

INDEPENDENT SCHOOL DISTRICT #2159
BUFFALO LAKE - HECTOR - STEWART
PUBLIC SCHOOLS

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2024

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
WILLMAR, MINNESOTA

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INDEPENDENT SCHOOL DISTRICT #2159

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INDEPENDENT SCHOOL DISTRICT #2159

ELECTED OFFICIALS AND PERSONNEL
JUNE 30, 2024

<u>Board of Education</u>		<u>Term Expires</u>
Chairperson	Allen Schmidt	01/01/2025
Vice Chairperson	Samantha Best	01/01/2027
Treasurer	Kathy Kalenberg	01/01/2025
Clerk	Lisa Taylor	01/01/2025
Director	David Vacek	01/01/2027
Director	Brian Luthens	01/01/2027
<u>Administration</u>		
Superintendent	Joel Baumgarten	
Business Manager	Eileen Koeberl	

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INDEPENDENT AUDITOR'S REPORT

To The Board of Education
Independent School District #2159
Hector, Minnesota

Report on 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 #2159, Hector, Minnesota, as of and for the year ended June 30, 2024, 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 accompanying 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 of Independent School District #2159, Hector, Minnesota, as of June 30, 2024, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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Morris Office
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Morris, MN 56267
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820 Sibley Ave N
Litchfield, MN 55355
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Responsibilities of Management for the Financial Statements (Cont'd)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Exercise professional judgment and maintain professional skepticism throughout the audit.

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, 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, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Employer Contributions, the Schedule of Changes in the District's Total OPEB Liability and related notes, as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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.

Report on Partial Comparative Information

We have previously audited the District's 2023 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated December 22, 2023. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Elected Officials and Personnel page and the UFARS Compliance Table but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 District's internal control over financial reporting and compliance.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
WILLMAR, MINNESOTA

December 20, 2024

REQUIRED SUPPLEMENTARY INFORMATION

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INDEPENDENT SCHOOL DISTRICT #2159

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2024

This section of Buffalo Lake - Hector - Stewart Independent School District #2159's annual financial report presents the District's management discussion and analysis of the District's financial performance during the fiscal year that ended June 30, 2024. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- Net Position increased by \$139,714 from \$376,772 in fiscal year 2022-2023 to \$516,486 in the current year.
- The General Fund fund balance is \$2,341,079, a decrease of \$355,118 compared to the prior year. Revenues and other financing sources totaled \$7,724,947. Overall expenditures and other financing uses totaled \$8,080,065.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts - Independent Auditor's Report; required supplementary information, which includes management's discussion and analysis (this section); the basic financial statements; and supplementary information. The basic financial statements include two types of statements that present different views of the District:

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

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

The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

INDEPENDENT SCHOOL DISTRICT #2159

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2024

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)

Government-wide and Fund Financial Statements

	Government-wide Statements	Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of assets, deferred outflow of resources, liabilities and deferred inflows of resources information	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, short-term and long-term	Generally are assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow / outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

INDEPENDENT SCHOOL DISTRICT #2159

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)

Government-wide Statements

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

The two government-wide statements report the District's net position and how they have changed. Net position - the difference between the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources - 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 indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of buildings and facilities.

In the government-wide financial statements the District's activities are shown in one category:

- Governmental activities - The District's basic services are included here, such as administration, district support, and instructional support. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds - focusing on its most significant or "major" funds - rather than the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs as required by the Minnesota Department of Education.

The District has two kinds of funds:

- Governmental Funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near term to finance the District's programs. This information does not encompass the additional long-term focus of the government-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.
- Fiduciary Funds: The District is a trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only by those to whom the assets belong. The District's fiduciary activity (consisting of a custodial fund) is reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

INDEPENDENT SCHOOL DISTRICT #2159

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position was \$516,486 on June 30, 2024. This was an increase of \$139,714 from \$376,772 at June 30, 2023.

**Table A-1
Condensed Statement of Net Position**

	2024	2023
Current and Other Assets	\$ 5,251,985	\$ 4,398,368
Capital Assets	4,061,319	3,540,173
Total Assets	<u>\$ 9,313,304</u>	<u>\$ 7,938,541</u>
Deferred Outflows of Resources	<u>\$ 1,217,571</u>	<u>\$ 1,523,299</u>
Other Liabilities	\$ 906,445	\$ 389,850
Long-Term Liabilities	6,860,319	6,420,822
Total Liabilities	<u>\$ 7,766,764</u>	<u>\$ 6,810,672</u>
Deferred Inflows of Resources	<u>\$ 2,247,625</u>	<u>\$ 2,274,396</u>
Net Position		
Net Investment in Capital Assets	\$ 2,318,996	\$ 2,155,594
Restricted	660,998	656,713
Unrestricted	(2,463,508)	(2,435,535)
Total Net Position	<u>\$ 516,486</u>	<u>\$ 376,772</u>

INDEPENDENT SCHOOL DISTRICT #2159

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Cont'd)

Change in Net Position

A summary of the revenue and expenses is presented in Table A-2 below.

**Table A-2
Change in Net Position from Operating Results**

	<u>2024</u>	<u>2023</u>
Revenues		
Program Revenues		
Charges for Services	\$ 450,599	\$ 485,820
Operating Grants and Contributions	2,505,038	2,149,729
Capital Grants and Contributions	985	
General Revenues		
Property Taxes	1,106,977	1,114,672
Aids and Payments from the State	4,322,628	4,381,452
Other	258,736	296,217
Total Revenues	<u>8,644,963</u>	<u>8,427,890</u>
Expenses		
Administration	511,717	434,053
District Support Services	350,721	364,533
Elementary and Secondary Regular Education Instruction	3,113,454	2,394,741
Vocational Education Instruction	191,681	148,715
Special Education Instruction	915,011	686,345
Instructional Support Services	337,333	356,819
Pupil Support Services	1,030,538	753,299
Sites and Buildings	922,328	917,093
Fiscal and Other Fixed Costs Programs	79,602	54,949
Food Service	357,814	323,785
Community Education and Services	643,376	479,388
Interest and Fiscal Charges on Long-Term Liabilities	51,674	9,124
Total Expenses	<u>8,505,249</u>	<u>6,922,844</u>
Increase (Decrease) in Net Position	139,714	1,505,046
Net Position, Beginning of Year	<u>376,772</u>	<u>(1,128,274)</u>
Net Position, End of Year	<u><u>\$ 516,486</u></u>	<u><u>\$ 376,772</u></u>

INDEPENDENT SCHOOL DISTRICT #2159

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2024

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Cont'd)

The District's total revenues were \$8,644,963 for the year ended June 30, 2024 as compared to \$8,427,890 in the prior year. Property taxes and state aids accounted for 13% and 50%, respectively, of total revenues. Program revenues and other sources accounted for 34% and 3% of revenues, respectively.

The total costs of all programs and services were \$8,505,249, which is an increase of \$1,582,405 over 2023. Most of these costs are instructional and sites and buildings, 50% and 11% respectively. Administration, district support, instructional support and pupil support costs accounted for 26% of total costs. Fiscal and other fixed costs account for less than 1%. Food service and community service costs for the District each accounted for 4% and 8% of total costs, respectively.

Table A-3 presents the total cost of governmental activities as well as the net cost of these activities. The net cost represents total cost less program revenues applicable to each category.

Table A-3
Net Cost of Governmental Activities

	2024		2023	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Administration	\$ 511,717	\$ (509,617)	\$ 434,053	\$ (430,320)
District Support Services	350,721	(350,721)	364,533	(364,533)
Elementary and Secondary Regular Instruction	3,113,454	(2,006,513)	2,394,741	(1,417,092)
Vocational Education Instruction	191,681	(174,716)	148,715	(100,662)
Special Education Instruction	915,011	(334,418)	686,345	(266,281)
Instructional Support Services	337,333	(267,001)	356,819	(277,182)
Pupil Support Services	1,030,538	(1,007,365)	753,299	(737,528)
Sites and Buildings	922,328	(559,026)	917,093	(723,792)
Fiscal and Other Fixed Costs Programs	79,602	(79,602)	54,949	(54,794)
Food Service	357,814	(26,374)	323,785	7,584
Community Education and Services	643,376	(181,600)	479,388	86,429
Interest and Fiscal Charges on Long-Term Liabilities	51,674	(51,674)	9,124	(9,124)
	<u>\$ 8,505,249</u>	<u>\$ (5,548,627)</u>	<u>\$ 6,922,844</u>	<u>\$ (4,287,295)</u>

INDEPENDENT SCHOOL DISTRICT #2159

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2024

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Cont'd)

The total cost of all governmental activities for the year ended June 30, 2024, was \$8,505,249. A portion of the costs, \$450,599 was paid by users of the District's programs. The federal and state governments subsidized certain programs with grants and contributions of \$2,506,023. Most of the District's costs, however, were paid by general education aids of \$4,322,628, and property taxes of \$1,106,977. Other local revenues, investment earnings and gain on sale of assets of \$258,736 accounted for total revenues of \$8,644,963.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Fund Balance

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$2,850,667. This amount is a decrease of \$133,834 from the \$2,984,501 June 30, 2023 fund balance. The District's fund balance policy sets a target minimum unassigned fund balance of 17% of the annual budgeted expenditures in the General Fund. At June 30, 2024, unassigned fund balance was 19.09% of budgeted General Fund expenditures.

Revenues and Expenditures

Revenues of the District's governmental funds including other financing sources totaled \$9,513,925 while total expenditures including other financing uses totaled \$9,647,759. A summary of the revenues and expenditures reported on the governmental fund financial statements appear in Table A-4.

Table A-4
2024 Summary of Revenues and Expenditures - Governmental Funds

	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 7,695,256	\$ 7,980,065	\$ (70,309)	\$ (355,118)
Debt Service	66,587	63,046		3,541
Food Service Fund	331,440	346,568		(15,128)
Community Service Fund	522,700	652,815	100,000	(30,115)
Capital Projects	213	505,265	768,038	262,986
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 8,616,196</u>	<u>\$ 9,547,759</u>	<u>\$ 797,729</u>	<u>\$ (133,834)</u>

INDEPENDENT SCHOOL DISTRICT #2159

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2024

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Cont'd)

2023 Summary of Revenues and Expenditures - Governmental Funds

	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 7,284,881	\$ 7,218,968	\$ 335,997	\$ 401,910
Food Service Fund	331,369	431,238		(99,869)
Community Service Fund	626,175	584,594		41,581
Capital Projects		29,320		(29,320)
Debt Service	65,049	62,649		2,400
Total	<u>\$ 8,307,474</u>	<u>\$ 8,326,769</u>	<u>\$ 335,997</u>	<u>\$ 316,702</u>

The General Fund revenue (including other financing sources) increased by \$104,069. Increases over prior year amounts were reported in categories of state special education \$203,022 and general education aid of \$384,415. These increases were offset by decreases in other federal revenues (\$279,365) and sale of assets (\$306,306).

The General Fund expenditures (including other financing uses) increased by \$861,097. Multiple factors resulted in this increase. The largest increases can be seen in the areas of elementary and secondary regular instruction \$262,864, sites and buildings \$99,859, special education instruction \$157,430, and pupil support services \$263,942.

The General Fund had a decrease in unassigned fund balance over the prior year of \$443,937. General Fund unassigned fund balance was \$1,523,312 at June 30, 2024. Nonspendable fund balance increased by \$84,534. General Fund restricted fund balance increased by \$4,285.

The Food Service Special Revenue Fund revenue increased by \$71 from the previous year and was over the current year budget by \$19,148. The expenditures and capital outlay expenditures decreased by \$84,670 or 20% over the previous year and was under the current year budget by \$613. This decrease is due to the District not having capital outlay expenditures for the kitchen remodel that was in the prior year. The capital outlay account decreased by \$113,396 in the current year. The fund balance decreased by \$15,128.

The Community Service Special Revenue Fund fund balance decreased by \$30,115. Revenues (not including transfers) decreased by \$103,475 or 17% over 2023 and was over the current year budget by \$84,381. This was mainly due to the decrease in other federal revenues. Expenditures totaled \$652,815, which was an increase of 12% over the previous year and was under the current year budget by \$65,847. This is due to the increase in salaries and wages for the current year.

Little Stangs Learning Center operates within the Community Service Special Revenue Fund. Little Stangs Learning Center earned \$402,116 in revenues and other financing sources during the current fiscal year, an increase of \$1,231 compared to the prior year. The Learning Center incurred \$473,164 in expenditures in the current year, an increase of \$74,890 compared to the prior year. This is due to an increase in salaries and wages and employee benefits. Operations resulted in deficit spending of \$79,856 in 2019, \$61,407 in 2020, \$34,668 in 2021, \$2,272 in 2022, with a surplus of \$2,611 in 2023 and deficit of \$171,048 in 2024. Deficit spending was budgeted at \$66,066 for the current year and is budgeted at a deficit of \$86,846 for fiscal year 2025.

INDEPENDENT SCHOOL DISTRICT #2159

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Cont'd)

The Capital Projects fund balance increased by \$262,986 and the fund balance was \$262,986 at year end. Increase is due to new debt being issued in the current year for new construction projects and funds not being fully spent.

The Debt Service fund balance increased by \$3,541 and the fund balance was \$5,941 at year end.

General Fund Budgetary Highlights

During the year ended June 30, 2024, the District amended the approved budget. The original budget was adopted as required by state statute prior to July 1, 2023. The final approved budget anticipated a deficit of \$294,738 with an actual deficit of \$355,118.

Revenues and other financing sources were under budget by \$410,943. Revenues from federal sources were under budget by \$462,797. This was offset by revenue from other local and county being over budget by \$85,344. Expenditures and other financing uses were under budget by \$350,563. This was due to the amounts being under budget in the capital outlay of \$305,581. This was offset by the expenditures being over budget in transfers by \$100,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2024, the District had \$11.1 million invested in capital and right to use assets. (Detailed information on the capital and right to use assets can be found in Note 5 to the financial statements.) Most of this investment is in the District's buildings and equipment.

Additions in 2024 included a new vehicle, a dishwasher, and a storage unit. Other additions included the completed kitchen exhaust project that was started in fiscal year 2023, and ongoing projects including the roof replacement project and the playground equipment.

Long-Term Debt

At year end, the District had \$1,230,000 of facilities bonds, \$754,739 of financed purchases, \$4,586,088 in net pension liability, \$170,968 in OPEB liability and \$97,954 in compensated absences. See Note 6 for more information.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following existing conditions that could significantly affect its financial condition in future years:

- With the exception of the voter-approved excess operating referendum, the District is dependent on the State of Minnesota for the majority of its revenue stream. With the uncertainty of the economic times and the commitment of funding from the State of Minnesota, the future of the School District could be significantly affected by any changes that happen at the State level. The District will continue to monitor the political and economic climate to try to mitigate any possible negative impact on District finances by changes at the State level.

INDEPENDENT SCHOOL DISTRICT #2159

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2024

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office, Independent School District #2159, PO Box 307, Hector, MN 55342.

BASIC FINANCIAL STATEMENTS

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INDEPENDENT SCHOOL DISTRICT #2159

STATEMENT OF NET POSITION
JUNE 30, 2024
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2023

	Governmental Activities	
	2024	2023
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Assets		
Cash and Investments	\$ 3,466,990	\$ 2,760,888
Receivables	942,994	580,597
Due from Other Governments	676,551	978,512
Inventory	6,701	6,136
Prepaid Items	158,749	72,235
Capital Assets		
Assets Not Being Depreciated	607,012	39,582
Other Capital Assets, Net of Depreciation and Amortization	3,454,307	3,500,591
Total Assets	9,313,304	7,938,541
Deferred Outflows of Resources	1,217,571	1,523,299
Total Assets and Deferred Outflows of Resources	\$ 10,530,875	\$ 9,461,840
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities		
Payables	\$ 696,197	\$ 356,703
Due to Other Governments	171,386	21,272
Accrued Interest Payable	31,228	3,353
Unearned Revenue		
Local Sources	7,634	8,522
Long-Term Liabilities		
Net Pension Liability	4,586,088	4,737,500
Total OPEB Liability	170,968	166,544
Other Long-Term Liabilities Due Within One Year	279,435	182,039
Other Long-Term Liabilities Due in More Than One Year	1,823,828	1,334,739
Total Liabilities	7,766,764	6,810,672
Deferred Inflows of Resources	2,247,625	2,274,396
Net Position		
Net Investment in Capital Assets	2,318,996	2,155,594
Restricted for		
Operating Capital	77,640	142,847
State Mandated	493,182	420,803
Student Activities	90,021	93,063
Scholarships	155	
Unrestricted	(2,463,508)	(2,435,535)
Total Net Position	516,486	376,772
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 10,530,875	\$ 9,461,840

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #2159

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2024
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2023

	2024				2023
		Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Expenses				Governmental Activities	Governmental Activities
GOVERNMENTAL ACTIVITIES					
Administration	\$ 511,717	\$ 1,150	\$ 950	\$ (509,617)	\$ (430,320)
District Support Services	350,721			(350,721)	(364,533)
Elementary and Secondary Regular Instruction	3,113,454	56,388	1,050,553	(2,006,513)	(1,417,092)
Vocational Education Instruction	191,681		16,965	(174,716)	(100,662)
Special Education Instruction	915,011		580,593	(334,418)	(266,281)
Instructional Support Services	337,333		70,332	(267,001)	(277,182)
Pupil Support Services	1,030,538	22,415	758	(1,007,365)	(737,528)
Sites and Buildings	922,328		362,317	(559,026)	(723,792)
Fiscal and Other Fixed Costs Programs	79,602			(79,602)	(54,794)
Food Service	357,814	26,694	304,746	(26,374)	7,584
Community Education and Services	643,376	343,952	117,824	(181,600)	86,429
Interest and Fiscal Charges on Long-Term Liabilities	51,674			(51,674)	(9,124)
Total Governmental Activities	<u>\$ 8,505,249</u>	<u>\$ 450,599</u>	<u>\$ 2,505,038</u>	<u>\$ 985</u>	<u>(5,548,627)</u>
GENERAL REVENUES					
Taxes Levied for					
General Purposes				1,027,094	1,028,332
Community Education and Services				55,242	55,225
Debt Service				24,641	31,115
Aids and Payments from the State				4,322,628	4,381,452
Other General Revenues				106,103	76,787
Investment Earnings				122,942	93,717
Gain on Sale of Asset				29,691	125,713
Total General Revenues				<u>5,688,341</u>	<u>5,792,341</u>
Change in Net Position				139,714	1,505,046
NET POSITION, BEGINNING OF YEAR				<u>376,772</u>	<u>(1,128,274)</u>
NET POSITION, END OF YEAR				<u>\$ 516,486</u>	<u>\$ 376,772</u>

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #2159

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2024
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2023

	General	(Formerly Nonmajor) Debt Service	Nonmajor Funds	Total Governmental Funds	
				2024	2023
ASSETS					
Cash and Investments	\$ 2,753,963	\$ 52,816	\$ 660,211	\$ 3,466,990	\$ 2,760,888
Receivables					
Accounts	8,592		8,830	17,422	
Current Property Taxes	668,501	197,999	26,585	893,085	547,186
Delinquent Property Taxes	28,992	1,845	1,650	32,487	33,411
Due from Other Governments					
State Department of Education	541,306	4,190	2,726	548,222	533,232
Federal Department of Education	112,916			112,916	438,280
Other Governmental Units	15,190		223	15,413	7,000
Inventory			6,701	6,701	6,136
Prepaid Items	156,769		1,980	158,749	72,235
Total Assets	\$ 4,286,229	\$ 256,850	\$ 708,906	\$ 5,251,985	\$ 4,398,368
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities					
Payables					
Accounts	\$ 148,455		\$ 4,142	\$ 152,597	\$ 26,670
Contracts			100,985	100,985	
Salaries and Payroll Deductions	408,120		34,495	442,615	330,033
Due to Other Governments	171,386			171,386	21,272
Unearned Revenue			7,634	7,634	8,522
Total Liabilities	727,961	0	147,256	875,217	386,497
Deferred Inflows of Resources					
Property Taxes Levied for Subsequent Year	1,188,197	249,064	56,353	1,493,614	993,959
Unavailable Revenue - Delinquent Property Taxes	28,992	1,845	1,650	32,487	33,411
Total Deferred Inflows of Resources	1,217,189	250,909	58,003	1,526,101	1,027,370
Fund Balance					
Nonspendable	156,769		1,980	158,749	72,235
Restricted	660,998	5,941	572,715	1,239,654	945,017
Unassigned	1,523,312		(71,048)	1,452,264	1,967,249
Total Fund Balance	2,341,079	5,941	503,647	2,850,667	2,984,501
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 4,286,229	\$ 256,850	\$ 708,906	\$ 5,251,985	\$ 4,398,368

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #2159

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2024
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2023

	2024	2023
Total Fund Balances - Governmental Funds	\$ 2,850,667	\$ 2,984,501
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital and right to use assets used in governmental funds are not financial resources and therefore are not reported as assets in the governmental funds. Those assets consist of:		
Governmental Capital and Right to Use Assets	11,178,304	10,393,460
Less: Accumulated Depreciation and Amortization	(7,116,985)	(6,853,287)
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the funds.		
	32,487	33,411
Interest on long-term liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(31,228)	(3,353)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions	1,196,783	1,510,219
Deferred Inflows of Resources Related to Pensions	(613,848)	(1,100,492)
Deferred outflows and inflows of resources related to other post-employment benefits are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to OPEB	20,788	13,080
Deferred Inflows of Resources Related to OPEB	(140,163)	(179,945)
Long-term liabilities that pertain to governmental funds, including bonds payable, financed purchases and leases payable are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the Statement of Net Position. Balances at year-end are:		
Bonds Payable	(1,230,000)	(540,000)
Unamortized Premium	(20,570)	
Financed Purchase	(754,739)	(841,764)
Long-Term Lease Liability		(13,197)
Compensated Absences	(97,954)	(121,817)
Total OPEB Liability	(170,968)	(166,544)
Net Pension Liability	(4,586,088)	(4,737,500)
Total Net Position - Governmental Activities	<u>\$ 516,486</u>	<u>\$ 376,772</u>

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #2159

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020

	General	(Formerly Nonmajor) Debt Service	Nonmajor Funds	Total Governmental Funds	
				2024	2023
REVENUES					
Local Property Tax Levies	\$ 1,027,894	\$ 24,684	\$ 55,323	\$ 1,107,901	\$ 1,110,994
Other Local and County Revenues	482,237		335,951	818,188	750,344
Revenue from State Sources	5,636,447	41,903	224,741	5,903,091	5,172,216
Revenue from Federal Sources	548,678		206,821	755,499	1,161,094
Sale and Other Conversion of Assets			26,583	26,583	112,826
Recovery & Reimbursements			4,934	4,934	
Total Revenues	7,695,256	66,587	854,353	8,616,196	8,307,474
EXPENDITURES					
Current					
Administration	530,951			530,951	533,547
District Support Services	338,156			338,156	345,437
Elementary and Secondary Regular Instruction	3,288,840			3,288,840	3,030,571
Vocational Education Instruction	179,094			179,094	187,486
Special Education Instruction	962,515			962,515	805,085
Community Education and Services			652,416	652,416	544,924
Instructional Support Services	296,815			296,815	325,695
Pupil Support Services	1,031,076		337,210	1,368,286	1,075,559
Sites and Buildings	711,063		487,044	1,198,107	903,379
Fiscal and Other Fixed Costs Programs	79,602			79,602	54,949
Capital Outlay	561,953		9,757	571,710	457,488
Debt Service					
Principal		55,000		55,000	50,000
Interest and Fiscal Charges		8,046	18,221	26,267	12,649
Total Expenditures	7,980,065	63,046	1,504,648	9,547,759	8,326,769
Excess (Deficiency) of Revenues Over (Under) Expenditures	(284,809)	3,541	(650,295)	(931,563)	(19,295)
OTHER FINANCING SOURCES (USES)					
Transfers In			100,000	100,000	
Transfers Out	(100,000)			(100,000)	
Bonds Issued			745,000	745,000	
Bond Premium			23,038	23,038	
Sale of Assets	29,691			29,691	335,997
Total Other Financing Sources (Uses)	(70,309)	0	868,038	797,729	335,997
Net Change in Fund Balances	(355,118)	3,541	217,743	(133,834)	316,702
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED					
	2,696,197		288,304	2,984,501	2,667,799
Adjustment - Changes within Reporting Entity		2,400	(2,400)		
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED					
	2,696,197	2,400	285,904	2,984,501	2,667,799
FUND BALANCE, END OF YEAR					
	\$ 2,341,079	\$ 5,941	\$ 503,647	\$ 2,850,667	\$ 2,984,501

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #2159

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2024
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2023

	2024	2023
Total Net Change in Fund Balances - Governmental Funds	\$ (133,834)	\$ 316,702

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

Capital outlay is reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation and amortization expense.

Capital Outlay	804,695	498,145
Depreciation Expense	(266,176)	(273,412)
Amortization Expense	(12,411)	(14,892)
Capital Assets Disposed	(19,851)	(756,551)
Accumulated Deprecation Related to Disposed Capital Assets	14,889	529,515

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the Statement of Activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences is as follows:

Principal Retirement of Long-Term Liabilities	55,000	50,000
Financed Purchase Retirements	87,025	78,763
Bond Issued	(745,000)	
Bond Premium	(23,038)	
Long-Term Lease Retirement	13,197	15,409
Change in Accrued Interest Payable	(27,875)	3,525
Amortization of Bond Premium	2,468	

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.

(924)	3,678
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In the Statement of Activities, certain operating expenses - pension liabilities, compensated absences and other post-employment benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

Compensated Absences	23,863	16,966
Other Postemployment Benefits	43,066	23,454
Net Pension Liability	324,620	1,013,744

Change in Net Position - Governmental Activities	<u>\$ 139,714</u>	<u>\$ 1,505,046</u>
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See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #2159

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2024
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2023

	2024			Over (Under)	
	Budgeted Amounts			Final	2023
	Original	Final	Actual	Budget	Actual
REVENUES					
Local Property Tax Levies					
Tax Levy	\$ 1,073,910	\$ 1,058,098	\$ 1,027,894	\$ (30,204)	\$ 1,026,798
Other Local and County Revenues					
Tuition, Fees and Admissions	50,050	57,932	57,538	(394)	49,967
Investment Earnings	90,000	120,000	122,729	2,729	93,717
Other Local Revenues	110,228	218,961	301,970	83,009	254,458
Total Other Local and County Revenues	250,278	396,893	482,237	85,344	398,142
Revenue from State Sources					
General Education Aid	4,780,473	4,842,926	4,847,252	4,326	4,462,837
Special Education Aid	377,218	584,779	580,593	(4,186)	377,571
Disparity Aid		29,197	29,197		28,813
Market Value Credit			8,897	8,897	9,800
Endowment Apportionment	22,282	27,903	27,903		23,447
Other State Revenues	51,029	149,817	142,605	(7,212)	96,315
Total Revenue from State Sources	5,231,002	5,634,622	5,636,447	1,825	4,998,783
Revenue from Federal Sources					
Title I - Basic and Neglected Children	100,000	147,768	127,611	(20,157)	93,481
Title II - Improving Teacher Quality	15,445	26,357		(26,357)	35,621
Small Rural Education Achievement Program Grant	34,349	34,073	44,796	10,723	33,927
Special Education		115,053		(115,053)	42,493
Other Federal Revenues	974,945	688,224	376,271	(311,953)	655,636
Total Revenue from Federal Sources	1,124,739	1,011,475	548,678	(462,797)	861,158
Total Revenues	7,679,929	8,101,088	7,695,256	(405,832)	7,284,881

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #2159

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2024
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2023

	2024			Over (Under)	
	Budgeted Amounts			Final	2023
	Original	Final	Actual	Budget	Actual
EXPENDITURES					
Current					
Administration					
Salaries and Wages	\$ 353,345	\$ 376,520	\$ 377,013	\$ 493	\$ 393,358
Employee Benefits	103,737	145,612	115,921	(29,691)	108,560
Purchased Services	32,800	19,154	21,100	1,946	16,346
Supplies and Materials	15,400	15,203	8,726	(6,477)	8,755
Other Expenditures	10,550	5,872	8,191	2,319	6,528
Total Administration	515,832	562,361	530,951	(31,410)	533,547
District Support Services					
Salaries and Wages	142,688	149,315	146,771	(2,544)	147,920
Employee Benefits	52,628	56,905	58,411	1,506	71,571
Purchased Services	100,400	123,245	129,474	6,229	115,443
Supplies and Materials	4,000	4,700	3,280	(1,420)	3,942
Other Expenditures	720	220	220		6,561
Total District Support Services	300,436	334,385	338,156	3,771	345,437
Elementary and Secondary Regular Instruction					
Salaries and Wages	1,994,444	2,183,353	2,188,757	5,404	2,050,484
Employee Benefits	500,789	545,210	528,501	(16,709)	482,085
Purchased Services	174,954	276,532	291,683	15,151	238,423
Supplies and Materials	318,929	308,433	253,108	(55,325)	233,668
Other Expenditures	3,035		26,791	26,791	25,911
Total Elementary and Secondary Regular Instruction	2,992,151	3,313,528	3,288,840	(24,688)	3,030,571
Vocational Education Instruction					
Salaries and Wages	127,000	143,329	125,992	(17,337)	123,785
Employee Benefits	31,760	36,486	32,265	(4,221)	29,713
Purchased Services	5,000	3,100	4,455	1,355	4,896
Supplies and Materials	11,000	17,066	14,847	(2,219)	27,349
Other Expenditures			1,535	1,535	1,743
Total Vocational Education Instruction	174,760	199,981	179,094	(20,887)	187,486

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #2159

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2024
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2023

	2024			Over (Under)	
	Budgeted Amounts			Final	2023
	Original	Final	Actual	Budget	Actual
EXPENDITURES (Cont'd)					
Current (Cont'd)					
Special Education Instruction					
Salaries and Wages	\$ 494,780	\$ 628,257	\$ 615,141	\$ (13,116)	\$ 496,594
Employee Benefits	126,881	128,795	133,485	4,690	111,611
Purchased Services	248,869	256,304	207,831	(48,473)	187,833
Supplies and Materials	6,525	1,450	1,326	(124)	4,606
Other Expenditures	200		4,732	4,732	4,441
Total Special Education Instruction	877,255	1,014,806	962,515	(52,291)	805,085
Instructional Support Services					
Salaries and Wages	110,582	141,567	159,930	18,363	145,479
Employee Benefits	30,043	33,092	33,223	131	33,551
Purchased Services	37,300	15,260	23,782	8,522	11,286
Supplies and Materials	28,500	91,714	79,389	(12,325)	134,770
Other Expenditures			491	491	609
Total Instructional Support Services	206,425	281,633	296,815	15,182	325,695
Pupil Support Services					
Salaries and Wages	132,108	135,302	136,241	939	108,803
Employee Benefits	33,233	34,918	33,945	(973)	27,990
Purchased Services	621,084	802,753	839,781	37,028	612,699
Supplies and Materials	17,200	17,225	19,845	2,620	16,495
Other Expenditures			1,264	1,264	1,088
Total Pupil Support Services	803,625	990,198	1,031,076	40,878	767,075
Sites and Buildings					
Salaries and Wages	191,000	136,000	139,446	3,446	162,468
Employee Benefits	34,181	33,224	32,771	(453)	33,776
Purchased Services	1,350,672	556,188	470,431	(85,757)	552,550
Supplies and Materials	45,000	74,360	66,877	(7,483)	153,132
Other Expenditures	1,400	1,430	1,538	108	1,453
Total Sites and Buildings	1,622,253	801,202	711,063	(90,139)	903,379
Fiscal and Other Fixed Costs Programs					
Purchased Services	77,000	65,000	79,602	14,602	54,949
Total Current Expenditures	7,569,737	7,563,094	7,418,112	(144,982)	6,953,224

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #2159

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2024
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2023

	2024			Over (Under)	
	Budgeted Amounts			Final	2023
	Original	Final	Actual	Budget	Actual
EXPENDITURES (Cont'd)					
Capital Outlay					
Administration	\$	\$ 3,597	\$ 2,455	\$ (1,142)	\$
District Support Services	16,564	15,150	17,084	1,934	16,520
Elementary and Secondary					
Regular Instruction	20,000	22,198	20,218	(1,980)	15,623
Vocational Education Instruction	29,000	26,750	20,849	(5,901)	42,231
Instructional Support Services	105,500	75,953	64,273	(11,680)	46,412
Pupil Support Services					59
Sites and Buildings	164,000	723,886	437,074	(286,812)	144,899
Total Capital Outlay	335,064	867,534	561,953	(305,581)	265,744
Total Expenditures	7,904,801	8,430,628	7,980,065	(450,563)	7,218,968
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(224,872)	(329,540)	(284,809)	44,731	65,913
OTHER FINANCING SOURCES (USES)					
Transfers Out			(100,000)	(100,000)	
Sale of Assets		34,802	29,691	(5,111)	335,997
Total Other Financing					
Sources (Uses)	0	34,802	(70,309)	(105,111)	335,997
Net Change in Fund Balances	\$ (224,872)	\$ (294,738)	(355,118)	\$ (60,380)	401,910
FUND BALANCE, BEGINNING OF YEAR			2,696,197		2,294,287
FUND BALANCE, END OF YEAR			\$ 2,341,079		\$ 2,696,197

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #2159

STATEMENT OF FIDUCIARY NET POSITION
CUSTODIAL FUND

JUNE 30, 2024

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash	<u>\$ 43,531</u>	<u>43,031</u>
NET POSITION		
Held in Trust for Scholarships	<u>\$ 43,531</u>	<u>43,031</u>

INDEPENDENT SCHOOL DISTRICT #2159

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
CUSTODIAL FUND

JUNE 30, 2024

WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2023

	<u>2024</u>	<u>2023</u>
ADDITIONS		
Earnings from Investments and Gifts	\$ 500	\$
DEDUCTIONS		
Scholarship Obligations		600
Changes in Net Position	<u>500</u>	<u>(600)</u>
NET POSITION, BEGINNING OF YEAR	<u>43,031</u>	<u>43,631</u>
NET POSITION, END OF YEAR	<u>\$ 43,531</u>	<u>\$ 43,031</u>

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INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2024

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Independent School District #2159 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. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America. The more significant of the government's accounting policies are described below.

A. REPORTING ENTITY

The Independent School District #2159 School Board ("District") is the basic level of government which has the financial accountability and control over all activities related to the public school education for the Buffalo Lake-Hector-Stewart Public School District. The District receives funding from local, state, and federal sources and must comply with the expenditure requirements of these funding source entities.

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate entities for which the District is financially accountable, or for which the exclusion of the component unit would render the financial statements of the District misleading.

The criteria used to determine if the District is financially accountable for a component unit includes whether or not 1) the District appoints the voting majority of the potential component unit's governing body and is able to impose its will on the potential component unit or is in a relationship of financial benefit or burden with the potential component unit, or 2) the potential component unit is fiscally dependent on and there is a potential for the potential component unit to provide specific financial benefits to, or impose specific financial burdens on, the District.

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

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board has a fiduciary responsibility in establishing general policies and ensuring that appropriate financial records are maintained for student activities. In addition, these accounts of the District are under the School Board's control. The activity of the student activity accounts is accounted for in the General Fund.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2024

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of all charges would distort the direct costs and program revenue reported for the various functions concerned.

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenues are recognized when they become measurable and available. Revenues are considered to be measurable when the amount of the transaction can be determined and available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except interest earnings) are recorded as revenues when received because they are generally not measurable until then. Interest earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2024

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Cont'd)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The District does not use encumbrances for either budgeting or financial reporting purposes.

It is generally the District's policy to use restricted resources first, then unrestricted resources as they are needed when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. A description of the funds included in this report is as follows:

Major Governmental Funds:

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, health and safety projects, and disabled accessibility projects.

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

Nonmajor Governmental Funds:

The Food Service Special Revenue Fund accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities. Revenues for the Food Service Fund are generated from user fees, federal reimbursements, and state aids.

The Community Service Special Revenue Fund accounts for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services. Revenues from the Community Service Fund are generated primarily from user fees, local property taxes, federal reimbursements, and state aids.

The Capital Projects Fund accounts for financial resources used for the acquisition or construction of major capital facilities and equipment funded by the sale of bonds.

Fiduciary Fund:

The Custodial Fund is used to account for the gifts and bequests that are to be used for payment of scholarship awards to recipients for those scholarships where there is no legally binding trust agreement.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. BUDGETS AND BUDGETARY ACCOUNTING

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service and Community Service Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 of each year. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

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

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

Unencumbered expenditure appropriations lapse at year-end. Encumbrances are not recorded.

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE

Cash and Investments:

The District's cash and cash equivalents are considered to be cash on hand, deposits and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition.

The District may invest in the following types of investments as authorized by Minn. Stat. §§118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. §118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States bank;

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2024

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Cash and Investments: (Cont'd)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Cash and investments were comprised of deposits and external investment pools.

Cash balances from all funds of the District are pooled and invested, to the extent available, in allowable cash management accounts and time deposits. Earnings from such accounts are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

The District invests in external investment pools, the Minnesota School District Liquid Asset Fund and MN Trust, which are created under a joint powers agreement pursuant to Minn. Stat. §471.59. The Minnesota School District Liquid Asset Fund and MN Trust are not registered with the Securities Exchange Commission (SEC), but satisfy the requirements of Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 CFR §270.2a-7), as amended. The investment in the pools are measured at the net asset value per share provided by the pool.

The District has an investment policy in place that addresses interest rate risk, credit risk, concentration of credit risk and custodial credit risk as follows:

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. Minnesota Statutes require all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations of a state or local government rated "A" or better and revenue obligations of a state or local government rated "AA" or better; unrated general obligation securities of the District; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The District does not have a policy that further limits its collateral choices.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2024

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Cash and Investments: (Cont'd)

Custodial Credit Risk - Investments. For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy on custodial credit risk states securities shall be held in third party safekeeping by an institution designated as custodial agent. The institution or dealer shall issue a safekeeping receipt to the District listing the specific instrument, the name of the issuer, the name in which the security is held, the rate, the maturity, serial numbers or other distinguishing marks, and other pertinent information related to the securities held.

Interest Rate Risk. This is the risk that the market value of securities will fall due to the changes in market interest rates. The District's policy states investment maturities shall be scheduled to coincide with projected District cash flow needs, taking into account large routine or scheduled expenditures, as well as anticipated receipt dates of anticipated revenues. Maturities for short-term and long-term investments shall be timed according to anticipated need. Within these parameters, portfolio maturities shall be staggered to avoid undue concentration of assets and a specific maturity sector. The maturities selected shall provide for stability of income and reasonable liquidity.

Credit Risk. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law limits certain investments to the top two ratings issued by the rating organizations. The District's investment policy states it will comply with Minnesota Statutes Chapter 118A.

Concentration Risk. This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

Accounts Receivable:

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

Current Property Taxes Receivable:

Current property taxes receivable represent current real and personal property tax levies, certified the previous December and collectible in the current calendar year, which have not been received by the District.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Delinquent Property Taxes Receivable:

Delinquent property taxes receivable represent taxes collectible in the years 2017 to 2023 that remain uncollected at June 30, 2024. They are equally offset by a deferred inflow of resources amount in the governmental fund financial statements.

Prepaid Items:

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

Inventory:

Inventories are recorded using the consumption method of accounting and consist of resale clothing, purchased food and supplies. Clothing, paper and supply purchases are recorded at invoice cost, computed on a first-in, first-out method.

Property Taxes Levied for Subsequent Year:

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2024, are included in this account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Capital and Right to Use Assets:

Tangible and intangible capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Right to use assets are capitalized at the present value of minimum lease payments. Donated assets are recorded at their estimated acquisition value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing tangible and intangible capital and right to use 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.

Tangible and intangible capital and right to use assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital and right to use assets are depreciated or amortized 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 construction in progress, if any.

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future reporting period. During that future period, it will be recognized as an outflow of resources (expense/expenditure). The District has items that qualify for reporting in this category on the government-wide Statement of Net Position related to pensions and other postemployment benefits.

Long-Term Obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Lease liabilities are measured at the present value of payments expected to be made and amortized as a component of interest expense over the lease term.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The present value of lease payments expected to be made at the inception of a lease agreement is reported as other financing sources. Subsequent lease payments are reported as capital outlay expenditures.

Compensated Absences:

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation and certain sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide Statement of Net Position reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of an amount based on expected or known retirements coming in the next fiscal year. The noncurrent portion consists of the total vested sick leave.

District employees earn vacation days based upon the number of completed years of service. Generally, unused vacation days must be used within six months of year end. There is no payout for unused vacation upon termination of employment, except as outlined in the employment contracts and union agreements. Vacation pay is recorded as an expenditure when payment is made in the governmental funds.

Employees are entitled to paid sick leave at various rates for each month of full-time service. Employees are not compensated for unused sick leave upon termination of employment, except as outlined in the employment contracts and union agreement. Sick pay is recorded as an expenditure when payment is made in the governmental funds.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Compensated Absences: (Cont'd)

An unused sick leave payment is available to substantially all full-time or part-time employees. Individuals who have completed at least 12 years of service with the District will receive an amount equal to \$10,000 or up to 75 days of unused accumulated sick leave multiplied by the employee's daily rate of pay, whichever is reached first.

Other Postemployment Benefits:

Under the provisions of the various employee and union contracts the District provides up to \$10,000 in health and medical benefits if certain age and minimum years of service requirements have been met. The amount to be incurred is limited as specified by contract. All premiums are funded on a pay-as-you-go basis.

Pensions:

The District participates in various pension plans; total pension expense for the fiscal year ended was \$67,899. The components of pension expense are noted in the plan summaries.

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by 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.

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 additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

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 from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association in 2015.

Unearned Revenue:

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and certain other payments received before eligibility requirements are met are also recorded as unearned revenue.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2024

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Deferred Inflows of Resources:

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period. During that future period, it will be recognized as an inflow of resources (revenue). The District has items that qualify for reporting in this category on both the government-wide Statement of Net Position and the governmental fund financial statements related to property taxes, pensions and OPEB.

Fund Balance:

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

Nonspendable - consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact, such as, inventories and prepaid items.

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 amounts that are constrained for specific purposes that are internally imposed by formal action of the Board of Education. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. These constraints are established by Resolution of the Board of Education.

Assigned - consists of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board Policy, the Business Manager is authorized to establish assignments of fund balance.

Unassigned - is the residual classification for the General Fund and also reflects negative residual amounts in the remaining governmental funds.

The District requires restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Board of Education formally adopted a fund balance policy for the General Fund. The District's policy is to strive to maintain a minimum unassigned fund balance of 17% of the annual budgeted expenditures in the General Fund.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Net Position:

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the government-wide and fiduciary fund financial statements. Net investment in capital assets consists of capital and right to use assets, net of accumulated depreciation and amortization, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide and fiduciary fund financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position consists of all other net position that does not meet the definition of restricted or net investment in capital assets.

F. REVENUES AND EXPENDITURES

Revenues:

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred inflows of resources (property taxes levied for subsequent year). The majority of District revenue in the General Fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum which is frozen at \$126,374 for the District. For the year ended June 30, 2024, State law is not requiring recognition of the current operating referendum and all other levies other than Career Technical and Reemployment Insurance. Career Technical and Reemployment Insurance levies are recognized early based on statutory requirements in the amounts of \$40,796 and \$5,000, respectively.

Tax levies from prior years that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources at the fund level because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2024, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

F. REVENUES AND EXPENDITURES (Cont'd)

Expenditures:

Expenditure recognition for governmental fund types are limited to amounts represented by current liabilities. Long-Term liabilities are not recognized as governmental expenditures or liabilities.

G. USE OF ESTIMATES

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

H. PRIOR YEAR INFORMATION

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2023, from which the partial information was derived.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. VIOLATIONS OF FINANCE-RELATED OBLIGATIONS

There were no violations of finance-related obligations.

B. DEFICIT FUND BALANCES

The District had no deficit fund balances.

C. EXCESS OF EXPENDITURES OVER BUDGET

There were no funds that had excess of expenditures over budget.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 3. CASH AND INVESTMENTS

A. DEPOSITS

The District's deposits were sufficiently covered by insurance through FDIC as well as collateralized with securities held by the pledging institution's trust department or agent in the District's name.

The District had the following deposits:

<u>Governmental Activities</u>	
Pooled Cash in Checking Accounts	\$ 349,032
<u>Fiduciary Fund</u>	
Pooled Cash in Checking Accounts	43,531
Total Deposits	<u>\$ 392,563</u>

B. INVESTMENTS

The District had the following investments:

<u>Governmental Activities</u>	
Investment at Amortized Cost:	
External Investment Pool - Liquid Asset Fund	
Liquid Class	\$ 487,348
Max Class	19,022
MN Trust	
Money Market	2,611,588
Total Investments	<u>\$ 3,117,958</u>

The District's investments in MSDLAF and MSDLAF+ Max were rated AAA by Standard & Poor's (S&P).

C. SUMMARY AND PRESENTATION

The following is a summary of deposits and investments:

Deposits (Note 3.A.)	\$ 392,563
Investments (Note 3.B.)	<u>3,117,958</u>
Total Deposits and Investments	<u>\$ 3,510,521</u>

Deposits and investments are presented in the basic financial statements as follows:

Statement of Net Position	
Cash and Investments	\$ 3,466,990
Statement of Fiduciary Net Position	
Cash and Investments	<u>43,531</u>
Total Cash and Investments	<u>\$ 3,510,521</u>

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 4. RECEIVABLES

Receivables are as follows:

	Total Receivables	Amounts not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Receivables		
Accounts	\$ 17,422	\$
Current Property Taxes	893,085	
Delinquent Property Taxes	32,487	
Total Receivables	<u>942,994</u>	<u>0</u>
Due From Other Governments		
State Department of Education	548,222	
Federal Department of Education	112,916	
Other Governmental Units	15,413	
Total Due From Other Governments	<u>676,551</u>	<u>0</u>
Total Governmental Activities	<u>\$ 1,619,545</u>	<u>\$ 0</u>

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024NOTE 5. CAPITAL ASSETS

Capital asset activity is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 25,832	\$	\$	\$ 25,832
Construction in Progress	13,750	581,180	(13,750)	581,180
Total Capital Assets, Not Being Depreciated	39,582	581,180	(13,750)	607,012
Capital Assets, Being Depreciated				
Land Improvements	1,464,459	201,873		1,666,332
Buildings	6,500,656			6,500,656
Equipment	2,314,302	35,392	(19,851)	2,329,843
Total Capital Assets, Being Depreciated	10,279,417	237,265	(19,851)	10,496,831
Right to Use Assets, Being Amortized				
Equipment	74,461			74,461
Less Accumulated Depreciation for				
Land Improvements	548,487	67,546		616,033
Buildings	4,486,872	121,067		4,607,939
Equipment	1,755,878	77,563	(14,889)	1,818,552
Total Accumulated Depreciation	6,791,237	266,176	(14,889)	7,042,524
Less Accumulated Amortization for				
Equipment	62,050	12,411		74,461
Total Capital and Right to Use Assets, Being Depreciated and Amortized, Net	3,500,591	(41,322)	(4,962)	3,454,307
Governmental Activities Net Capital Assets	<u>\$ 3,540,173</u>	<u>\$ 539,858</u>	<u>\$ (18,712)</u>	<u>\$ 4,061,319</u>

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024NOTE 5. CAPITAL ASSETS (Cont'd)

Depreciation and amortization expense was charged to functions/programs as follows:

Governmental Activities	
Administration	\$ 1,646
District Support Services	13,652
Elementary and Secondary Regular Instruction	18,671
Vocational Education Instruction	3,964
Special Education Instruction	495
Community Education and Services	31,663
Instructional Support Services	9,525
Pupil Support Services	6,162
Food Service	17,174
Sites and Buildings	<u>175,635</u>
Total Depreciation and Amortization Expense - Governmental Activities	<u><u>\$ 278,587</u></u>

NOTE 6. LONG-TERM LIABILITIESA. COMPONENTS OF LONG-TERM LIABILITIES

	Original Amount Issued	Final Maturity Date	Interest Rate	Balance Outstanding
<u>Governmental Activities</u>				
G.O. Capital Facilities Bonds, Series 2021A	\$ 590,000	2/1/2032	1.49%	\$ 485,000
G.O. Facilities Maintenance Bonds, Series 2023A	745,000	2/1/2031	5.00%	745,000
Bond Premium				20,570
Financed Purchases				754,739
Compensated Absences				<u>97,954</u>
Total Governmental Activities				<u><u>\$ 2,103,263</u></u>

B. DESCRIPTION OF LONG-TERM DEBT

On August 23, 2021, the District issued \$590,000 of General Obligation Capital Facilities Bonds, Series 2021A for school building maintenance and improvements. The bonds are due in varying annual installments each February 1 from February 1, 2023 through February 1, 2032 with interest at a rate of 1.49% due semi-annually on February 1 and August 1. Future ad valorem tax levies are dedicated to the retirement of these bonds.

On September 28, 2023, the District issued \$745,000 of General Obligation Facilities Maintenance Bonds, Series 2023A for school building roof repairs and improvements. The bonds are due in varying annual installments each February 1 from February 1, 2025 through February 1, 2031 with an interest rate of 5.00% due semi-annually on February 1 and August 1.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024NOTE 6. LONG-TERM LIABILITIES (Cont'd)B. DESCRIPTION OF LONG-TERM DEBT (Cont'd)**Financed Purchases:**

The District has entered into a financed purchase for the Learning Center. The capital assets had a cost of \$1,377,165.

Compensated Absences Payable:

Compensated absences payable consists of sick leave payable and vacation payable. Sick leave payable is paid at retirement for certain employees based on the employment contract. Vacation payable earned in the current year must be used within six months of the subsequent year.

C. MINIMUM DEBT PAYMENTS

Year Ending June 30	G.O. Capital Facilities Bonds, Series 2021A		G.O. Facilities Maintenance Bonds, Series 2023A	
	Principal	Interest	Principal	Interest
2025	\$ 55,000	\$ 7,226	\$ 125,000	\$ 49,977
2026	55,000	6,407	150,000	31,000
2027	60,000	5,513	160,000	23,500
2028	60,000	4,619	70,000	15,500
2029	60,000	3,725	75,000	12,000
2030-2032	190,000	5,736	165,000	12,500
	<u>\$ 480,000</u>	<u>\$ 33,226</u>	<u>\$ 745,000</u>	<u>\$ 144,477</u>

D. FINANCED PURCHASES

Year Ending June 30	Financed Purchase - 2018 Learning Center	
	Principal	Interest
2025	\$ 78,190	\$ 14,381
2026	79,768	12,802
2027	81,378	11,192
2028	83,020	9,550
2029	84,696	7,874
2030-2033	347,687	14,054
	<u>\$ 754,739</u>	<u>\$ 69,853</u>

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024NOTE 6. LONG-TERM LIABILITIES (Cont'd)E. CHANGES IN LONG-TERM LIABILITIES

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental</u>					
<u>Activities</u>					
G.O. Capital Facilities Bond, Series 2021A	\$ 540,000	\$	\$ (55,000)	\$ 485,000	\$ 55,000
G.O. Facilities Maintenance Bonds, Series 2023A		745,000		745,000	125,000
Bond Premium		23,038	(2,468)	20,570	3,291
Financed Purchases	841,764		(87,025)	754,739	78,190
Long-Term Lease	13,197		(13,197)		
Compensated Absences *	121,817		(23,863)	97,954	17,954
Total Governmental Activities	<u>\$ 1,516,778</u>	<u>\$ 768,038</u>	<u>\$ (181,553)</u>	<u>\$ 2,103,263</u>	<u>\$ 279,435</u>

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

NOTE 7. LONG-TERM LEASES

Lease agreements are summarized as follows:

	Origination Date	Payment Terms	Payment Amount	Interest Rate
Copier	5/1/2019	60 months	Variable	3.00%
	Original Lease Liability	Current Year Additional Outflows	Balance Outstanding	
Copier	\$ 74,461	\$ 0	\$ 0	

The copier was leased for the District, beginning May 1, 2019 for a term of five years at a fixed interest rate of 3.00%. This lease is not renewable and the District will not acquire the equipment at the end of the five years.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024NOTE 8. FUND BALANCE

The following is a summary of fund balance components.

	General	Debt Service	Subtotal
Nonspendable			
Prepaid Items	\$ 156,769	\$	\$ 156,769
Restricted			
Student Activities	90,021		90,021
Scholarships	155		155
Literacy Incentive Aid	20,904		20,904
Operating Capital	77,640		77,640
Gifted and Talented	66,035		66,035
Long Term			
Facilities Maint.	381,576		381,576
Student Support			
Personnel	24,667		24,667
Community Education			
Early Childhood			
Family Education			
School Readiness			
Adult Basic Education			
Other Fund Activities		5,941	5,941
Total Restricted	660,998	5,941	666,939
Unassigned	1,523,312		1,523,312
	<u>\$ 2,341,079</u>	<u>\$ 5,941</u>	<u>\$ 2,347,020</u>

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024NOTE 8. FUND BALANCE (Cont'd)

The following is a summary of fund balance components.

	Nonmajor Funds			
	Building Construction	Food Service	Community Service	Total
Nonspendable				
Prepaid Items	\$	\$ 1,142	\$ 838	\$ 158,749
Restricted				
Student Activities				90,021
Scholarships				155
Literacy Incentive Aid				20,904
Operating Capital				77,640
Gifted and Talented				66,035
Long Term				
Facilities Maint.	262,986			644,562
Student Support				
Personnel				24,667
Community Education			89,006	89,006
Early Childhood				
Family Education			95,019	95,019
School Readiness			19,679	19,679
Adult Basic Education			2,712	2,712
Other Fund Activities		57,551	45,762	109,254
Total Restricted	262,986	57,551	252,178	1,239,654
Unassigned			(71,048)	1,452,264
	<u>\$ 262,986</u>	<u>\$ 58,693</u>	<u>\$ 181,968</u>	<u>\$ 2,850,667</u>

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 8. FUND BALANCE (Cont'd)

Fund Equity:

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the potential restricted fund balances for the governmental funds:

A. RESTRICTED FOR STUDENT ACTIVITIES

The fund balance restriction represents unspent resources available for student activity expenditures.

B. RESTRICTED FOR SCHOLARSHIPS

The fund balance restriction represents unspent resources available for student scholarships.

C. RESTRICTED FOR LITERACY INCENTIVE AID

The fund balance restriction represents unspent resources available for literacy incentive aid expenditures.

D. RESTRICTED FOR OPERATING CAPITAL

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

E. RESTRICTED FOR GIFTED AND TALENTED

The fund balance restriction represents accumulated resources available to provide gifted and talented programming in accordance with funding made available for that purpose.

F. RESTRICTED FOR LONG-TERM FACILITIES MAINTENANCE (LTFM)

The fund balance restriction represents accumulated resources available for allowable expenses in accordance with their long-term facilities maintenance plan.

G. RESTRICTED FOR STUDENT SUPPORT PERSONNEL

The fund balance restriction represents unspent resources available for student support personnel aid expenditures.

H. RESTRICTED FOR COMMUNITY EDUCATION

This fund balance restriction represents accumulated resources available to provide general community education programming.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2024

NOTE 8. FUND BALANCE (Cont'd)

I. RESTRICTED FOR E.C.F.E. (EARLY CHILDHOOD AND FAMILY EDUCATION)

This fund balance restriction represents accumulated resources available to provide services for early childhood family education programming.

J. RESTRICTED FOR SCHOOL READINESS

The fund balance restriction represents accumulated resources available to provide services for the school readiness program.

K. RESTRICTED FOR ADULT BASIC EDUCATION

The fund balance restriction represents accumulated resources available to provide adult basic education programming in accordance with funding made available for that purpose.

NOTE 9. DEFINED BENEFIT PENSION PLAN - STATEWIDE

A. PLAN DESCRIPTION

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA) and Teachers Retirement Association (TRA). PERA's and TRA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's and TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (GERP; General Employees Plan; accounted for in the General Employees Fund):

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

Teachers Retirement Fund (TRA):

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with *Minnesota Statutes*, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

Educators employed in Minnesota's public elementary and secondary school, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Define Contribution Plan (DCR) administered by the State of Minnesota.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED

GERP Benefits:

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

TRA Benefits:

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

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 #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED (Cont'd)

TRA Benefits: (Cont'd)

Tier I Benefits:

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

With these provisions:

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

-or-

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for coordinated members and 2.7 percent per year for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Tier II Benefits:

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

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.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED (Cont'd)

TRA Benefits: (Cont'd)

Tier II Benefits: (Cont'd)

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

GERP Contributions:

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2024 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2024 were \$70,670. The District's contributions were equal to the required contributions as set by state statute.

TRA Contributions:

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2022, June 30, 2023, and June 30, 2024 were:

	<u>June 30, 2022</u>	<u>June 30, 2023</u>	<u>June 30, 2024</u>
Basic:			
Employee	11.00%	11.00%	11.00%
Employer	12.34%	12.55%	12.75%
Coordinated:			
Employee	7.50%	7.50%	7.75%
Employer	8.34%	8.55%	8.75%

The District's contributions to TRA for the plan's fiscal year ended June 30, 2024 were \$282,504. The District's contributions were equal to the required contributions for each year as set by state statute.

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

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024NOTE 9. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)C. CONTRIBUTIONS (Cont'd)

Employer Contributions Reported in TRA's ACFR, Statement of Changes in Fiduciary Net Position	\$ 508,764,000
Add Employer Contributions Not Related to Future Contribution Efforts	(87,000)
Deduct TRA's Contributions Not Included in Allocation	(643,000)
Total Employer Contributions	<u>508,034,000</u>
Total Non-Employer Contributions	<u>35,587,000</u>
 Total Contributions Reported in Schedule of Employer and Non-Employer Allocations	 <u><u>\$ 543,621,000</u></u>

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

D. PENSION COSTS**GERP Pension Costs:**

At June 30, 2024, the District reported a liability of \$598,332 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$16,501. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The District's proportion share was 0.0107 percent at the end of the measurement period and 0.0125 percent for the beginning of the period.

District's Proportionate Share of Net Pension Liability	\$ 598,332
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the District	<u>16,501</u>
Total	<u><u>\$ 614,833</u></u>

There were no provision changes during the measurement period.

For the year ended June 30, 2024, the District recognized pension expense of \$15,759 for its proportionate share of GERP's pension expense. In addition, the District recognized \$74 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's pension expense for the annual \$16 million contribution to the General Employees Fund.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

GERP Pension Costs: (Cont'd)

At June 30, 2024 the District reported its proportionate share of GERP's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 20,443	\$ 5,162
Changes in Actuarial Assumptions	120,978	163,998
Net Collective Differences Between Projected and Actual Investment Earnings		31,797
Changes in Proportion		151,618
Contributions Paid to PERA Subsequent to Measurement Date	70,670	
Totals	<u>\$ 212,091</u>	<u>\$ 352,575</u>

The \$70,670 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense Amount
2025	\$ (40,850)
2026	(148,546)
2027	(8,778)
2028	(12,980)

TRA Pension Costs:

On June 30, 2024, the District reported a liability of \$3,987,756 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, District of Minneapolis and Minneapolis School District. District proportionate share was 0.0483% at the end of the measurement period and 0.0468% for the beginning of the year.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

TRA Pension Costs: (Cont'd)

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

District's Proportionate Share of Net Pension Liability	\$ 3,987,756
State of Minnesota's Proportionate Share of the Net Pension Liability Associated With the District	<u>279,427</u>
Total	<u>\$ 4,267,183</u>

For the year ended June 30, 2024, the District recognized pension expense of \$596,719. It also recognized \$39,345 as an increase to pension expense for the support provided by direct aid.

At June 30, 2024, the District reported its proportionate share of TRA's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 40,913	\$ 58,312
Changes in Actuarial Assumptions	471,333	
Net Differences Between Projected and Actual Investment Earnings on Pension Plan Investments		57,506
Changes in Proportion	189,942	145,455
Contributions Paid to TRA Subsequent to Measurement Date	<u>282,504</u>	
Totals	<u>\$ 984,692</u>	<u>\$ 261,273</u>

\$282,504 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>Pension Expense</u>
2025	\$ 75,685
2026	(24,374)
2027	421,857
2028	(44,973)
2029	12,720

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2024

NOTE 9. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)E. LONG-TERM EXPECTED RETURN ON INVESTMENT**GERP:**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	33.50%	5.10%
International Stocks	16.50%	5.30%
Fixed Income	25.00%	0.75%
Private Markets	25.00%	5.90%
	100.00%	

TRA:

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

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2023 is six years. The Difference between Expected and Actual Experience, Changes of Assumptions, and Changes in Proportion use the amortization period of six years in the schedule presented. The amortization period for Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments is five years as required by GASB 68.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.50%	5.10%
International Equity	16.50%	5.30%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
Total	100.00%	

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

F. ACTUARIAL ASSUMPTIONS

GERP:

The total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.0 percent was deemed to be within that range of reasonableness for financial reporting purposes.

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

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

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

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

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

Changes in Actuarial Assumptions:

The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

Changes in Plan Provisions:

An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.

The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.

The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.

A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

F. ACTUARIAL ASSUMPTIONS (Cont'd)

TRA:

The total pension liability in the June 30, 2023, actuarial valuation was determined using the following actuarial assumptions, applies to all periods included in the measurement:

Actuarial Information

Valuation Date	July 1, 2023
Measurement Date	June 30, 2023
Experience Study	June 28, 2019 (Demographic and Economic Assumptions)
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions

Investment Rate of Return	7.00%
Price Inflation	2.50%
Wage Growth Rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increase	2.85% to 8.85% before July 1, 2028 and 3.25 to 9.25% after June 30, 2028
Cost of Living Adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

Mortality Assumptions

Pre-Retirement:	RP-2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP-2015 scale.
Post-Retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-Disability	RP-2014 disabled retiree mortality table, without adjustment.

The following changes in actuarial assumptions occurred since the 2023 valuation:

The 2023 Tax Finance and Policy Bill, effective July 1, 2025:

The employer contribution rate will increase from 8.75% to 9.5% on July 1, 2025.

The employee contribution rate will increase from 7.75% to 8% on July 1, 2025.

The pension adjustment rate for school districts and the base budgets for Minnesota State, Perpich Center for Arts Education, and Minnesota Academies will increase to reflect the 0.75% employer contribution rate increase.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

F. ACTUARIAL ASSUMPTIONS (Cont'd)

TRA: (Cont'd)

The 2024 Omnibus Pensions and Retirement Bill:

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

TRA's amortization date will remain the same at 2048.

G. DISCOUNT RATE

GERP:

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

TRA:

The discount rate used to measure the total pension liability was 7%. There was no change in the discount rate since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2023 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

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 paragraphs, 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:

	GERP		TRA	
1% Lower	6.00%	\$ 1,058,497	6.00%	\$ 6,360,178
Current Discount Rate	7.00%	598,332	7.00%	3,987,756
1% Higher	8.00%	219,829	8.00%	2,045,640

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

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9. DEFINED BENEFIT PENSION PLAN - STATEWIDE (Cont'd)

I. PENSION PLAN FIDUCIARY NET POSITION

GERP:

Detailed information about the 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.mnpera.org.

TRA:

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

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. PLAN DESCRIPTION

The District operates a single-employer retiree benefit plan (the Plan) that provides health, dental, and life insurance to eligible employees and their spouses through the District's commercial insurance plans. There are 82 active participants and 2 retired participants. Benefit and eligibility provisions are established through negotiations between the District and employee groups including a union. The union contract is renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report. No assets are accumulated in a trust that meets all of the criteria in GASB Statement No. 75, paragraph 4.

B. TOTAL OPEB LIABILITY

The District's total OPEB liability of \$170,968 was measured as of July 01, 2024, and was determined by an actuarial valuation as of that date. Updated procedures were used to roll forward the total OPEB liability to June 30, 2024.

C. CHANGES IN TOTAL OPEB LIABILITY

Changes in the total OPEB liability were as follows:

	<u>Total OPEB Liability</u>
Beginning of Year	\$ 166,544
Changes for the year:	
Service Cost	20,699
Interest	3,873
Differences Between Expected and Actual Experience	1,392
Changes of Assumptions	(15,907)
Benefit Payments	(5,633)
Net changes	<u>4,424</u>
End of Year	<u>\$ 170,968</u>

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Cont'd)

C. CHANGES IN TOTAL OPEB LIABILITY (Cont'd)

Changes of assumptions and other inputs reflect a change in the discount rate from 2.10% in 2023 to 3.90% in 2024.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.90%) or 1-percentage-point higher (4.90%) than the current discount rate:

	1.0% Decrease in Discount Rate (2.90%)	Discount Rate (3.90%)	1.0% Increase in Discount Rate (4.90%)
Total OPEB Liability	\$ 181,786	\$ 170,968	\$ 160,706

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. 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-percentage-point lower (5.50% decreasing to 3.00%) or 1-percentage-point higher (7.50% decreasing to 5.00%) than the current healthcare cost trend rates:

	1.0% Decrease (5.50% decreasing to 3.00%)	Cost Trend Rates (6.50% decreasing to 4.00%)	1.0% Increase (7.50% decreasing to 5.00%)
Total OPEB Liability	\$ 154,564	\$ 170,968	\$ 190,638

D. OPEB EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended December 31, 2024, the District recognized OPEB expense of (\$29,056). At December 31, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 1,193	\$ 125,062
Changes in Actuarial Assumptions or Other Inputs	5,585	15,101
Contributions Paid Subsequent to Measurement Date	14,010	
Totals	\$ 20,788	\$ 140,163

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Cont'd)

D. OPEB EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB (Cont'd)

\$14,010 reported as deferred outflows of resources related to OPEB resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in OPEB expense as follows:

<u>Year ended June 30,</u>	<u>OPEB Expense Amount</u>
2025	\$ (53,625)
2026	(36,767)
2027	(36,768)
2028	(2,074)
2029	(2,074)
Thereafter	(2,077)

E. ACTUARIAL METHODS AND ASSUMPTIONS

The total OPEB liability in the July 1, 2023 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	Based on the most recently disclosed assumptions for the pension plan in which the employee participates.
Healthcare Cost Trend Rates	6.50% as of July 1, 2024, gradually decreasing over several decades to an ultimate rate of 4.0% for 2075 and later years.
Retiree's Share of Benefit-Related Costs	Assumed to increase with healthcare trend rates.

A discount rate of 3.90% was applied in the measurement of the total OPEB liability. The discount rate is based on the index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality rates were based on the Pub-2010 Public Retirement Plans Headcount- Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.

The actuarial assumptions used in the July 01, 2023 valuation were based on the results of an actuarial experience study for the period July 1, 2022– June 30, 2023.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 11. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The following is a summary of the major components of deferred outflows and inflows as presented in the Statement of Net Position:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions	\$ 1,196,783	\$ 613,848
Related to OPEB	20,788	140,163
Property Taxes Levied for Subsequent Year		1,493,614
Total	<u>\$ 1,217,571</u>	<u>\$ 2,247,625</u>

NOTE 12. COMMITMENTS AND CONTINGENCIES

A. LITIGATION

The District is not involved in any litigation as of the date of this report.

B. FEDERAL AND STATE PROGRAMS

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 fund. 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.

C. CONSTRUCTION CONTRACTS

The District has active construction projects as of June 30, 2024. The projects include the following:

	Original Contract	Remaining Commitment
Roof Replacement project	\$ 491,400	\$ 105,341

NOTE 13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers' compensation. To mitigate these risks, the District has obtained commercial property and casualty insurance and workers' compensation coverage. The District pays an annual premium with no additional assessments.

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

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 13. RISK MANAGEMENT (Cont'd)

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 14. CHANGES WITHIN THE FINANCIAL REPORTING ENTITY

During the fiscal year 2024, the debt service fund classification was changed from nonmajor to major according to the major fund calculation. Changes within the financial reporting entity resulted in adjustments to and restatements between beginning fund balances as follows:

	Debt Service	Nonmajor Funds
Fund Balance, Beginning of Year, as Originally Stated	\$	\$ 288,304
Adjustment - Changes within Reporting Entity	2,400	(2,400)
Fund Balance, Beginning of Year, as Restated	\$ 2,400	\$ 285,904

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REQUIRED SUPPLEMENTARY INFORMATION

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INDEPENDENT SCHOOL DISTRICT #2159

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2024

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer (a+b)	Employer's Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>Pensions</u>							
<u>GERP</u>							
6/30/2023	0.0107%	\$ 598,332	\$ 16,501	\$ 614,833	\$ 855,016	71.91%	83.10%
6/30/2022	0.0125%	990,004	29,100	1,019,104	940,288	108.38%	76.67%
6/30/2021	0.0134%	572,240	17,590	589,830	966,223	61.04%	87.00%
6/30/2020	0.0151%	905,314	27,978	933,292	1,081,128	86.33%	79.06%
6/30/2019	0.0157%	868,018	26,999	895,017	1,112,097	80.48%	80.23%
6/30/2018	0.0154%	854,329	28,014	882,343	1,041,735	84.70%	79.53%
6/30/2017	0.0152%	970,358	12,202	982,560	970,587	101.23%	75.90%
6/30/2016	0.0163%	1,323,479	17,272	1,340,751	1,018,640	131.62%	68.91%
6/30/2015	0.0157%	813,655		813,655	909,427	89.47%	78.19%
6/30/2014	0.0159%	746,902		746,902	872,611	85.59%	78.75%
<u>TRA</u>							
6/30/2023	0.0483%	3,987,756	279,427	4,267,183	3,110,865	137.17%	76.42%
6/30/2022	0.0468%	3,747,496	270,072	4,017,568	2,909,281	138.09%	76.17%
6/30/2021	0.0490%	2,144,387	180,744	2,325,131	2,891,413	80.42%	86.63%
6/30/2020	0.0512%	3,782,725	317,056	4,099,781	2,952,992	138.83%	75.48%
6/30/2019	0.0484%	3,085,026	273,102	3,358,128	2,783,891	120.63%	78.21%
6/30/2018	0.0455%	2,855,248	268,637	3,123,885	2,540,533	122.96%	78.07%
6/30/2017	0.0442%	8,823,122	853,384	9,676,506	2,477,149	390.63%	51.57%
6/30/2016	0.0456%	10,876,688	1,092,235	11,968,923	2,336,547	512.25%	44.88%
6/30/2015	0.0488%	3,018,763	370,376	3,389,139	2,400,360	141.19%	76.77%
6/30/2014	0.0560%	2,580,440	181,411	2,761,851	2,631,296	104.96%	81.50%

See Accompanying Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT #2159

SCHEDULE OF EMPLOYER CONTRIBUTIONS
JUNE 30, 2024

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
<u>Pensions</u>					
<u>GERP</u>					
6/30/2024	\$ 70,670	\$ 70,670		\$ 941,869	7.50%
6/30/2023	64,104	64,104		855,016	7.50%
6/30/2022	70,522	70,522		940,288	7.50%
6/30/2021	72,507	72,507		966,223	7.50%
6/30/2020	81,045	81,045		1,081,128	7.50%
6/30/2019	83,407	83,407		1,112,097	7.50%
6/30/2018	78,130	78,130		1,041,735	7.50%
6/30/2017	72,790	72,790		970,587	7.50%
6/30/2016	76,398	76,398		1,018,640	7.50%
6/30/2015	68,207	68,207		909,427	7.50%
<u>TRA</u>					
6/30/2024	282,504	282,504		3,230,360	8.75%
6/30/2023	265,979	265,979		3,110,865	8.55%
6/30/2022	242,634	242,634		2,909,281	8.34%
6/30/2021	235,072	235,072		2,891,413	8.13%
6/30/2020	233,877	233,877		2,952,992	7.92%
6/30/2019	214,638	214,638		2,783,892	7.71%
6/30/2018	190,540	190,540		2,540,533	7.50%
6/30/2017	185,786	185,786		2,477,149	7.50%
6/30/2016	175,241	175,241		2,336,547	7.50%
6/30/2015	180,027	180,027		2,400,360	7.50%

See Accompanying Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT #2159

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY
JUNE 30, 2024

	Measurement Date						
	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Service Cost	\$ 20,699	\$ 30,142	\$ 29,264	\$ 34,459	\$ 33,455	\$ 31,083	\$ 30,178
Interest	3,873	3,592	11,534	11,823	16,431	16,815	17,838
Changes in Benefit Terms					2,747		
Differences Between Expected and Actual Experience	1,392		(219,330)		(92,382)		
Changes in Assumptions	(15,907)		11,171		(8,791)		
Benefit Payments	(5,633)	(16,122)	(52,589)	(48,312)	(60,191)	(62,947)	(94,815)
Net Change in Total OPEB Liability	4,424	17,612	(219,950)	(2,030)	(108,731)	(15,049)	(46,799)
Total OPEB Liability - Beginning of Year	166,544	148,932	368,882	370,912	479,643	494,692	541,491
Total OPEB Liability - End of Year	<u>\$ 170,968</u>	<u>\$ 166,544</u>	<u>\$ 148,932</u>	<u>\$ 368,882</u>	<u>\$ 370,912</u>	<u>\$ 479,643</u>	<u>\$ 494,692</u>
Covered Employee Payroll	<u>\$ 3,849,911</u>	<u>\$ 3,788,302</u>	<u>\$ 3,677,963</u>	<u>\$ 3,862,990</u>	<u>\$ 3,750,476</u>	<u>\$ 3,487,555</u>	<u>\$ 3,385,976</u>
Total OPEB Liability as a % of Covered Employee Payroll	<u>4.44%</u>	<u>4.40%</u>	<u>4.05%</u>	<u>9.55%</u>	<u>9.89%</u>	<u>13.75%</u>	<u>14.61%</u>

The District implemented GASB Statement No. 75 for the year ended June 30, 2018. Information for prior years is not available.

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INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2024

NOTE 1. CHANGES IN PLAN PROVISIONS

A. GENERAL EMPLOYEE RETIREMENT PLAN (GERP)

2023 Changes:

An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.

The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.

The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.

A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 Changes:

There have been no changes since the prior valuation.

2021 Changes:

There have been no changes since the prior valuation.

2020 Changes:

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

2019 Changes:

The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes:

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 4.00 percent to 3.00 percent, beginning July 1, 2018.

Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

Contribution stabilizer provisions were repealed.

Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, 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.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2024

NOTE 1. CHANGES IN PLAN PROVISIONS (Cont'd)

A. GENERAL EMPLOYEE RETIREMENT PLAN (GERP) (Cont'd)

2018 Changes: (Cont'd)

Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes:

The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.

The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes:

There have been no changes since the prior valuation.

2015 Changes:

On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

2014 Changes:

There have been no changes since the prior valuation.

B. TEACHERS RETIREMENT ASSOCIATION (TRA)

2023 Changes:

Effective July 1, 2025, the normal retirement age for Tier 2 members will decrease from 66 to 65.

The employer contribution rate will increase from 8.75% to 9.50% on July 1, 2025.

The employee contribution rate will increase from 7.75% to 8.00% on July 1, 2025

2022 Changes:

There have been no changes since the prior valuation.

2021 Changes:

There have been no changes since the prior valuation.

2020 Changes:

There have been no changes since the prior valuation.

2019 Changes:

There have been no changes since the prior valuation.

2018 Changes:

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 1, 2028.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2024

NOTE 1. CHANGES IN PLAN PROVISIONS (Cont'd)

B. TEACHERS RETIREMENT ASSOCIATION (TRA) (Cont'd)

2018 Changes: (Cont'd)

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 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2017 Changes:

There have been no changes since the prior valuation.

2016 Changes:

There have been no changes since the prior valuation.

2015 Changes:

The Duluth Teachers Retirement Fund Association was merged into TRA on June 30, 2015. This also resulted in an additional state-provided contribution stream of \$14.377 million until the System becomes fully funded.

2014 Changes:

The increase in the post-retirement benefit adjustment (COLA) is to be made once the System is 90% funded (on a market value basis) in two consecutive years, rather than just one year.

C. OTHER POST-EMPLOYMENT BENEFITS PLAN (OPEB) NOT ADMINISTERED IN A TRUST

2023 Changes:

There have been no changes since the prior valuation.

2022 Changes:

There have been no changes since the prior valuation.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2024

NOTE 1. CHANGES IN PLAN PROVISIONS (Cont'd)

C. OTHER POST-EMPLOYMENT BENEFITS PLAN (OPEB) NOT ADMINISTERED IN A TRUST (Cont'd)

2021 Changes:

The Principals no longer receive GASB 75 subsidized benefits. Since both Principals are new hires, they have not accrued a liability yet. Therefore, the impact of this change on the liability as of the valuation date is \$0.

2020 Changes:

There have been no changes since the prior valuation.

2019 Changes:

Principals who retire after attaining age 56 with 10 years of service will receive up to \$40,000 (paid in four equal annual installments) toward the district's medical insurance. They also will receive district paid life insurance premiums, based on the life insurance amount in effect at the time of retirement, until the earlier of 9 years or age 65.

2018 Changes:

There have been no changes since the prior valuation.

2017 Changes:

There have been no changes since the prior valuation.

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS

A. GENERAL EMPLOYEE RETIREMENT PLAN (GERP)

2023 Changes:

The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

2022 Changes:

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

2021 Changes:

The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.

The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 Changes:

The price inflation assumption was decreased from 2.50% 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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2024

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

A. GENERAL EMPLOYEE RETIREMENT PLAN (GERP) (Cont'd)

2020 Changes: (Cont'd)

Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.

Assumed rates of termination were 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 years 2-5 and slightly higher thereafter.

Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.

The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.

The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.

The assumed spouse age difference was changed from two years older for females to one year older.

The assumed number of married male new retirees electing the 100% Joint & 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.

2019 Changes:

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

2018 Changes:

The mortality projection was changed from MP-2015 to MP-2017.

The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

2017 Changes:

The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.

The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes:

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 years.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2024

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

A. GENERAL EMPLOYEE RETIREMENT PLAN (GERP) (Cont'd)

2016 Changes: (Cont'd)

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 2.50% for inflation.

2015 Changes:

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

B. TEACHERS RETIREMENT ASSOCIATION (TRA)

2023 Changes:

The investment return assumption was changed from 7.50% to 7.00%. This does not affect the GASB valuation which was already using the 7.00% assumption.

2022 Changes:

There have been no changes since the prior valuation.

2021 Changes:

The investment return assumption was changed from 7.50% to 7.00%.

2020 Changes:

Assumed termination rates were changed to more closely reflect actual experience.

The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back 5 years and female rates set back 7 years. Generational projection uses the MP-2015 scale.

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

2019 Changes:

There have been no changes since the prior valuation.

2018 Changes:

The investment return assumption was changed from 8.50% to 7.50%.

The price inflation assumption was lowered from 3.00% to 2.50%.

The payroll growth assumption was lowered from 3.50% to 3.00%.

The wage inflation assumption (above price inflation) was reduced from 0.75% to 0.35% for 10 years followed by 0.75%, thereafter.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2024

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

B. TEACHERS RETIREMENT ASSOCIATION (TRA) (Cont'd)

2018 Changes: (Cont'd)

The total salary increase assumption was adjusted by the wage inflation change.

The amortization date for the funding of the Unfunded Actuarial Accrued Liability (UAAL) was reset to June 30, 2048 (30 years).

A mechanism in the law that provided the TRA Board with some authority to set contribution rates was eliminated.

2017 Changes:

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 8.00% to 7.50%.

The price inflation assumption was lowered from 2.75% to 2.50%.

The payroll growth assumption was lowered from 3.50% to 3.00%.

The general wage growth assumption was lowered from 3.50% to 2.85% for 10 years followed by 3.25%, thereafter.

The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes:

The price inflation assumption was lowered from 3.00% to 2.75%.

The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.50%.

Minor changes at some durations for the merit scale of the salary increase assumption.

The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back 6 years and female rates set back 5 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 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.

The post-disability mortality assumption was changed to the RP-2014 disabled retiree mortality table, without adjustment.

Separate retirement assumptions for members hired before or after July 1, 1989 were created to better reflect each group's behavior in light of different requirements for retirement eligibility.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2024

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

B. TEACHERS RETIREMENT ASSOCIATION (TRA) (Cont'd)

2016 Changes: (Cont'd)

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 forms of payment at retirement were made.

2015 Changes:

The Cost of Living Adjustment was not assumed to increase to 2.5%, but remain at 2.0% for all future years.

The investment return assumption was changed from 8.25% to 8.00%.

2014 Changes:

The Cost of Living Adjustment was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2034.

C. OTHER POST-EMPLOYMENT BENEFITS PLAN (OPEB) NOT ADMINISTERED IN A TRUST

2023 Changes:

The health care trend rates are mortality tables were updated.

The retirement, withdrawal, and salary increase rates for public safety employees were updated.

The inflation rate was changed from 2.00% to 2.50%

The discount rate was changed from 2.10% to 3.90%.

2022 Changes:

There have been no changes since the prior valuation.

2021 Changes:

The health care trend rates were changed to better anticipate short term and long term medical increases.

The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale.

The salary increase rates for non-teachers were updated to reflect the latest experience study.

The withdrawal rates were updated to reflect the latest experience study.

The inflation rate was changed from 2.50% to 2.00%.

The discount rate was changed from 3.10% to 2.10%.

INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2024

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

C. OTHER POST-EMPLOYMENT BENEFITS PLAN (OPEB) NOT ADMINISTERED IN A TRUST (Cont'd)

2021 Changes: (Cont'd)

These changes increased the liability \$11,171.

2020 Changes:

There have been no changes since the prior valuation.

2019 Changes:

The health care trend rates, mortality tables, and salary increase rates were updated.

The discount rate was changed from 3.40% to 3.10%.

2018 Changes:

There have been no changes since the prior valuation.

2017 Changes:

The health care trend rates were changed to better anticipate short term and long term medical increases.

The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.

The discount rate was changed from 3.50% to 3.40%.

The percentage of future spouses of retirees who are assumed to continue on one of the District's medical plans post-employment was reduced from 25% to 10%.

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SUPPLEMENTARY INFORMATION

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INDEPENDENT SCHOOL DISTRICT #2159

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2024

	Special Revenue Funds			Capital Projects Funds	Total Nonmajor Funds
	Food Service	Community Service	Total	Building Construction	
ASSETS					
Cash and Investments	\$ 54,604	\$ 241,636	\$ 296,240	\$ 363,971	\$ 660,211
Receivables					
Accounts		8,830	8,830		8,830
Current Property Taxes		26,585	26,585		26,585
Delinquent Property Taxes		1,650	1,650		1,650
Due from Other Governments					
State Department of Education		2,726	2,726		2,726
Other Governmental Units		223	223		223
Inventory	6,701		6,701		6,701
Prepaid Items	1,142	838	1,980		1,980
Total Assets	\$ 62,447	\$ 282,488	\$ 344,935	\$ 363,971	\$ 708,906
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities					
Payables					
Accounts	\$	\$ 4,142	\$ 4,142	\$	\$ 4,142
Contracts				100,985	100,985
Salaries and Payroll Deductions	201	34,294	34,495		34,495
Unearned Revenue	3,553	4,081	7,634		7,634
Total Liabilities	3,754	42,517	46,271	100,985	147,256
Deferred Inflows of Resources					
Property Taxes Levied for Subsequent Year		56,353	56,353		56,353
Unavailable Revenue - Delinquent Property Taxes		1,650	1,650		1,650
Total Deferred Inflows of Resources	0	58,003	58,003	0	58,003
Fund Balance					
Nonspendable	1,142	838	1,980		1,980
Restricted	57,551	252,178	309,729	262,986	572,715
Unassigned		(71,048)	(71,048)		(71,048)
Total Fund Balance	58,693	181,968	240,661	262,986	503,647
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 62,447	\$ 282,488	\$ 344,935	\$ 363,971	\$ 708,906

INDEPENDENT SCHOOL DISTRICT #2159

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2024

	Special Revenue Funds			Capital Projects Funds	(Formerly Nonmajor)	Total
	Food Service	Community Service	Total	Building Construction	Debt Service	Nonmajor Funds
REVENUES						
Local Property Tax Levies	\$	\$ 55,323	\$ 55,323	\$	\$	\$ 55,323
Other Local and County Revenues	111	335,627	335,738	213		335,951
Revenue from State Sources	104,594	120,147	224,741			224,741
Revenue from Federal Sources	200,152	6,669	206,821			206,821
Sales and Other Conversions of Assets	26,583		26,583			26,583
Recovery & Reimbursements		4,934	4,934			4,934
Total Revenues	331,440	522,700	854,140	213	0	854,353
EXPENDITURES						
Current						
Community Education and Services		652,416	652,416			652,416
Pupil Support Services	337,210		337,210			337,210
Sites and Buildings				487,044		487,044
Capital Outlay						
Community Education and Services		399	399			399
Pupil Support Services	9,358		9,358			9,358
Debt Service						
Interest and Fiscal Charges				18,221		18,221
Total Expenditures	346,568	652,815	999,383	505,265	0	1,504,648
Excess (Deficiency) of Revenues Over (Under) Expenditures	(15,128)	(130,115)	(145,243)	(505,052)	0	(650,295)
OTHER FINANCING SOURCES (USES)						
Transfers In		100,000	100,000			100,000
Bonds Issued				745,000		745,000
Bond Premium				23,038		23,038
Total Other Financing Sources (Uses)	0	100,000	100,000	768,038	0	868,038
Net Change in Fund Balances	(15,128)	(30,115)	(45,243)	262,986	0	217,743
FUND BALANCE, BEGINNING OF YEAR, AS ORIGINALLY STATED	73,821	212,083	285,904		2,400	288,304
Adjustment - Changes within Reporting Entity					(2,400)	(2,400)
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED	73,821	212,083	285,904	0	0	285,904
FUND BALANCE, END OF YEAR	\$ 58,693	\$ 181,968	\$ 240,661	\$ 262,986	\$ 0	\$ 503,647

INDEPENDENT SCHOOL DISTRICT #2159

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOOD SERVICE SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2024
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2023

	2024				
	Budgeted Amounts			Over (Under)	
	Original	Final	Actual	Final Budget	2023 Actual
REVENUES					
Other Local and County Revenues	\$	\$ 100	\$ 111	\$ 11	\$ 2,788
Revenue from State Sources					
State School Lunch Aid	130,000	100,000	91,070	(8,930)	8,163
State Breakfast Aid	2,000	9,000	12,716	3,716	2,080
State Kindergarten Milk	700	700	808	108	884
Total Revenue from State Sources	132,700	109,700	104,594	(5,106)	11,127
Revenue from Federal Sources					
School Lunch Program	94,400	103,750	40,334	(63,416)	117,626
Free-Reduced Lunch Aid	4,000	33,942	100,553	66,611	44,478
Breakfast Aid	25,000	20,000	24,038	4,038	19,094
USDA Commodities			34,820	34,820	22,966
Special Milk	400	300	407	107	464
Child and Adult Care Food Program		200		(200)	
Total Revenue from Federal Sources	123,800	158,192	200,152	41,960	204,628
Sales and Other Conversion of Assets	44,300	44,300	26,583	(17,717)	112,826
Total Revenues	300,800	312,292	331,440	19,148	331,369
EXPENDITURES					
Current					
Pupil Support Services					
Salaries and Wages	123,312	124,963	116,372	(8,591)	103,281
Employee Benefits	27,805	20,379	18,535	(1,844)	22,662
Purchased Services	4,532	1,000	740	(260)	702
Supplies and Materials	177,568	189,680	199,769	10,089	180,257
Other Expenditures	2,500	1,800	1,794	(6)	1,582
Total Current	335,717	337,822	337,210	(612)	308,484
Capital Outlay					
Pupil Support Services		9,359	9,358	(1)	122,754
Total Expenditures	335,717	347,181	346,568	(613)	431,238
Net Change in Fund Balances	\$ (34,917)	\$ (34,889)	(15,128)	\$ 19,761	(99,869)
FUND BALANCE, BEGINNING OF YEAR			73,821		173,690
FUND BALANCE, END OF YEAR			\$ 58,693		\$ 73,821

INDEPENDENT SCHOOL DISTRICT #2159

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
COMMUNITY SERVICE SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2024
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2023

	2024			Over (Under)	
	Budgeted Amounts			Final	2023
	Original	Final	Actual	Budget	Actual
REVENUES					
Local Property Tax Levies					
Tax Levy	\$ 59,189	\$ 53,588	\$ 55,323	\$ 1,735	\$ 54,969
Other Local and County Revenues					
Tuition, Fees and Admissions	247,000	245,400	320,923	75,523	306,181
Other Local and County Revenues	10,000	17,019	14,704	(2,315)	43,233
Total Other Local and County Revenues	257,000	262,419	335,627	73,208	349,414
Revenue from State Sources					
Early Childhood	2,307	1,443	1,858	415	2,405
Learning Readiness	17,000	20,206	20,206		18,685
Disparity Aid	3,620	4,293	4,293		4,021
Market Value Credit		1,308	1,308		1,368
Other State Revenues	100,852	85,562	92,482	6,920	100,005
Total Revenue from State Sources	123,779	112,812	120,147	7,335	126,484
Revenue from Federal Sources					
CACFP	10,000	9,500	6,669	(2,831)	10,351
Other Federal Revenues					84,957
Total Revenue from Federal Sources	10,000	9,500	6,669	(2,831)	95,308
Recovery & Reimbursements			4,934	4,934	
Total Revenues	449,968	438,319	522,700	84,381	626,175
EXPENDITURES					
Current					
Community Education and Services					
Salaries and Wages	401,553	520,702	477,751	(42,951)	370,307
Employee Benefits	103,119	130,781	113,829	(16,952)	80,380
Purchased Services	40,039	33,723	29,604	(4,119)	54,341
Supplies and Materials	38,273	30,847	25,360	(5,487)	35,864
Other Expenditures	450	2,209	5,872	3,663	4,032
Total Current	583,434	718,262	652,416	(65,846)	544,924

INDEPENDENT SCHOOL DISTRICT #2159

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 COMMUNITY SERVICE SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2024
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2023

	2024				
	Budgeted Amounts			Over (Under)	
	Original	Final	Actual	Final Budget	2023 Actual
EXPENDITURES (Cont'd)					
Capital Outlay					
Community Education and Services	\$ 5,000	\$ 400	\$ 399	\$ (1)	\$ 39,670
Total Expenditures	588,434	718,662	652,815	(65,847)	584,594
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(138,466)	(280,343)	(130,115)	150,228	41,581
OTHER FINANCING SOURCES (USES)					
Transfers In	50,000	50,000	100,000	50,000	
Net Change in Fund Balances	\$ (88,466)	\$ (230,343)	(30,115)	\$ 200,228	41,581
FUND BALANCE, BEGINNING OF YEAR			212,083		170,502
FUND BALANCE, END OF YEAR			\$ 181,968		\$ 212,083

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REQUIRED REPORTS

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INDEPENDENT SCHOOL DISTRICT #2159

UFARS COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2024

	AUDITED	UFARS	DIFFERENCE		AUDITED	UFARS	DIFFERENCE
<u>01 GENERAL FUND</u>				<u>06 BUILDING CONSTRUCTION</u>			
Total Revenue	\$ 7,695,256	\$ 7,695,255	\$ 1	Total Revenue	\$ 213	\$ 213	\$
Total Expenditures	7,980,065	7,980,064	1	Total Expenditures	505,265	505,265	
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable	156,769	156,769		460 Nonspendable			
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
401 Student Activities	90,021	90,021		407 Capital Projects Levy			
402 Scholarships	155	155		409 Alternative Facilities Program			
403 Staff Development				413 Project Funded by COP/LP			
407 Capital Projects Levy				467 LTFM	262,986	262,986	
408 Cooperative Programs				<i>Restricted:</i>			
412 Literacy Incentive Aid	20,904	20,904		464 Restricted			
413 Project Funded by COP				<i>Unassigned:</i>			
414 Operating Debt				463 Unassigned			
416 Levy Reduction							
417 Taconite Building Maintenance				<u>07 DEBT SERVICE</u>			
424 Operating Capital	77,640	77,640		Total Revenue	66,587	66,588	(1)
426 \$25 Taconite				Total Expenditures	63,046	63,046	
427 Disabled Accessibility				<i>Restricted/Reserved:</i>			
428 Learning & Development				425 Bond Refundings			
434 Area Learning Center				451 QZAB and QSCB Payments			
435 Contracted Alt. Programs				<i>Restricted:</i>			
436 State Approved Alt. Programs				464 Restricted	5,941	5,942	(1)
438 Gifted & Talented	66,035	66,035		<i>Unassigned:</i>			
440 Teacher Development				463 Unassigned			
441 Basic Skills Programs							
448 Achievement & Integration				<u>08 TRUST</u>			
449 Safe Schools - Crime Levy				Total Revenue			
451 QZAB and QSCB Payments				Total Expenditures			
452 OPEB Liab Not Held in a Trust				<i>Unassigned:</i>			
453 Unfunded Sev & Retirement Levy				422 Unassigned			
459 Basic Skills Ext Time							
467 LTFM	381,576	381,576		<u>18 CUSTODIAL</u>			
471 Student Support Personnel	24,667	24,667		Total Revenue	500	500	
472 Medical Assistance				Total Expenditures			
473 PPP Loans				<i>Restricted/Reserved:</i>			
474 EIDL Loans				402 Scholarships	43,531	43,531	
<i>Restricted:</i>							
464 Restricted				<u>20 INTERNAL SERVICE</u>			
<i>Committed:</i>				Total Revenue			
418 Separation/Retirement Benefits				Total Expenditures			
461 Committed				<i>Unassigned:</i>			
<i>Assigned:</i>				422 Net Assets			
462 Assigned							
<i>Unassigned:</i>				<u>25 OPEB REVOCABLE TRUST</u>			
422 Unassigned	1,523,312	1,523,311	1	Total Revenue			
<u>02 FOOD SERVICE</u>				(1) Total Expenditures			
Total Revenue	331,440	331,441	(1)	(2) <i>Unassigned:</i>			
Total Expenditures	346,568	346,570	(2)	422 Net Assets			
<i>Nonspendable:</i>							
460 Nonspendable	1,142	1,142		<u>45 OPEB IRREVOCABLE TRUST</u>			
<i>Restricted/Reserved:</i>				Total Revenue			
452 OPEB Liab Not Held in a Trust				Total Expenditures			
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted	57,551	57,551		422 Net Assets			
<i>Unassigned:</i>							
463 Unassigned				<u>47 OPEB DEBT SERVICE</u>			
<u>04 COMMUNITY SERVICE</u>				Total Revenue			
Total Revenue	522,700	522,699	1	Total Expenditures			
Total Expenditures	652,815	652,818	(3)	<i>Restricted:</i>			
<i>Nonspendable:</i>				464 Restricted			
460 Nonspendable	838	838		<i>Unassigned:</i>			
<i>Restricted/Reserved:</i>				463 Unassigned			
426 \$25 Taconite							
431 Community Education	89,006	89,006					
432 E.C.F.E	95,019	95,019					
444 School Readiness	19,679	19,679					
447 Adult Basic Education	2,712	2,712					
452 OPEB Liab Not Held in a Trust							
<i>Restricted:</i>							
464 Restricted	45,762	45,762					
<i>Unassigned:</i>							
463 Unassigned	(71,048)	(71,049)	1				

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INDEPENDENT SCHOOL DISTRICT #2159

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2024

Federal Grantor / Pass-Through Grantor/ Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Agriculture			
Minnesota Department of Education			
Child Nutrition Cluster:			
National School Lunch Program:			
Regular Lunch			\$ 23,139
Free and Reduced Lunch			100,553
After School Snack			799
Food Distribution (Commodities-noncash)			34,820
Supply Chain Assistance Funding			16,396
Total National School Lunch Program	10.555	0000347170	175,707
Special Milk Program for Children	10.556	0000347170	407
School Breakfast Program	10.553	0000347170	24,038
Total Child Nutrition Cluster			200,152
Child and Adult Care Food Program	10.558	0000347170	6,669
Pandemic EBT Administrative Costs	10.649	0000347170	3,256
Total U.S. Department of Agriculture			210,077
U.S. Department of Education			
Minnesota Department of Education			
Title I, Part A - Grants to Local Educational Agencies	84.010	0000347170	127,611
Rural Education	84.358	0000347170	44,796
Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act			
American Rescue Plan Elementary and Secondary School Emergency Relief Fund	84.425U *	0000347170	362,317
Total Minnesota Department of Education			534,724
SW/WC Service Cooperative			
Career and Technical Education - Basic Grants to States			
Basic Grants to States	84.048A	Not Assigned	10,698
Total U.S. Department of Education			545,422
Total Federal Awards			\$ 755,499

* Denotes Major Program

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INDEPENDENT SCHOOL DISTRICT #2159

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2024

NOTE 1. REPORTING ENTITY

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Independent School District #2159. The District's reporting entity is defined in Note 1 to the financial statements.

NOTE 2. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Independent School District #2159 under programs of the federal government for the year ended June 30, 2024. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the District.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, Subpart E - Cost Principles, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 4. FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed.

NOTE 5. SUBRECIPIENTS

During the year ended June 30, 2024, the District did not pass any federal money to subrecipients.

NOTE 6. DE MINIMIS COST RATE

The District elected not to charge the de minimis indirect cost rate of 10% to Federal programs.

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COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To The Board of Education
Independent School District #2159
Hector, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Independent School District #2159's basic financial statements, and have issued our report thereon dated December 20, 2024.

In connection with our audit, we noted that the District failed to comply with the provisions of the contract and bidding 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 item 2024-005. Also, in connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of depositories of public funds and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and uniform financial accounting and reporting standards sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
WILLMAR, MINNESOTA

December 20, 2024

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

To The Board of Education
Independent School District #2159
Hector, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #2159, Buffalo Lake, Minnesota, as of and for the year ended June 30, 2024, 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 20, 2024.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness and significant deficiencies. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2024-001, 2024-002, 2024-003, and 2024-004 that we consider to be significant deficiencies.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Independent School District #2159, the District's response to the findings identified in our audit and 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 the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
WILLMAR, MINNESOTA

December 20, 2024



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To The Board of Education
Independent School District #2159
Hector, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Independent School District #2159's compliance with the types of compliance requirements as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2024. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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 over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Report on Internal Control Over Compliance (Cont'd)

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

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

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
WILLMAR, MINNESOTA

December 20, 2024

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INDEPENDENT SCHOOL DISTRICT #2159

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2024

I. SUMMARY OF AUDIT RESULTS

A. FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
- Material weakness(es) identified?	
- Significant deficiencies identified that are not considered to be material weakness(es)?	2024-001, 2024-002, 2024-003, and 2024-004
Noncompliance material to financial statements noted?	No

B. FEDERAL AWARDS

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
- Material weakness(es) identified?	No
- Significant deficiencies identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Part 200 of the Uniform Guidance?	No

C. IDENTIFICATION OF MAJOR PROGRAMS

Assistance Listing No.:	84.425U
Name of Federal Program or Cluster:	Education Stabilization Fund
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	No

INDEPENDENT SCHOOL DISTRICT #2159

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2024

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

FINDING: 2024-001 LIMITED SEGREGATION OF DUTIES

Condition: There is an absence of appropriate segregation of duties consistent with appropriate control objectives due to a limited number of employees.

Criteria: The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction. The lack of such controls could result in the occurrence of a material error or fraud in relation to the financial statements not being detected by management.

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

Cause: The District has assigned duties to staff based on a cost-benefit relationship to the District and the practicality of the level of staffing the District maintains.

Recommendation: The District should continue to monitor and evaluate the job responsibilities assigned to staff to determine whether there is an unacceptable risk.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:
There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District is aware of the limited segregation of duties and will continue to review internal controls and make changes when they can be made.

Officials Responsible for Ensuring CAP:

Eileen Koeberl, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

June 30, 2025

Plan to Monitor Completion of CAP:

The Board of Education will monitor the completion of this corrective action plan.

INDEPENDENT SCHOOL DISTRICT #2159

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2024

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (Cont'd)

FINDING: 2024-002 AUDITOR PREPARED FINANCIAL STATEMENTS

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements and the related notes being audited. However, based on the degree of complexity and level of detail needed to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), the District has requested the auditors to prepare them.

Criteria: The preparation of the financial statements and the related notes are the responsibility of management.

Cause: There are a limited number of office employees and resources available to allow for the adequate preparation of the financial statements and the related notes by the District.

Effect: This could result in a material misstatement to the financial statements and related notes that would not be prevented, or detected and corrected as a result of the District's current internal control.

Recommendation: The District should continue to request the assistance to draft the financial statements and related notes and thoroughly review these financial statements after they have been prepared so the District can take responsibility for them.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:
There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will continue to provide all of the financial information to the auditing firm for the financial reports. Upon completion of the annual audit by the auditing firm on the financial data, the District will work to develop a policy and plan to prepare the necessary financial reports as part of the annual audit.

Official Responsible for Ensuring CAP:

Eileen Koeberl, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

June 30, 2025

Plan to Monitor Completion of CAP:

The Board of Education will monitor the completion of this corrective action plan.

INDEPENDENT SCHOOL DISTRICT #2159

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2024

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (Cont'd)

FINDING: 2024-003 MATERIAL AUDIT ADJUSTMENTS

Condition: The audit firm proposed and the District approved corrections of certain misstatements.

Criteria: The District should have controls in place to prevent, or detect and correct a material misstatement in the financial statements in a timely manner.

Cause: The District has not established controls to ensure that all accounts are adjusted to their appropriate year end balances in accordance with GAAP.

Effect: No effect on the financial statements.

Recommendation: The District should continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will continue to review and approve adjusting journal entries as proposed by the auditor, as well as taking responsibility for the audited financial statements.

Official Responsible for Ensuring CAP:

Eileen Koeberl, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date of CAP:

June 30, 2025

Plan to Monitor Completion of CAP:

The Board of Education will monitor the completion of this corrective action plan.

INDEPENDENT SCHOOL DISTRICT #2159

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2024

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (Cont'd)

FINDING: 2024-004 PAYROLL INTERNAL CONTROLS

Condition: The District does not have controls in place to ensure all payroll items are accurately stated.

Criteria: The District should have controls in place to prevent, or detect and correct any payroll misstatements in the financial statements in a timely manner.

Cause: The District has not established controls to ensure that all accounts are adjusted to their appropriate year end balances in accordance with GAAP.

Effect: This could result in a material misstatement to the financial statements and related notes that would not be prevented, or detected and corrected as a result of the District's current internal control.

Recommendation: The District should evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:
There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will review processes surrounding the payroll procedures and implement any necessary controls to prevent and/or detect misstatements.

Official Responsible for Ensuring CAP:

Eileen Koeberl, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date of CAP:

June 30, 2025

Plan to Monitor Completion of CAP:

The Board of Education will monitor the completion of this corrective action plan.

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

None

INDEPENDENT SCHOOL DISTRICT #2159

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2024

IV. FINDINGS RELATED TO MINNESOTA LEGAL COMPLIANCE

FINDING: 2024-005 CONTRACTING AND BIDDING PROCESS

Conditions: The District does not have procedures in place to ensure a withholding affidavit is received before making final payments to contractors.

Criteria: The District should have controls in place to ensure they are in compliance with Minnesota Statutes for Contract - Bid Laws. Minnesota Statutes §270C.66 requires the District to obtain a certificate by the Commissioner of Revenue that the contractor has complied with the withholding requirements of Minnesota Statutes §290.92, before making final settlements with any contractor under a contract requiring the employment of employees for wages.

Cause: The District does not have controls in place to ensure compliance with this requirement of Minnesota Statutes.

Effect: The District is not in compliance with Minnesota Statutes.

Recommendation: We recommend the District enforce a process for complying with Minnesota Statutes to ensure they obtain the withholding certificate prior to making final payments to a contractor.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will also ensure a withholding of affidavit is obtained before making final payments to contractors.

Official Responsible for Ensuring CAP:

Eileen Koeberl, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date of CAP:

June 30, 2025

Plan to Monitor Completion of CAP:

The Board of Education will monitor the completion of this corrective action plan.

INDEPENDENT SCHOOL DISTRICT #2159

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2024

<u>Finding Reference</u>	<u>Finding Title</u>	<u>Status</u>	<u>Year Finding Initially Occurred</u>	<u>If Not Corrected, Provide Planned Corrective Action or Other Explanation</u>
Financial Statement Findings:				
2023-001	Limited Segregation of Duties	Not Corrected	2007	See current year finding 2024-001
2023-002	Auditor Prepared Financial Statements	Not Corrected	2020	See current year finding 2024-002
2023-003	Material Audit Adjustments	Not Corrected	2020	See current year finding 2024-003
Minnesota Legal Compliance Findings:				
2023-004	Contracting and Bidding Process	Not Corrected	2023	See current year finding 2024-005