7.50%
6/30/2022	\$323,374	\$323,374	-	\$4,322,781	7.50%
6/30/2023	\$356,515	\$356,515	-	\$4,760,945	7.50%
6/30/2024	\$415,389	\$415,389	-	\$5,538,513	7.50%
6/30/2025	\$451,754	\$451,754	-	\$6,023,362	7.50%

# INDEPENDENT SCHOOL DISTRICT 701

## REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

June 30, 2025

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### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

#### Note 1 Changes in Assumptions and in Benefit Terms

2024 Changes in actuarial assumptions included 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 tables with slight rate adjustments as recommended in the most recent experience study; minor changes to form of payment assumptions for males and female retirees; minor changes to assumptions made with respect to missing participant data. Changes in plan provisions included the workers' compensation offset for disability benefits was eliminated and the actuarial equivalent factors updated to reflect the changes in assumptions.

2023 Changes in actuarial assumptions included the investment return assumption and single discount rate were changed from 6.5% to 7%. The changes in plan provisions included one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023. The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of service. The benefit increase delay for early retirements on or after January 1, 2024, was eliminated. A one-time, non-compounding benefit increase of 2.5% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 Changes in actuarial assumptions included the mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021. There were no changes in plan provisions.

2021 changes in actuarial assumptions included the investment return and single discount rates were changed from 7.5% to 6.5%, for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020. There were no changes in the plan provisions since the previous valuation.

2020 changes in actuarial assumptions include the price inflation assumption was decreased from 2.5% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 20, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for year 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees were changed from the RF-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants were changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table with adjustments. The mortality improvement scale was changed from Scale MP-2018 to scale MP-2019. the assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% joint & survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% joint & survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the life annuity option was adjusted accordingly. Changes in plan provisions include augmentation for current privatized members being reduced to 2.0% for the period of July 1, 2020 through December 31, 2023 and 0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 changes in actuarial assumptions include the mortality projection scale was changed from MP-2017 to MP-2018. Changes in plan provisions included the employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

# INDEPENDENT SCHOOL DISTRICT 701

## REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

June 30, 2025

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### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

#### Note 1 Changes in Assumptions and in Benefit Terms - Continued

2018 changes in actuarial assumptions included the mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1% per year through 2044 and 2.5% per year thereafter to 1.25% per year. Changes in the plan provisions included the augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4% to 3%, beginning July 1, 2018. Deferred augmentation was changed to 0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Post-retirement benefit increase were changed from 1% per year with a provision to increase to 2.5% upon attainment of 90% funding ration to 50% of the social security cost of living adjustment, not less than 1% and not more than 1.5%, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 changes in actuarial assumptions included the combined service annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are no 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested member liability. The assumed post-retirement benefit increase rate was changed from 1 percent per year for all years to 1 percent per year through 2044 and 2.5 percent per year thereafter.

2016 changes in actuarial assumptions included the assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years. The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

**INDEPENDENT SCHOOL DISTRICT 701**

**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS**

June 30, 2025

	Special Revenue - Food Service	Special Revenue - Community Service	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 490,420	\$ -	\$ 490,420
Receivables			
Accounts	77,160	90	77,250
Other governments	10,314	39,997	50,311
Inventory	37,851	-	37,851
	<u>615,745</u>	<u>40,087</u>	<u>655,832</u>
	-	-	-
<b>Deferred Outflows of Resources</b>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 615,745</u>	<u>\$ 40,087</u>	<u>\$ 655,832</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 41,353	\$ 3,541	\$ 44,894
Due to other funds	-	238,076	238,076
Salaries payable	-	31,411	31,411
Accrued expenses	26,390	3,928	30,318
Compensated absences payable	-	4,949	4,949
	<u>67,743</u>	<u>281,905</u>	<u>349,648</u>
Deferred Inflows of Resources	-	-	-
<b>Equity</b>			
Fund balance - nonspendable	37,851	-	37,851
Fund balance - restricted	510,151	686,098	1,196,249
Fund balance - unassigned	-	(927,916)	(927,916)
	<u>548,002</u>	<u>(241,818)</u>	<u>306,184</u>
Total Fund Balance	<u>548,002</u>	<u>(241,818)</u>	<u>306,184</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 615,745</u>	<u>\$ 40,087</u>	<u>\$ 655,832</u>

## INDEPENDENT SCHOOL DISTRICT 701

### COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2025

	Special Revenue - Food Service	Special Revenue - Community Service	Total
<b>Revenues</b>			
Property tax levies	\$ -	\$ 86,926	\$ 86,926
Other local and county	19,412	289,936	309,348
State sources	589,611	401,161	990,772
Federal sources	941,427	-	941,427
Sales and other conversions of assets	265,663	-	265,663
<b>Total Revenues</b>	<b>1,816,113</b>	<b>778,023</b>	<b>2,594,136</b>
<b>Expenditures</b>			
<b>Current</b>			
Community education and services	-	746,400	746,400
Food service	1,702,213	-	1,702,213
<b>Capital</b>			
Community education and services	-	12,175	12,175
Food service	120,650	-	120,650
<b>Total Expenditures</b>	<b>1,822,863</b>	<b>758,575</b>	<b>2,581,438</b>
Excess of Revenues Over (Under) Expenditures	(6,750)	19,448	12,698
Fund Balance - Beginning of the year	554,752	(261,266)	293,486
Fund Balance - End of the year	<b>\$ 548,002</b>	<b>\$ (241,818)</b>	<b>\$ 306,184</b>

# INDEPENDENT SCHOOL DISTRICT 701

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Fiscal Year Ended June 30, 2025

	Final Budget	Actual	Variance
<b>Revenues</b>			
Taxes	\$ 6,248,435	\$ 7,956,739	\$ 1,708,304
Other local and county			
Admissions and student activity revenues	115,725	167,920	52,195
Gifts and bequests	97,680	443,493	345,813
Investment earnings	304,605	201,894	(102,711)
Miscellaneous	427,600	1,083,435	655,835
Tuition and fees from patrons	147,000	170,828	23,828
	1,092,610	2,067,570	974,960
State sources			
General education aid	21,981,406	20,970,545	(1,010,861)
Other state aids	799,333	1,460,804	661,471
Special education	5,979,745	6,964,554	984,809
	28,760,484	29,395,903	635,419
Federal sources			
Title I and II	1,143,571	802,120	(341,451)
Other	98,349	82,027	(16,322)
Special education	47,375	581,417	534,042
	1,289,295	1,465,564	176,269
Sales and other conversions of assets			
Sales of materials and supplies	5,000	12,025	7,025
<b>Total Revenues</b>	<b>37,395,824</b>	<b>40,897,801</b>	<b>3,501,977</b>

(Continued)

# INDEPENDENT SCHOOL DISTRICT 701

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

### GENERAL FUND

For the Fiscal Year Ended June 30, 2025

(Continued)

	Final Budget	Actual	Variance
<b>Expenditures</b>			
District and school administration			
Salaries and wages	\$ 1,057,397	\$ 1,148,636	\$ 91,239
Employee benefits	465,450	488,773	23,323
Purchased services	29,213	56,722	27,509
Supplies and materials	32,236	34,881	2,645
Capital expenditure	-	16,984	16,984
Other	44,153	43,781	(372)
	<hr/> 1,628,449	<hr/> 1,789,777	<hr/> 161,328
District support services			
Salaries and wages	734,510	711,181	(23,329)
Employee benefits	301,753	593,716	291,963
Purchased services	423,932	515,192	91,260
Supplies and materials	19,310	34,526	15,216
Capital expenditure	2,799	4,470	1,671
Other	(42,793)	(40,000)	2,793
	<hr/> 1,439,511	<hr/> 1,819,085	<hr/> 379,574
Regular instruction			
Salaries and wages	8,792,135	7,533,984	(1,258,151)
Employee benefits	4,642,073	5,168,712	526,639
Purchased services	930,671	1,999,976	1,069,305
Supplies and materials	340,802	309,209	(31,593)
Capital expenditure	45,515	65,963	20,448
Other	52,667	56,577	3,910
	<hr/> 14,803,863	<hr/> 15,134,421	<hr/> 330,558
Vocational instruction			
Salaries and wages	90,245	539,795	449,550
Employee benefits	36,398	-	(36,398)
Purchased services	13,347	6,265	(7,082)
Supplies and materials	13,254	47,644	34,390
Capital expenditure	25,500	39,030	13,530
Other	4,638	4,635	(3)
	<hr/> 183,382	<hr/> 637,369	<hr/> 453,987
Special Education instruction			
Salaries and wages	5,906,655	8,222,003	2,315,348
Employee benefits	1,558,910	2,014,537	455,627
Purchased services	987,758	879,624	(108,134)
Supplies and materials	44,398	69,653	25,255
Capital expenditure	64,327	32,995	(31,332)
	<hr/> 8,562,048	<hr/> 11,218,812	<hr/> 2,656,764
Instructional support services			
Salaries and wages	1,234,763	1,326,364	91,601
Employee benefits	731,878	684,395	(47,483)
Purchased services	135,684	79,129	(56,555)
Supplies and materials	269,706	378,274	108,568
Debt service	-	356,957	356,957
Capital expenditure	345,695	123,586	(222,109)
	<hr/> 2,717,726	<hr/> 2,948,705	<hr/> 230,979

(Continued)

# INDEPENDENT SCHOOL DISTRICT 701

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Fiscal Year Ended June 30, 2025

(Continued)

	Final Budget	Actual	Variance
<i>Expenditures</i>			
Pupil support services			
Salaries and wages	\$ 513,271	\$ 475,108	\$ (38,163)
Employee benefits	157,345	150,571	(6,774)
Purchased services	2,053,870	1,767,908	(285,962)
Supplies and materials	13,153	12,194	(959)
	<u>2,737,639</u>	<u>2,405,781</u>	<u>(331,858)</u>
Site, buildings and equipment			
Salaries and wages	1,593,642	1,619,191	25,549
Employee benefits	1,075,219	914,975	(160,244)
Purchased services	1,167,791	943,122	(224,669)
Supplies and materials	733,840	643,914	(89,926)
Capital expenditure	672,323	2,638,421	1,966,098
Other	-	84	84
	<u>5,242,815</u>	<u>6,759,707</u>	<u>1,516,892</u>
Fiscal and other fixed cost programs			
Purchased services	191,825	246,892	55,067
Debt service	599,000	596,600	(2,400)
Other	65,875	59,000	(6,875)
	<u>856,700</u>	<u>902,492</u>	<u>45,792</u>
<b>Total Expenditures</b>	<u><u>38,172,133</u></u>	<u><u>43,616,149</u></u>	<u><u>5,444,016</u></u>
Excess of Expenditures Over Revenues Financing Sources	(776,309)	(2,718,348)	(1,942,039)
Other Financing Sources Proceeds from the sale of equipment	200,000	41,796	(158,204)
Excess of Expenditures Over Revenues and Other Financing Sources	<u><u>\$ (576,309)</u></u>	<u><u>\$ (2,676,552)</u></u>	<u><u>\$ (2,100,243)</u></u>
Fund Balance - Beginning of year	\$ 6,338,340	\$ 6,338,340	\$ -
Excess of Expenditures Over Revenues and Other Financing Sources	(576,309)	(2,676,552)	(2,100,243)
Fund Balance - End of year	<u><u>\$ 5,762,031</u></u>	<u><u>\$ 3,661,788</u></u>	<u><u>\$ (2,100,243)</u></u>

# INDEPENDENT SCHOOL DISTRICT 701

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOOD SERVICE SPECIAL REVENUE FUND For the Fiscal Year Ended June 30, 2025

	Final Budget	Actual	Variance
<b>Revenues</b>			
Other local and county			
Investment earnings	\$ -	\$ 19,412	\$ 19,412
State sources			
State program aids	196,403	589,611	393,208
Federal sources			
Breakfast	160,000	177,711	17,711
Regular lunch program	90,000	119,454	29,454
Commodities	-	91,841	91,841
Free and reduced	600,000	483,646	(116,354)
Summer food service program	50,000	19,582	(30,418)
Other	69,000	49,193	(19,807)
	969,000	941,427	(27,573)
Sales and other conversions of assets			
Program revenue	340,000	265,663	(74,337)
Total Revenues	1,505,403	1,816,113	310,710
<b>Expenditures</b>			
Pupil support services			
Purchased services	703,405	747,750	44,345
Supplies and commodities	753,744	954,463	200,719
Capital expenditures	48,254	120,650	72,396
Total Expenditures	1,505,403	1,822,863	317,460
<b>Excess of Expenditures Over Revenues</b>	<b>\$ -</b>	<b>\$ (6,750)</b>	<b>\$ (6,750)</b>
Fund Balance - Beginning of year	\$ 554,752	\$ 554,752	\$ -
Excess of Expenditures Over Revenues	-	(6,750)	(6,750)
Fund Balance - End of year	\$ 554,752	\$ 548,002	\$ (6,750)

# INDEPENDENT SCHOOL DISTRICT 701

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL COMMUNITY SERVICE SPECIAL REVENUE FUND For the Fiscal Year Ended June 30, 2025

	Final Budget	Actual	Variance
<b>Revenues</b>			
Taxes	\$ 86,926	\$ 86,926	\$ -
Other local and county			
Fees from patrons	145,500	247,909	102,409
Investment earnings	5,000	-	(5,000)
Gifts and bequests	-	200	200
Miscellaneous	6,000	24,107	18,107
Rent	14,000	17,720	3,720
	<u>257,426</u>	<u>289,936</u>	<u>119,436</u>
State sources			
Community education	93,064	93,064	-
Early childhood/family education	127,203	125,664	-
Learning readiness	95,372	101,763	6,391
Preschool screening	3,429	9,262	-
Other	80,002	71,408	(8,594)
	<u>399,070</u>	<u>401,161</u>	<u>(2,203)</u>
Total Revenues	<u>656,496</u>	<u>778,023</u>	<u>117,233</u>
<b>Expenditures</b>			
Community education and services			
Salaries and wages	931,078	517,892	(413,186)
Employee benefits	284,063	97,258	(186,805)
Purchased services	94,454	101,120	6,666
Supplies and materials	64,489	30,130	(34,359)
Capital expenditures	1,666	12,175	10,509
Total Expenditures	<u>1,375,750</u>	<u>758,575</u>	<u>(617,175)</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>\$ (719,254)</u>	<u>\$ 19,448</u>	<u>\$ 734,408</u>
Fund Balance - Beginning of year	\$ (261,266)	\$ (261,266)	\$ -
Excess of Revenues Over (Under) Expenditures	<u>(719,254)</u>	<u>19,448</u>	<u>734,408</u>
Fund Balance - End of year	<u>\$ (980,520)</u>	<u>\$ (241,818)</u>	<u>\$ 734,408</u>

**Fiscal Compliance Report - 6/30/2025**

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	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$40,897,801	<u>\$40,897,801</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$43,616,149	<u>\$43,616,149</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.01 Student Activities	\$52,533	<u>\$52,533</u>	<u>\$0</u>	4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.02 Scholarships	\$144,784	<u>\$144,784</u>	<u>\$0</u>	4.13 Funded by COP/FP	\$0	<u>\$0</u>	<u>\$0</u>
4.03 Staff Development	\$0	<u>\$0</u>	<u>\$0</u>	4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.08 Cooperative Revenue	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.12 Literacy Incentive Aid	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.14 Operating Debt	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.16 Levy Reduction	\$0	<u>\$0</u>	<u>\$0</u>				
4.17 Taconite Building Maint	\$0	<u>\$0</u>	<u>\$0</u>	<b>07 DEBT SERVICE</b>			
4.20 American Indian Education Aid	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$1,542,320	<u>\$1,542,320</u>	<u>\$0</u>
4.24 Operating Capital	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$710,938	<u>\$710,938</u>	<u>\$0</u>
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>	<i>Non Spendable:</i>			
4.27 Disabled Accessibility	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted / Reserved:</i>			
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>	4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>	4.33 Maximum Effort Loan Aid	\$0	<u>\$0</u>	<u>\$0</u>
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>	4.51 QZAB Payments	\$8,221,834	<u>\$8,221,834</u>	<u>\$0</u>
4.37 Q Comp	\$0	<u>\$0</u>	<u>\$0</u>	4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.38 Gifted & Talented	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.39 English Learner	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$169,013	<u>\$169,013</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.41 Basic Skills Programs	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.43 School Library Aid	\$0	<u>\$0</u>	<u>\$0</u>				
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>	<b>08 TRUST</b>			
4.49 Safe Schools Levy	(\$1,474,551)	<u>(\$1,474,551)</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted / Reserved:</i>			
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	<u>\$0</u>	4.01 Student Activities	\$0	<u>\$0</u>	<u>\$0</u>
4.56 READ Act - Literacy Aid	\$87,748	<u>\$87,748</u>	<u>\$0</u>	4.02 Scholarships	\$0	<u>\$0</u>	<u>\$0</u>
4.57 READ Act - Tchr Training Compensation	\$22,479	<u>\$22,479</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.59 Basic Skills Extended Time	\$0	<u>\$0</u>	<u>\$0</u>				
4.67 LTFM	(\$275,818)	<u>(\$275,818)</u>	<u>\$0</u>	<b>18 CUSTODIAL</b>			
4.71 Student Support Personnel Aid	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.72 Medical Assistance	\$769,141	<u>\$769,141</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>				<i>Restricted / Reserved:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.01 Student Activities	\$0	<u>\$0</u>	<u>\$0</u>
4.75 Title VII Impact Aid	\$0	<u>\$0</u>	<u>\$0</u>	4.02 Scholarships	\$0	<u>\$0</u>	<u>\$0</u>
4.76 Payments in Lieu of Taxes	\$0	<u>\$0</u>	<u>\$0</u>	4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>
<i>Committed:</i>				4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.18 Committed for Separation	\$4,183,759	<u>\$4,183,759</u>	<u>\$0</u>				
4.61 Committed Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	<b>20 INTERNAL SERVICE</b>			
<i>Assigned:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.62 Assigned Fund Balance	\$131,290	<u>\$131,290</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance	\$20,423	<u>\$20,423</u>	<u>\$0</u>				
				<b>25 OPEB REVOCABLE TRUST</b>			
				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
				Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>

**02 FOOD SERVICES**

Total Revenue	\$1,816,113	<u>\$1,816,112</u>	<u>\$1</u>
Total Expenditures	\$1,822,863	<u>\$1,822,864</u>	<u>(\$1)</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$37,851	<u>\$37,851</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$510,151	<u>\$510,151</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

**04 COMMUNITY SERVICE**

Total Revenue	\$778,023	<u>\$778,023</u>	<u>\$0</u>
Total Expenditures	\$758,575	<u>\$758,575</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
4.31 Community Education	\$80,212	<u>\$80,212</u>	<u>\$0</u>
4.32 E.C.F.E	(\$897,887)	<u>(\$897,887)</u>	<u>\$0</u>
4.37 Q Comp	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>
4.44 School Readiness	\$605,886	<u>\$605,886</u>	<u>\$0</u>
4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
4.56 READ Act - Literacy Aid	\$0	<u>\$0</u>	<u>\$0</u>
4.57 READ Act - Tchr Training Compensation	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	(\$30,029)	<u>(\$30,029)</u>	<u>\$0</u>

4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
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**45 OPEB IRREVOCABLE TRUST**

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>

**47 OPEB DEBT SERVICE**

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

# INDEPENDENT SCHOOL DISTRICT 701

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2025

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal Asset Listing Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients		Federal Expenditures
U.S. Department of Education Minnesota Department of Education/E3701 Title I/Part A	84.010A	0701-01-000	-		\$ 700,687
U.S. Department of Education Minnesota Department of Education/E3701 Supporting Effective Instruction Teacher and Principal Training/Recruitment Title II/ Part A	84.367A	0701-01-000	-		101,433
U.S. Department of Education Minnesota Department of Education/E3701 Special Education (Cluster) Federal IDEA, Part B	84.027	0701-01-000	-	551,387	
Special Education IDEA, Preschool	84.173	0701-01-000	-	21,248	
Total Special Education Cluster					572,635
U.S. Department of Education Minnesota Department of Education/E3701 Special Education/ Grants for Infants and Families with Disabilities/ IDEA Part C	84.181	0701-01-000	-		8,782
U.S. Department of Education Minnesota Department of Education/E3701 Title IV/Student Support and Academic Enrichment Program	84.424	0701-01-000	-		26,311
U.S. Department of Education Independent School District No. 2909 Career and Technical Education Carl Perkins Grant	84.048A	0701-01-000	-		19,759
U.S. Department of Education Direct Program Title IV-A - Indian Education	84.060	-	-		35,957
U.S. Department of Agriculture Minnesota Department of Education/E3701 National School Lunch Program Child Nutrition - Fruits/Vegetables	10.582	0701-01-000	-		21,784
Child Nutrition - Child and Adult Care Food Program - After School	10.558	0701-01-000	-		21,441
Child Nutrition-Summer Food	10.559	0701-01-000	-	19,582	
Child Nutrition - Breakfast Prog	10.553	0701-01-000	-	177,711	
Child Nutrition - School Lunch Prog	10.555	0701-01-000	-	603,100	
Child Nutrition - After School Snack	10.555	0701-01-000	-	1,544	
Child Nutrition - Special milk	10.556	0701-01-000	-	4,424	
Food Distribution (Commodities)	10.555	0701-01-000	-	91,841	
Total Child Nutrition Cluster					898,202
Total Expenditures of Federal Awards					\$ 2,406,991

See accompanying note which is an integral part of this schedule.

# INDEPENDENT SCHOOL DISTRICT 701

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2025

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### NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2025. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### NOTE 3 NONMONETARY ASSISTANCE

Nonmonetary assistance is reported in the accompany schedule at the fair market value of the commodities received and disbursed in the amount of \$91,841. At June 30, 2025, the District had food commodities remaining of \$23,007 reported in inventory.

### NOTE 4 INDIRECT COST RATE

The District has elected not to use the 15% de minimis indirect cost rate as allowed under the Uniform Guidance but instead utilizes the 8% indirect cost rate as assigned by the State of Minnesota as flow through grantor to the District.



**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 Members of the  
School Board  
Independent School District 701  
Hibbing, MN

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison information of the General Fund of Independent School District 701, Hibbing, Minnesota, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report, thereon dated December 9, 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) to determine the 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questions costs as item 2025-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2025-002 and 2025-003 to be significant deficiencies.

***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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and Minnesota Legal Compliance which are described in the accompanying schedule of findings and questioned costs as items 2025-004, 2025-005 and 2025-006.

***District's Response to Findings***

*Government Auditing Standards* require the auditor to perform limited procedures on the District's response to findings identified in our audit and described in the accompanying schedule of findings and questions costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of the 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Stulle & Co. Ltd*

December 9, 2025



**Independent Auditor's Report on Compliance For Each Major Program  
and on Internal Control Over Compliance Required by  
Uniform Guidance**

To the Members of the  
School Board  
Independent School District 701  
Hibbing, MN

**Report on Compliance for Each Major Program**

***Qualified and Unmodified Opinions***

We have audited the Independent School District 701, Hibbing, Minnesota's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2025. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Qualified Opinion on Title I/Part A (ALN #84.010A)*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Title /Part A (ALN #84.010A) for the year ended June 30, 2025.

*Unmodified Opinion on the Other Major Federal Programs*

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questions costs for the year ended June 30, 2025.

***Basis for Qualified and Unmodified Opinions***

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

We are required to be independent of the Independent School District 701, Hibbing, Minnesota, and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

*Matter Giving Rising to Qualified Opinion on Title I/Part A (#ALN 84.010A)*

As described in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the District with Assistance Listing # 84.010A, Title I, Part A as described in the finding 2025-007 for time-and-effort reporting. Consequently, we were unable to determine whether the District complied with the requirements applicable to that program for allowable costs principles governing activity reporting.

***Responsibilities of Management for Compliance***

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

***Auditor's Responsibility for the Audit of Compliance***

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

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

## Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses in internal control over compliance may exist that were not identified.

*A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2025-002 to be a significant deficiency.

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

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, according, we express no opinion on the response.

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

*Sterle & Co, Ltd*  
December 9, 2025

# INDEPENDENT SCHOOL DISTRICT 701

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2025

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### SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Independent School District 701, Hibbing, Minnesota were prepared in accordance with GAAP.
2. Two significant deficiencies disclosed during the audit of the financial statements are reported below as findings 2025-002 and 2025-003. One material weakness is reported below as finding 2025-001.
3. Three instances of noncompliance material to the financial statements of Independent School District 701, Hibbing, MN, which would be required to be reported in accordance with *Government Auditing Standards*, and Minnesota Legal compliance were reported during the audit as 2025-004, 2025-005 and 2025-006.
4. One significant deficiency in internal control over major federal award programs disclosed during the audit is reported below as finding 2025-002. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for Independent School District 701, Hibbing, Minnesota expresses an qualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule and are noted as finding 2025-007.
7. The programs tested as major programs were Title I/Part A (#84.010A) and the Child Nutrition Cluster Including: Child Nutrition - School Lunch Program (#10.555); Breakfast Program (#10.553); After School Snack (#10.555); Special Milk (#10.556); Commodities (#10.555); and Summer Food Program (#10.559).
8. The threshold used for distinguishing Type A and B programs was \$750,000.
9. Independent School District 701, Hibbing, Minnesota was determined to not be a low-risk auditee.

# INDEPENDENT SCHOOL DISTRICT 701

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2025

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### FINDINGS - FINANCIAL STATEMENT AUDIT

#### **2025-001** *Material journal entries were proposed during the audit process - Material Weakness*

**Condition:** During the course of the engagement, we proposed material audit adjustments that were not identified as a result of the District's existing internal controls, and therefore could have resulted in a material misstatement of the District's financial statements.

**Criteria:** A good system of internal accounting control contemplates an adequate system for recording, processing, and reconciling entries material to the financial statements.

**Cause:** The District does not have an internal control system designed to identify all necessary adjustments in a timely manner.

**Effect:** The deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

**Context:** These entries were limited to non-federal transactions.

**Recommendation:** The District's management should develop a thorough review and reconciliation of accounts in each fund that should be performed periodically during the fiscal year as well as prior to the onset of the audit. The review should be performed by both the finance and program staff and should include an in-depth analysis of specific programming areas that require UFARS tracking. Reconciliations should be documented and any proposed corrections should be done accordingly.

The District should also develop a budget in conjunction with various admin and program staff and routinely be monitoring the budget to actual results. During this process, both administration and finance staff would be able to potentially identify miscoding's or other UFARS compliance items in a more timely fashion. Currently many of these functions are being performed well after year end and contribute to the material correcting entries required in UFARS.

**Views of Responsible Officials and Planned Corrective Actions:** The District continues to work with admin and other staff on the appropriate use of UFARS coding structures. The District is also looking at providing more financial information and budgetary reports to the administrative team during the year for timely monitoring and is working on implementing a year end monitoring process to be conducted prior to the start of the audit.

**Repeat Finding:** Yes - Prior year finding noted as 2024-001

# INDEPENDENT SCHOOL DISTRICT 701

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2025

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### **2025-002    *Inadequate segregation of duties within a significant account or process - Significant Deficiency***

- Condition: Due to the limited number of District staff, appropriate segregation of duties is not feasible for all accounting and reporting functions. Specific examples include:
- a. The District places the authority over the year end financial reporting process, including all controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements with one individual (the business manager.)
  - b. The District has several staff that have duties involving both processing and recording transactions into the general ledger. Such duties are involved in the district's cash receipting, disbursing and payroll functions. Several employees have access to the initial processing of the information and recording into the general ledger. These same staff are also responsible for reconciliation of related cash accounts.
  - c. The District has several departments that are responsible for the collection of fees charged to students and the general public. The departments are responsible for the collection, processing and reporting to the business office. In most instances, one individual in each department performs these duties.
- Criteria: A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization, custody of assets, record keeping, and reconciliation functions.
- Cause: Generally the lack of segregation is due to the limited funding available to add additional staff to appropriately divide related duties.
- Effect: The lack of segregation of duties creates a control deficiency because the design/operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis creating a more than remote likelihood that a misstatement in the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. Many of the staff reconcile their own work.
- Context: The lack of segregation of duties exists within the district as a whole over all of its accounting and reporting functions. This is a common circumstance in Districts of similar size.
- Recommendation: The District's management needs to be cognizant of this situation which may include re-assigning duties, adding additional reconciling features, or providing appropriate oversight responsibility.
- Views of Responsible Officials and Planned Corrective Actions:  
The District is aware of the situation and will monitor as it deems appropriate. Monitoring will include educating program managers to provide additional oversight for the interim and year end reporting.
- Repeat Finding: Yes - Prior year finding noted as 2024-002

# INDEPENDENT SCHOOL DISTRICT 701

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2025

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### **2025-003** *Preparation of financial statements and footnote disclosures - Significant Deficiency*

**Condition:** The District does not have in place a system to prepare the financial reports in accordance with generally accepted accounting principles under governmental standards presentation. The auditors were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

**Criteria:** The District should have a system in place to report all financial data reliably in accordance with generally accepted accounting principles using the presentation model required under GASB 34. Currently there is more than a remote likelihood that a misstatement in the financial statement reporting, including note disclosures, that is more than inconsequential will not be presented accordingly.

**Cause:** The District does not have enough staff with the time available or training to prepare a complete financial reporting package.

**Effect:** The District requests assistance with the preparation of the draft financial statements and footnotes.

**Context:** The situation is common in governments of similar size.

**Recommendation:** The District staff continue to take advantage of training opportunities in GAAP and GASB presentation methods and models. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other staffing considerations.

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

The District is aware of the situation and due to budget constraints deems it more cost beneficial to contract for such services.

**Repeat Finding:** Yes - Prior year finding noted as 2024-003

# INDEPENDENT SCHOOL DISTRICT 701

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2025

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### **2025-004 Minnesota Legal Compliance - Bids and Quotes**

Condition: The District was not able to provide documentation for compliance with procurement policies.

Criteria: Minnesota statutes require that contracts between \$25,000 and \$175,000 be awarded based on sealed bids or negotiated quotes. Quoting documentation should be maintained on file for audit purposes.

Cause: During the audit, we requested copies of the District's documentation over procurement processes. District did not provide documentation for two of the quotes selected in the sample.

Effect: The District was out of compliance with MN Statutes over bidding and quoting.

Recommendation: The District should review all the procurement standards with staff to ensure compliance - particularly over the requirements to maintain documentation over quoting procedures.

Views of Responsible Officials and Planned Corrective Actions: The District concurs and is working on reminders with all staff on the documentational requirements under Minnesota statutes.

### **2025-005 Minnesota Legal Compliance - Uniform Financial Accounting and Reporting Standards (UFARS)**

Condition: We proposed several audit entries for correction of UFARS coding to the District's financial records. The entries involved material proposed corrections to account coding and fund classifications.

Criteria: The District is required to conform with UFARS coding.

Cause: The District had several staff not appropriately trained in UFARS leading to material inconsistencies and material errors in reporting financial data under UFARS noted during the audit process. The District also has a noted material weakness contributing to this noncompliance.

Effect: Material proposed audit journal entries were necessary to report the District's revenues and expenditures in accordance with UFARS.

Recommendation: The District review the situation and provide additional training to all staff involved in the purchasing, approval, processing and reconciling of financial data.

Views of Responsible Officials and Planned Corrective Actions: The District has met and is in the process of providing additional UFARS training to identified staff as well as working on implementing an electronic requisition system which would also aid in identifying UFARS coding issues.

### **2025-006 Minnesota Legal Compliance - Documentation of Disbursements**

Condition: During the audit, we noted that the District expended funds in the amount of \$8,422.28 coded to vending machines that were not supported with documentation relating to the public purpose doctrine.

Criteria: Vending machine income generated from District contracts is considered public money and must be recorded and disbursed in accordance with Minnesota Statutes similar to all other District funds.

Cause: The District had segregated funds from vending machines to be used for disbursements, but was not able to provide sufficient support that the disbursements met the public purpose doctrine.

Effect: The District recorded \$18,249.55 in vending machine revenues and expended \$27,883.88 in funds. The disbursements included purchases of vending concessions as well as items for staff sweatshirts, hats, and staff meetings.

Recommendation: The District review the situation and remind all staff that revenue from vending machines is considered public funds and must meet all documentational requirements as other District expenditures.

Views of Responsible Officials and Planned Corrective Actions: The District is reviewing the situation and reminding staff of the proper procurement documentation.

# INDEPENDENT SCHOOL DISTRICT 701

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2025

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### FINDINGS - MAJOR FEDERAL AWARD PROGRAM AUDIT

#### U.S. Department of Education

##### Minnesota Department of Education/E3701

**Child Nutrition Cluster Including: Child Nutrition - School Lunch Program (#10.555)  
Breakfast Program (#10.553); After School Snack (#10.555); Special Milk (#10.556),  
Commodities (#10.555) and Summer Food Program (#10.559)**

#### ***2025-002 Inadequate segregation of duties within a significant account or process - Significant Deficiency***

See finding details noted previously under Financial Audit section as 2024-002. This finding covers both non-federal and federal transactions.

#### U.S. Department of Education

##### Minnesota Department of Education/E3701

**Title I/Part A (#84.010A)**

#### ***2025-002 Inadequate segregation of duties within a significant account or process - Significant Deficiency***

See finding details noted previously under Financial Audit section as 2024-002. This finding covers both non-federal and federal transactions.

#### ***2025-007 Inadequate documentation over time and effort***

- Condition:** The District was unable to provide appropriate documentation under allowable costs/cost principles regarding time-and-effort requirements (employee activity reporting).
- Criteria:** Federal guidance requires the District to appropriately document employee's activities under Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 C.F.R. 200.430 (i) and 200.302(b)(3).
- Cause:** The District had new administrative staff in the position during the fiscal year that were unaware of the requirement to document the time through detailed records delineating time spent by staff between federal and state activities.
- Effect:** The District was unable to provide documentation for all wages and benefits charged to the program other than to utilize job descriptions and budgets.
- Recommendation:** The District should develop appropriate payroll reporting and time-and-effort documentation to support the charges.

**Views of Responsible Officials and Planned Corrective Actions:** The District is currently working with the Minnesota Department of Education on a corrective action plan under a separate monitoring and review process conducted the MDE for the 24-25 school year. As part of that plan, the District has agreed to develop work activity reports for the first half of the 2025-26 school year and submit no later than February 1, 2026.

# INDEPENDENT SCHOOL DISTRICT 701

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Fiscal Year Ended June 30, 2025

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### FINANCIAL STATEMENT AUDIT

#### 2024-001 *Material journal entries were proposed during the audit process - Material Weakness*

Condition: During the course of the engagement, we proposed material audit adjustments that were not identified as a result of the District's existing internal controls, and therefore could have resulted in a material misstatement of the District's financial statements.

Recommendation: The District's management should develop a thorough review and reconciliation of accounts in each fund that should be performed prior to the beginning of the audit. This review should be performed at both the accounting staff and administrative levels.

Current Status: A similar finding is noted in the current year as a significant deficiency as item 2025-001

Grantee Response: The District continues to train staff on the use of UFARS and to work with various program managers/admin to timely review UFARS reporting during the year rather than all at year end during the audit process.

#### 2024-002 *Lack of segregation of duties - Significant deficiency*

Condition: Due to the limited number of District staff, appropriate segregation of duties is not feasible for all accounting and reporting functions.

Recommendation: The District's management needs to be cognizant of this situation which may include re-assigning duties, adding additional reconciling features, or providing appropriate oversight responsibility.

Current Status: A similar finding is noted in the current year as a significant deficiency as item 2025-002

Grantee Response: The District continues to acknowledge the lack of segregation of duties, but the District lacks the resources (both in staff and financial means) to completely alleviate the noted issue.

#### 2024-003 *Preparation of financial statements and footnote disclosures - Significant Deficiency*

Condition: The District does not have in place a system to prepare the financial reports in accordance with generally accepted accounting principles under governmental standards presentation.

Recommendation: The District staff continue to take advantage of training opportunities in GAAP and GASB presentation methods and models.

Current Status: A similar finding is noted in the current year as a significant deficiency as item 2025-003 for the financial statement audit.

Grantee Response: The District is aware of the situation and due to budget constraints deems it more cost beneficial to contract for such services.

#### 2024-004 *Minnesota Legal Compliance - Claims and Disbursements*

Condition: The District did not have detailed invoices for some payments made during the year regarding the District credit card usage. In addition, the District paid invoices late during the fiscal year.

Current Status: No similar finding was noted in the current audit.

#### 2024-005 *Minnesota Legal Compliance - Uniform Financial Accounting and Reporting Standards (UFARS)*

Condition: We proposed several audit entries for correction of UFARS coding to the District's financial records. The entries involved material proposed corrections to account coding and fund classifications.

Current Status: A similar finding is noted in the current year as item 2025-005 for the financial statement audit.

Grantee Response: The District is still working on a plan for additional training and oversight.

### FINDINGS - MAJOR FEDERAL AWARD PROGRAM AUDIT

U.S. Department of Education

Minnesota Department of Education/E3701

Cluster:

American Rescue Plan (ARP) Flexible (ESSER III) and Learning

Loss (ESSER III) and the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA)

90% (ESSER II) - ALN #84,425U and #84.425D

#### 2024-001 *Lack of segregation of duties - Significant deficiency*

See above.



**Independent Auditor's Report on  
Minnesota Legal Compliance**

To the Members of the  
School Board  
Independent School District 701  
Hibbing, MN

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison information of the General Fund of Independent School District 701, Hibbing, Minnesota, as of and for the year ended June 30, 2025, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2025.

In connection with our audit, we noted that the District failed to comply with provisions of the contracting - bid laws, the uniform financial accounting and reporting standards, and the miscellaneous provisions 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, as described in the schedule of findings and questioned costs as items 2025-004, 2025-005 and 2025-006. Also, in connection with our audit, nothing came to our attention that cause us to believe the District failed to comply with the provisions of the claims and disbursements, depositories of public funds and public investments, conflicts of interest, and public indebtedness provisions sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the legal compliance financing identified in our audit and described in the accompanying schedule of findings and questions costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

  
December 9, 2025