

**Independent School District No. 277
Minnetrista, Minnesota**

Basic Financial Statements

June 30, 2026

Independent School District No. 277
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**Independent School District No. 277
Board of Education and Administration
June 30, 2026**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Gary Wollner	Chairperson	January 1, 2030
Heidi Marty	Vice-Chair	January 1, 2028
Loren Davis	Clerk	January 1, 2030
Ralph Harrison	Treasurer	January 1, 2028
Brian Roath	Director	January 1, 2028
David Olson	Director	January 1, 2028
Brian Carlson	Director	January 1, 2030

<u>Administration</u>	
Kevin Borg	Superintendent
Mark Femrite	Assistant Superintendent for Teaching and Learning
Kathy Miller	Director of Finance
Scott Lhotka	Director of Community Education
Cory Wolf	Director of Technology Services
Emily Rustman	Director of Special Services
Jolene Herfel	Principal - Mound Westonka High School
Christy Keeley-Zachow	Principal - Grandview Middle School
Scott Eidsness	Principal - Shirley Hills Primary
Mike Moch	Principal - Hilltop Primary

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Independent Auditor's Report

To the School Board
Independent School District No. 277
Minnetrista, Minnesota

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2026, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of June 30, 2026, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independent School District No. 277 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

The District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 103, Financial Reporting Model Improvements, as discussed in Note 1. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The management of Independent School District No. 277 is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2026, on our consideration of the District's internal control over basic financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV, Ltd.

Minneapolis, Minnesota
October 6, 2026

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Independent School District No. 277 Management's Discussion and Analysis

The purpose of management's discussion and analysis (MD&A) is to help District residents, taxpayers, and other readers understand what the financial statements and notes in this financial report say about the financial health of Independent School District No. 277 (the "District") and why it changed since last year. It contains information drawn from those other parts of the report, accompanied by explanations informed by the business office's knowledge of the District's finances. This discussion covers the year ended June 30, 2026, with comparisons to the year ended June 30, 2025. The District is applying Governmental Accounting Standards Board (GASB) Statement No. 103, Financial Reporting Model Improvements, for the first time this year, so this MD&A is organized differently than in prior years.

If there are questions about this report or need additional financial information, contact the Business Services Office, Westonka Public Schools, Independent School District No. 277, Educational Service Center, 5901 Sunnyfield Road East, Minnetrista, Minnesota 55364, (952) 491-8021.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial report contains basic financial statements. Those financial statements present the District's finances at both an overall and a detailed level. The first two, the government-wide financial statements, cover the District's governmental activities. The District has no business-type activities and no discretely presented component units.

- Governmental activities comprise all of the District's basic services, such as regular and special education, transportation, administration, food service, and community education. Governmental activities are financed primarily by property taxes paid by District taxpayers and by state aid based on the statewide education aid formula.

The remaining basic financial statements present the District's finances in greater detail and present fiduciary activities. As their name implies, the fund financial statements disaggregate financial information by separate funds to report on the specific purposes for which resources are used or for which they are restricted. The District reports three groups of funds:

- Governmental fund financial statements report all of the governmental activities except the postemployment benefits activity described below. In addition to the District's main operating fund, the General Fund, those statements report a Debt Service Fund to record the repayment of outstanding bonds, a Building Construction Fund to account for bond proceeds used to construct and improve District facilities, and two nonmajor special revenue funds, the Food Service Fund and the Community Service Fund.
- Proprietary fund financial statements report the Postemployment Benefits Revocable Trust Internal Service Fund, which charges District funds for postemployment benefits and holds resources available to pay the related liabilities. The Internal Service Fund also includes Self-Insured Benefits. Because it serves other District funds, it is included in governmental activities in the government-wide financial statements.
- Fiduciary fund financial statements report resources for which the District acts as a trustee or custodian, which is the Scholarship Custodial Fund. The resources in that fund do not belong to the District and cannot be used to provide services, which is why they are not included in the government-wide financial statements.

**Independent School District No. 277
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The next section of this financial report contains notes to the financial statements, which provide more detail about the information in the financial statements, explain how amounts were determined, and report certain information that does not meet the requirements for inclusion in the financial statements. The information in the notes is as important to understanding the District's finances as the information in the financial statements.

Types of Information in the Financial Statements

The government-wide financial statements and the proprietary fund financial statements use the economic resources measurement focus and the accrual basis of accounting. They report all of the District's assets, such as cash and school buildings; liabilities, such as outstanding bonds and the District's net obligations for pensions and other postemployment benefits (OPEB); deferred outflows and deferred inflows of resources, which are flows that will not be reported as expenses and revenues until the future year to which they relate; and the revenues and expenses of the current year, regardless of when cash is received or paid.

The governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting to report the sources, uses, and balances of resources available to be spent in the near term. They do not report capital assets or long-term debt, but they do report the related flows of current financial resources, such as bond proceeds, construction spending, and principal and interest payments on bonds. Reconciliations that follow the governmental fund financial statements explain the differences between the fund statements and the government-wide statements, and more detail on the bases of accounting is in Note 1.

**Independent School District No. 277
Management's Discussion and Analysis**

ANALYSIS OF THE DISTRICT'S FINANCES

**Table 1
Statement of Net Position
Governmental Activities**

	2025	2026	Percentage Change 2025-26
Assets			
Current and other assets	\$ 77,551,943	\$ 95,176,395	22.7%
Capital assets	75,965,731	117,949,582	55.3%
Total assets	<u>153,517,674</u>	<u>213,125,977</u>	<u>38.8%</u>
Deferred Outflow of Resources			
Deferred outflows	<u>6,018,962</u>	<u>5,374,255</u>	<u>-10.7%</u>
Liabilities			
Long-term liabilities	\$ 88,749,678	\$ 140,832,634	58.7%
Other liabilities	13,923,451	17,476,662	25.5%
Total liabilities	<u>102,673,129</u>	<u>158,309,296</u>	<u>54.2%</u>
Deferred Inflow of Resources			
Deferred inflows	<u>27,780,481</u>	<u>29,319,106</u>	<u>5.5%</u>
Net Position			
Net investment in capital assets	37,233,660	37,956,483	1.9%
Restricted	2,812,367	1,759,188	-37.4%
Unrestricted	<u>(10,963,001)</u>	<u>(8,843,841)</u>	<u>-19.3%</u>
Total net position	<u>\$ 29,083,026</u>	<u>\$ 30,871,830</u>	<u>6.2%</u>

Table 1 shows that as of June 30, 2026, the District's total net position, which is assets and deferred outflows minus liabilities and deferred inflows, was \$30.9 million, an increase of \$1.8 million or 6.2% compared with 2025. The increase is the net result of a \$2.1 million or 19.3% reduction in the unrestricted net position deficit and a \$0.7 million or 1.9% increase in net investment in capital assets, partially offset by a \$1.1 million or 37.4% decrease in restricted net position. The increase in unrestricted net position was mainly due to pension adjustments and the decrease in restricted net position was due to the spend down of restricted resources, mainly the use of food service funds for equipment purchases. The District's unrestricted net position remains negative primarily because pension liabilities and OPEB liabilities recognized in the government-wide statements are not fully funded at the plan level and are funded through annual contributions.

**Independent School District No. 277
Management's Discussion and Analysis**

ANALYSIS OF THE DISTRICT'S FINANCES (CONTINUED)

Total assets and total liabilities both grew sharply. Total assets increased \$59.6 million or 38.8%, and total liabilities increased \$55.6 million or 54.2%. Both changes largely stem from the District's January 2026 issuance of \$71.1 million of general obligation bonds to finance construction and renovation of District facilities. Capital assets rose \$42.0 million or 55.3% as construction in progress grew from \$18.5 million to \$65.4 million, and other assets rose \$17.6 million or 22.7% because cash and investments of \$77.9 million include \$52.1 million of bond proceeds not yet spent. Net investment in capital assets did not rise in proportion to capital assets because most of the new bonds financed assets that are still under construction or whose proceeds remain unspent. Other liabilities increased \$3.6 million or 25.5% related to construction payables and interest payable on the new bonds. (Capital asset and debt activity is discussed in more detail below.)

Governmental Activities

Table 2 shows that revenues exceeded expenses in the current year, resulting in an increase in net position. The total net position of the District's governmental activities was \$30.9 million, an increase of \$1.8 million or 6.2% from 2025. That increase is smaller than the \$8.1 million increase in 2025. Various events contributed to the change in net position; however, the four primary factors are as follows:

- (1) Growth in property tax and state aid revenues
- (2) Increase in sites and buildings expenses, including the loss on disposal of capital assets
- (3) Increase in interest on long-term debt following the January 2026 bond issuance
- (4) Decrease in investment income

**Independent School District No. 277
Management's Discussion and Analysis**

ANALYSIS OF THE DISTRICT'S FINANCES (CONTINUED)

Governmental Activities (Continued)

**Table 2
Change in Net Position**

	2025	2026	Percentage Change 2025-26
Revenues			
Program revenues			
Charges for services	\$ 4,902,667	\$ 4,947,681	0.9%
Operating grants and contributions	11,952,670	12,606,655	5.5%
Capital grants and contributions	5,267	5,348	1.5%
General revenues			
Property taxes	21,106,969	22,192,441	5.1%
State aid - formula grants	19,397,982	19,851,474	2.3%
Investment income	2,947,190	2,284,811	-22.5%
Other general revenues (including gain on sale of assets)	304,413	349,340	14.8%
Total revenues	<u>60,617,158</u>	<u>62,237,750</u>	<u>2.7%</u>
Expenses			
Administration	1,426,831	1,513,576	6.1%
District Support Services	2,080,559	2,171,205	4.4%
Elementary and Secondary Regular Instruction	18,521,338	18,594,150	0.4%
Vocational Education Instruction	436,782	413,226	-5.4%
Special Education Instruction	9,338,106	9,671,815	3.6%
Instructional Support Services	2,259,971	2,193,303	-2.9%
Pupil Support Services	3,167,123	3,257,093	2.8%
Sites and Buildings	5,755,831	10,729,241	86.4%
Fiscal and Other Fixed Cost Programs	254,471	257,594	1.2%
Food Service	2,303,543	2,361,842	2.5%
Community Education and Services	4,918,559	4,810,032	-2.2%
Unallocated depreciation	-	-	N/A
Interest on long-term debt	2,053,036	4,475,869	118.0%
Total expenses	<u>52,516,150</u>	<u>60,448,946</u>	<u>15.1%</u>
Change in net position	8,101,008	1,788,804	-77.9%
Net position - beginning of year	<u>20,982,018</u>	<u>29,083,026</u>	<u>38.6%</u>
Net position - end of year	<u><u>\$ 29,083,026</u></u>	<u><u>\$ 30,871,830</u></u>	<u><u>6.2%</u></u>

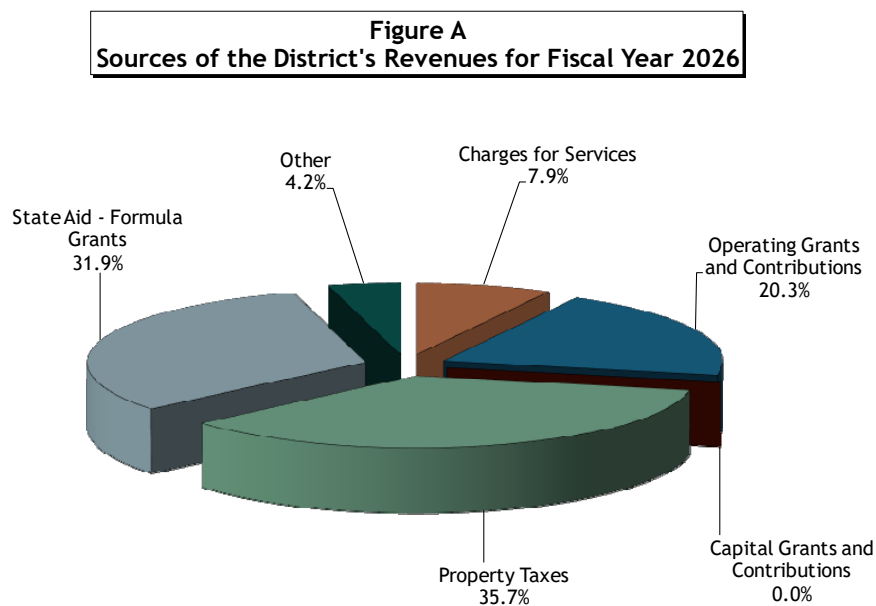
**Independent School District No. 277
Management's Discussion and Analysis**

ANALYSIS OF THE DISTRICT'S FINANCES (CONTINUED)

Growth in Revenues

Total revenues of \$62.2 million increased \$1.6 million or 2.7%. Property taxes, which are 35.7% of governmental activities revenue, rose 5.1% to \$22.2 million; \$7.6 million of that amount was levied for debt service on the District's building bonds, \$1.1 million for community service, and \$13.4 million for general purposes. The majority of the increase was due to an increase in levy across all funds, with a \$572 thousand increase in General Fund levy, \$197,457 increase in Debt Service Fund levy, and \$43,484 increase in Community Service Fund levy.

Figure A shows the sources of the District's revenues in 2026.



State aid based on the statewide education aid formula is the District's largest general revenue source after property taxes, representing 31.9% of revenue. It increased 2.3% to \$19.9 million. This is due to an increase in the basic formula allowance and enrollment. Operating grants and contributions, 20.3% of revenue, increased 5.5% to \$12.6 million, of which \$8.3 million supports special education programs, and charges for services were consistent at \$4.9 million, mostly community education fees of \$3.4 million. Special education funding increased due to increasing costs.

Investment income decreased 22.5% to \$2.3 million, or 3.7% of revenue, even though the District held more cash in 2026 because of the bond proceeds. Investment income decreased due to lower interest rates on fixed income securities.

Growth in Expenses

Governmental activities expenses rose 15.1% overall, from \$52.5 million to \$60.4 million, and most of the increase came from two items. Together, sites and buildings and interest on long-term debt grew by \$7.4 million of the \$7.9 million total increase.

**Independent School District No. 277
Management's Discussion and Analysis**

ANALYSIS OF THE DISTRICT'S FINANCES (CONTINUED)

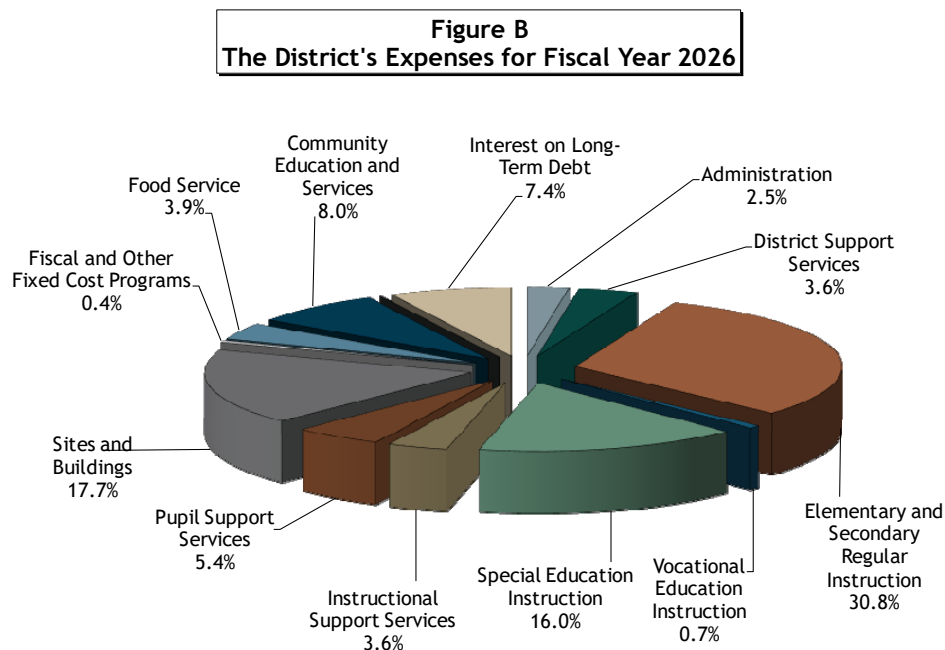
Growth in Expenses (Continued)

Sites and buildings expenses, which are 17.7% of total expenses, increased 86.4% to \$10.7 million. The increase includes a \$3.9 million loss on disposal of capital assets, as well as depreciation of \$1.9 million, which was higher than in 2025.

Interest on long-term debt, which is 7.4% of total expenses, increased 118.0% to \$4.5 million. The increase results from interest on the \$71.1 million Series 2026A bonds issued in January 2026, along with a \$1.3 million arbitrage liability that was added in 2026 and a larger accrued interest balance at year-end of \$2.2 million, compared with \$1.1 million at June 30, 2025. (Debt activity is discussed further below.)

The functions that educate and support students make up the largest portion of expenses. Elementary and secondary regular instruction, 30.8% of total expenses, increased only 0.4%, and special education instruction, 16.0% of expenses, increased 3.6%. Pupil support services increased 2.8%, administration increased 6.1%, and district support services increased 4.4%, while vocational education and instructional support services decreased. Increases were mainly driven by increase in salaries and benefits offset by negative pension expense in 2026.

Figure B shows how the District's expenses were distributed among its programs and services in 2026.



Other Changes in Net Position

Total governmental activities revenues exceeded total expenses in 2026 by \$1.8 million. As part of the District's building projects, it disposed of capital assets with an original cost of \$24.0 million and a remaining book value of \$3.9 million, which resulted in a loss that is included in the change in net position.

**Independent School District No. 277
Management's Discussion and Analysis**

ANALYSIS OF THE DISTRICT'S FINANCES (CONTINUED)

Governmental Funds

The District reports three major funds individually in the governmental fund financial statements: the General Fund, the Debt Service Fund, and the Building Construction Fund. Most of the discussion regarding governmental activities is equally applicable to the finances of those funds. However, certain factors that are relevant to the District's current financial health are more apparent in the fund financial statements. Combined governmental fund balances increased \$12.7 million or 30.0% to \$55.0 million, primarily because the proceeds of the 2026A bonds exceeded construction spending in the Building Construction Fund. All three major funds had significant changes, which are shown in Table 3 and are discussed in more detail below.

Table 3
Revenues, Expenditures, and Changes in Fund Balances - Major Funds

	General Fund		Debt Service Fund		Building Construction Fund	
	2026	2025	2026	2025	2026	2025
Total revenues	\$ 45,697,022	\$ 43,401,153	\$ 7,588,824	\$ 7,422,221	\$ 1,504,214	\$ 1,922,352
Total expenditures	45,186,463	41,768,441	7,253,756	7,294,676	48,204,257	16,231,813
Excess (deficiency) of revenues over (under) expenditures	510,559	1,632,712	335,068	127,545	(46,700,043)	(14,309,461)
Other financing sources (uses)						
Debt issued	109,336	-	15,706,653	-	58,735,670	-
Refunding payments made	-	-	(15,530,000)	-	-	-
Proceeds from sale of capital assets and insurance recoveries	48,132	37,449	-	-	-	-
Total other financing sources	157,468	37,449	176,653	-	58,735,670	-
Net change in fund balances	668,027	1,670,161	511,721	127,545	12,035,627	(14,309,461)
Fund balances - beginning of period	8,406,254	6,736,093	1,111,621	984,076	31,313,072	45,622,533
Fund balances - end of period	<u>\$ 9,074,281</u>	<u>\$ 8,406,254</u>	<u>\$ 1,623,342</u>	<u>\$ 1,111,621</u>	<u>\$ 43,348,699</u>	<u>\$ 31,313,072</u>

General Fund

The fund balance of the District's General Fund increased by 7.9%, to \$9.1 million. Revenues of \$45.7 million grew 5.3%, led by state sources, which increased \$1.8 million or 6.5%, and property taxes, which increased \$0.7 million or 5.7%. These increases align with the increases noted in the Statement of Activities as discussed above. Expenditures rose 8.2% to \$45.2 million. These increases relate to increases in salaries and benefits and special education program costs. Revenues exceeded expenditures by \$0.5 million, which is less than the \$1.6 million excess in 2025, so the fund balance grew at a lesser rate.

The unassigned fund balance, which is available for any General Fund purpose, was \$4.3 million at June 30, 2026, compared with \$3.9 million at June 30, 2025. The remaining fund balance of \$4.8 million is not available for general spending: \$3.2 million was assigned by the District for specific purposes, including \$1.5 million for class size reduction, \$0.9 million for furniture, fixtures, and equipment, and \$0.6 million for special education; \$1.4 million is restricted for specific programs and operating capital; \$0.1 million is committed for separation and retirement benefits; and \$0.1 million is nonspendable. (A comparison of the General Fund's actual results to its budget is presented in the required supplementary information that follows the notes to the financial statements.)

**Independent School District No. 277
Management's Discussion and Analysis**

ANALYSIS OF THE DISTRICT'S FINANCES (CONTINUED)

Debt Service Fund

The District's property tax levy for debt service may be used only to repay outstanding general obligation bonds. Property tax revenue of \$7.6 million was more than sufficient to cover debt service fund expenditures for principal and interest of \$7.3 million. In addition, the refunding that was part of the 2026A bond issue resulted in proceeds and premium that exceeded the payment to the refunded bonds by \$176,653. As a result, fund balance in the debt service fund, all of which is restricted for debt service, increased 46.0% to \$1.6 million.

Building Construction Fund

The Building Construction Fund accounts for the proceeds of the District's building bonds and the cost of the related construction. Bond proceeds and premium of \$58.7 million from the 2026A issue were received in 2026, while expenditures were \$48.2 million, primarily for building construction and improvements, so the fund balance increased 38.4% to \$43.3 million. By comparison, spending exceeded revenues by \$14.3 million in 2025 and the fund balance decreased. Of the 2026 ending balance, \$42.9 million is restricted for building projects, and the District has construction contract commitments of \$26.6 million that will be paid from those resources. (Capital asset activity is discussed further below.)

Other Funds

The two nonmajor funds had a combined decrease in fund balance of \$0.5 million or 35.2%. The Food Service Fund balance decreased \$577,783 to \$505,261 because expenditures of \$2.8 million, which included \$513,089 for equipment, exceeded revenues of \$2.2 million. The Community Service Fund balance increased \$58,373 to \$452,868 because revenues, which include community education fees, exceeded expenditures. The Postemployment Benefits Revocable Trust Internal Service Fund, which is included in governmental activities, had net position of \$7.0 million at year-end, a decrease of \$156,921, because benefit costs of \$6.0 million exceeded charges to District funds of \$5.8 million.

SIGNIFICANT CAPITAL ASSET AND LONG-TERM FINANCING ACTIVITY

The discussion thus far has only touched upon the most significant transactions and events during 2026 with respect to capital assets and long-term debt. Overall, the carrying value of the District's capital assets, which is original cost minus accumulated depreciation, increased 55.3% to \$117.9 million.

The District's beginning balance of construction in progress was \$18.5 million, and another \$46.9 million of costs on building projects was added during 2026. None of those projects was placed in service during the year, so the ending balance of construction in progress was \$65.4 million, which is 55.5% of the District's net capital assets. Spending on other capital assets, mostly equipment, was \$1.4 million. The District's construction contract commitments at June 30, 2026, were \$26.6 million.

During the year, the District removed capital assets with an original cost of \$24.0 million and accumulated depreciation of \$20.1 million, which includes buildings with a cost of \$13.8 million, equipment of \$8.4 million, and land improvements of \$1.6 million. The net book value of \$3.9 million is reported as a loss on disposal, as described earlier. Depreciation expense for the year was \$2.4 million. More detailed information is in Note 3.

**Independent School District No. 277
Management's Discussion and Analysis**

SIGNIFICANT CAPITAL ASSET AND LONG-TERM FINANCING ACTIVITY (CONTINUED)

Table 4 summarizes the District's capital assets at June 30, 2026 and 2025.

**Table 4
Capital Assets - Governmental Activities**

	2025	2026	Total Percent Change 2025-26
Land	\$ 2,345,834	\$ 2,345,834	0.0%
Land improvements	5,671,033	4,253,376	-25.0%
Buildings	74,486,393	60,691,195	-18.5%
Furniture and equipment	12,145,751	4,945,762	-59.3%
Vehicles	222,229	97,458	-56.1%
Construction in progress	18,537,232	65,430,886	253.0%
Less accumulated depreciation	(37,442,741)	(19,814,929)	-47.1%
Total	<u>\$ 75,965,731</u>	<u>\$ 117,949,582</u>	<u>55.3%</u>

The District issued \$71.1 million of General Obligation School Building, Facility Maintenance, Tax Abatement, and Refunding Bonds, Series 2026A, on January 28, 2026, at interest rates of 4.00 to 5.00% with a final maturity of February 4, 2049. The District also received a premium of \$3.4 million on the issue. Of the proceeds, \$56.6 million was deposited in the Building Construction Fund to pay for building projects, and \$14.5 million was deposited in the Debt Service Fund and used with the premium to refund the remaining \$15.5 million of the Series 2016A bonds. The District also entered into finance purchase agreements for copier equipment totaling \$109,336.

That issuance is the primary reason that bonds payable increased 80.6% to \$114.2 million. Net of scheduled principal payments of \$4.6 million and the \$15.5 million refunding, new issuance increased bonds outstanding by \$51.0 million. Total long-term obligations (Note 4) also include notes from direct borrowing of \$1.2 million, compensated absences of \$164,713, a net pension liability of \$17.6 million, and a total OPEB liability of \$4.1 million; the pension and OPEB liabilities together decreased 7.3% from 2025. Principal and interest on the bonds will be paid from the debt service property tax levy. More detailed information on debt, including the repayment schedule, is in Note 4.

**Independent School District No. 277
Management's Discussion and Analysis**

SIGNIFICANT CAPITAL ASSET AND LONG-TERM FINANCING ACTIVITY (CONTINUED)

Table 5 summarizes the District's outstanding long-term liabilities at June 30, 2026 and 2025.

**Table 5
Outstanding Long-Term Liabilities**

	2025	2026	Total Percent Change 2025-26
G.O. bonds payable	\$ 63,220,000	\$ 114,200,000	80.6%
Notes from direct borrowing payable	1,370,914	1,211,873	-11.6%
Compensated absences	431,876	164,713	-61.9%
Net pension liability	19,274,422	17,594,448	-8.7%
Net OPEB liability	4,109,577	4,088,604	-0.5%
Total	\$ 88,406,789	\$ 137,259,638	55.3%

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The District is aware of the following developments that are expected to have an impact on the District's finances in the future:

- (1) Higher debt service payments on the District's bonds
- (2) Completion of building projects and related operating costs
- (3) Adoption of the State budget
- (4) Enrollment and economic trends
- (5) The District's budget for fiscal year 2027

Higher Debt Service Payments

With the issuance of the 2026A bonds, required principal and interest payments on the District's general obligation bonds will increase from \$7.3 million paid by the Debt Service Fund in 2026 to \$8.2 million in fiscal year 2027, and then will range from \$8.8 million to \$9.1 million annually through fiscal year 2031. As a result, the District's debt service levy for fiscal year 2027 is expected to increase, placing additional property-tax costs on taxpayers while Westonka's school property tax rate remains the lowest among school districts in Hennepin County.

Building Projects

The \$43.3 million balance of the Building Construction Fund, \$42.9 million of it restricted, will be spent during fiscal year 2027 and later, including \$26.6 million of existing contract commitments. The grand opening of the building project is scheduled for September 2027, with the new and renovated facilities expected to improve operating efficiency, including reduced utility costs, while addressing significant deferred maintenance needs.

**Independent School District No. 277
Management's Discussion and Analysis**

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS (CONTINUED)

Adoption of the State Budget

The District is dependent on the State of Minnesota for most of its revenue authority apart from voter-approved levies, and state sources were 63.5% of General Fund revenue in 2026. The most significant changes affecting fiscal year 2027 are an increase in the basic general education formula allowance from \$7,481 to \$7,683 per pupil unit (2.7%), and an increase in special education cross subsidy reduction aid from 44% to 50% of the cross subsidy. The legislation also increases English learner aid and the LTFM equalizing factor, while reducing school library aid. Overall, these changes are estimated to increase the District's fiscal year 2027 state revenue, but the legislated increases are expected to be less than sufficient to offset ongoing program needs and cost increases, including inflation.

Enrollment and Economic Trends

Enrollment drives the District's state aid, so changes in student counts affect future revenue. Resident average daily membership (ADM), which counts all students who live in the District, increased by 20, or 0.7%, to 2,710 in 2026. Total ADM served, which counts all students attending the District including open enrollment, increased by 36, or 1.5%, to 2,453 after holding between 2,405 and 2,418 from 2022 through 2025. The increase was concentrated in kindergarten, which grew from 167 to 218 ADM, while elementary and secondary ADM were essentially flat. The District's fiscal year 2027 enrollment projection is stable, while the District continues efforts to attract and retain students, supported in part by factors such as new housing construction and the area's broader economic conditions.

The District's Budget for Fiscal Year 2027

The District's fiscal year 2027 budget was developed based on anticipated changes in state and local revenue, including state aid and property tax levies, as well as projected expenditures for labor contracts, inflation, instructional programs, and other operating costs. The District is dependent on the State of Minnesota for much of its revenue authority, and recent experience demonstrates that legislated revenue increases have not been sufficient to fully address instructional program needs and increased costs resulting from inflation. The fiscal year 2027 budget reflects the District's efforts to maximize available resources through the efficient and effective management of its operations while maintaining its longstanding commitment to academic excellence and educational opportunities for students within a framework of sound financial and fiduciary responsibility. The budget also anticipates a change in General Fund balance as the District balances ongoing program needs and rising operating costs with available revenues and reserves.

BASIC FINANCIAL STATEMENTS

Independent School District No. 277
Statement of Net Position
June 30, 2026

	Governmental Activities
Assets	
Cash and investments	\$ 77,937,841
Current property taxes receivable	11,284,547
Delinquent property taxes receivable	473,426
Accounts receivable	212,742
Interest receivable	560,946
Due from Department of Education	3,174,487
Due from Federal Government through Department of Education	700,551
Due from other Minnesota school districts	35,943
Inventory	45,922
Prepaid items	749,990
Capital assets (net of accumulated depreciation)	
Land	2,345,834
Construction in progress	65,430,886
Land improvements	2,015,451
Buildings	45,226,904
Equipment	2,866,166
Vehicles	64,341
Total assets	<u>213,125,977</u>
Deferred Outflows of Resources	
Deferred outflows related to pensions	5,058,769
Deferred outflows related to OPEB	315,486
Total deferred outflows of resources	<u>5,374,255</u>
 Total assets and deferred outflows of resources	 <u><u>\$ 218,500,232</u></u>
Liabilities	
Accounts payable	\$ 9,431,682
Salaries and benefits payable	250,843
Interest payable	2,180,504
Due to other Minnesota school districts	685,366
Due to other governmental units	1,274,339
Unearned revenue	84,833
Bond principal payable, net	
Payable within one year	3,090,000
Payable after one year	118,252,091
Notes from direct borrowing	
Payable within one year	252,833
Payable after one year	959,040
Compensated absences payable	
Payable within one year	91,394
Payable after one year	73,319
Total OPEB liability	
Payable within one year	134,868
Payable after one year	3,953,736
Net pension liability	17,594,448
Total liabilities	<u>158,309,296</u>
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	21,073,329
Deferred amount on refunding	787,834
Deferred inflows related to pensions	6,584,336
Deferred inflows related to OPEB	873,607
Total deferred inflows of resources	<u>29,319,106</u>
Net Position	
Net investment in capital assets	37,956,483
Restricted	1,759,188
Unrestricted	(8,843,841)
Total net position	<u>30,871,830</u>
 Total liabilities, deferred inflows of resources, and net position	 <u><u>\$ 218,500,232</u></u>

See notes to basic financial statements.

Independent School District No. 277
Statement of Activities
Year Ended June 30, 2026

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Administration	\$ 1,513,576	\$ -	\$ -	\$ -	\$ (1,513,576)
District support services	2,171,205	50,111	-	-	(2,121,094)
Elementary and secondary regular instruction	18,594,150	1,235,760	1,769,771	-	(15,588,619)
Vocational education instruction	413,226	-	29,823	-	(383,403)
Special education instruction	9,671,815	-	8,278,427	-	(1,393,388)
Instructional support services	2,193,303	24,383	30,000	-	(2,138,920)
Pupil support services	3,257,093	30,533	61,679	-	(3,164,881)
Sites and buildings	10,729,241	22,622	-	5,348	(10,701,271)
Fiscal and other fixed cost programs	257,594	-	-	-	(257,594)
Food service	2,361,842	213,260	1,932,289	-	(216,293)
Community education and services	4,810,032	3,371,012	504,666	-	(934,354)
Interest and fiscal charges on long-term debt	4,475,869	-	-	-	(4,475,869)
Total governmental activities	\$ 60,448,946	\$ 4,947,681	\$ 12,606,655	\$ 5,348	(42,889,262)
General revenues					
Taxes					
Property taxes, levied for general purposes					13,434,133
Property taxes, levied for community service					1,126,168
Property taxes, levied for debt service					7,632,140
State aid-formula grants					19,851,474
Other general revenues					308,531
Investment income					2,284,811
Gain of sale of assets					40,809
Total general revenues					44,678,066
Change in net position					1,788,804
Net position - beginning					29,083,026
Net position - ending					\$ 30,871,830

See notes to basic financial statements.

Independent School District No. 277
Balance Sheet - Governmental Funds
June 30, 2026

	General	Debt Service	Building Construction	Other Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments					
Cash and investments	\$ 11,555,519	\$ 5,674,717	\$ 52,076,178	\$ 1,256,623	\$ 70,563,037
Current property taxes receivable	6,738,961	4,055,397	-	490,189	11,284,547
Delinquent property taxes receivable	294,540	156,022	-	22,864	473,426
Accounts receivable	134,447	-	-	78,295	212,742
Interest receivable	147,177	-	404,875	-	552,052
Due from Department of Education	3,005,185	1,206	-	168,096	3,174,487
Due from Federal Government through Department of Education	613,936	-	-	86,615	700,551
Due from other Minnesota school districts	28,767	-	-	7,176	35,943
Inventory	34,874	-	-	11,048	45,922
Prepaid items	62,254	-	441,066	147,918	651,238
Total assets	<u>\$ 22,615,660</u>	<u>\$ 9,887,342</u>	<u>\$ 52,922,119</u>	<u>\$ 2,268,824</u>	<u>\$ 87,693,945</u>
Liabilities					
Accounts payable	\$ 586,825	\$ -	\$ 8,299,081	\$ 63,961	\$ 8,949,867
Salaries and benefits payable	93,154	-	-	157,689	250,843
Due to other Minnesota school districts	685,366	-	-	-	685,366
Due to other governmental units	-	-	1,274,339	-	1,274,339
Unearned revenue	-	-	-	84,833	84,833
Total liabilities	<u>1,365,345</u>	<u>-</u>	<u>9,573,420</u>	<u>306,483</u>	<u>11,245,248</u>
Deferred Inflows of Resources					
Unavailable revenue - delinquent property taxes	233,291	119,221	-	18,405	370,917
Property taxes levied for subsequent year's expenditures	11,942,743	8,144,779	-	985,807	21,073,329
Total deferred inflows of resources	<u>12,176,034</u>	<u>8,264,000</u>	<u>-</u>	<u>1,004,212</u>	<u>21,444,246</u>
Fund Balances					
Nonspendable	97,128	-	441,066	158,966	697,160
Restricted	1,408,763	1,623,342	42,907,633	799,163	46,738,901
Committed	95,638	-	-	-	95,638
Assigned	3,200,575	-	-	-	3,200,575
Unassigned	4,272,177	-	-	-	4,272,177
Total fund balances	<u>9,074,281</u>	<u>1,623,342</u>	<u>43,348,699</u>	<u>958,129</u>	<u>55,004,451</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 22,615,660</u>	<u>\$ 9,887,342</u>	<u>\$ 52,922,119</u>	<u>\$ 2,268,824</u>	<u>\$ 87,693,945</u>

Independent School District No. 277
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2026

Total fund balances - governmental funds	\$ 55,004,451
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds:	
Cost of capital assets	137,764,511
Less accumulated depreciation	(19,814,929)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable	(114,200,000)
Deferred amount on refunding	(787,834)
Notes from direct borrowing	(1,211,873)
Compensated absences payable	(164,713)
Net pension liability	(17,594,448)
Total OPEB liability	(4,088,604)
Bond premiums are reported as a liability within the Statement of Net Position and are reported as an other financing source in the year the debt is issued in governmental funds:	(7,142,091)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	5,058,769
Deferred inflows of resources related to pensions	(6,584,336)
Deferred outflows related to OPEB liability	315,486
Deferred inflows related to OPEB liability	(873,607)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	370,917
The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge change the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities.	7,000,635
Governmental funds do not report a liability for accrued interest on bonds and notes from direct borrowing until due and payable.	(2,180,504)
Total net position - governmental activities	<u>\$ 30,871,830</u>

Independent School District No. 277
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2026

	General	Debt Service	Building Construction	Other Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	\$ 13,345,074	\$ 7,576,761	\$ -	\$ 1,118,761	\$ 22,040,596
Other local and county revenues	2,456,746	-	1,504,214	3,552,524	7,513,484
Revenue from state sources	29,027,230	12,063	-	1,614,183	30,653,476
Revenue from federal sources	783,923	-	-	698,847	1,482,770
Sales and other conversion of assets	84,049	-	-	213,155	297,204
Total revenues	<u>45,697,022</u>	<u>7,588,824</u>	<u>1,504,214</u>	<u>7,197,470</u>	<u>61,987,530</u>
Expenditures					
Current					
Administration	1,463,924	-	-	-	1,463,924
District support services	2,132,818	-	-	-	2,132,818
Elementary and secondary regular instruction	18,598,248	-	-	-	18,598,248
Vocational education instruction	431,748	-	-	-	431,748
Special education instruction	9,784,695	-	-	-	9,784,695
Instructional support services	2,172,897	-	-	-	2,172,897
Pupil support services	3,240,717	-	-	-	3,240,717
Sites and buildings	3,729,884	-	7,105,995	-	10,835,879
Fiscal and other fixed cost programs	257,594	-	-	-	257,594
Food service	-	-	-	2,252,195	2,252,195
Community education and services	-	-	-	4,933,616	4,933,616
Capital outlay					
Administration	1,416	-	-	-	1,416
District support services	1,173,471	-	-	-	1,173,471
Elementary and secondary regular instruction	593,838	-	-	-	593,838
Vocational education instruction	27,227	-	-	-	27,227
Special education instruction	2,690	-	-	-	2,690
Instructional support services	15,431	-	-	-	15,431
Pupil support services	2,006	-	-	-	2,006
Sites and buildings	1,270,739	-	39,520,698	-	40,791,437
Food service	-	-	-	513,089	513,089
Community education and services	-	-	-	12,640	12,640
Debt service					
Principal	248,980	4,570,000	-	19,397	4,838,377
Interest and fiscal charges	38,140	2,683,756	303,225	1,242	3,026,363
Other debt service	-	-	1,274,339	-	1,274,339
Total expenditures	<u>45,186,463</u>	<u>7,253,756</u>	<u>48,204,257</u>	<u>7,732,179</u>	<u>108,376,655</u>
Excess of revenues over (under) expenditures	510,559	335,068	(46,700,043)	(534,709)	(46,389,125)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	25,510	-	-	15,299	40,809
Bond issuance	-	14,453,999	56,626,001	-	71,080,000
Bond premium	-	1,252,654	2,109,669	-	3,362,323
Note from direct borrowing issuance	109,336	-	-	-	109,336
Insurance recovery	22,622	-	-	-	22,622
Payment on refunded bond	-	(15,530,000)	-	-	(15,530,000)
Total other financing sources (uses)	<u>157,468</u>	<u>176,653</u>	<u>58,735,670</u>	<u>15,299</u>	<u>59,085,090</u>
Net change in fund balances	668,027	511,721	12,035,627	(519,410)	12,695,965
Fund Balances					
Beginning of year	<u>8,406,254</u>	<u>1,111,621</u>	<u>31,313,072</u>	<u>1,477,539</u>	<u>42,308,486</u>
End of year	<u>\$ 9,074,281</u>	<u>\$ 1,623,342</u>	<u>\$ 43,348,699</u>	<u>\$ 958,129</u>	<u>\$ 55,004,451</u>

See notes to basic financial statements.

Independent School District No. 277
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended June 30, 2026

Net change in fund balances - total governmental funds \$ 12,695,965

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

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

Capital outlays	48,315,192
Depreciation expense	(2,445,098)
Loss on disposal	(3,886,243)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. 267,163

Governmental funds recognize OPEB contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to OPEB on a full accrual perspective. 134,868

Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective. 1,070,482

Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no impact on net position in the Statement of Activities. 4,838,377

Bonds were refunded during the year. The amount of principal paid off is reported in the governmental funds as an other use of financing. However, the payments are not expenditures in the Statement of Activities, but rather a reduction on long-term liabilities in the statement of net assets. 15,530,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (1,061,794)

Governmental funds report the effect of bond premiums and deferred amounts on refunding when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. 886,627

The issuance of long-term debt provides current financial resources to governmental funds and has No effect on net assets. These amounts are reported in the governmental funds as a source of Financing. These amounts are not shown as revenues in the Statement of Activities, but rather constitute long-term liabilities in the statement of net position:

Bonds	(71,080,000)
Bond premium	(3,362,323)
Notes from direct borrowing	(109,336)

The post employment benefits revocable trust internal service fund is used to charge the benefits to the fund that incurs the cost. This amount represents the change in assets available to fund the liabilities. (156,921)

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 151,845

Change in net position - governmental activities \$ 1,788,804

Independent School District No. 277
Statement of Net Position - Proprietary Funds
June 30, 2026

	Governmental Activities - Internal Service Funds
Assets	
Cash and cash equivalents	\$ 6,167,721
Investments	1,207,083
Interest receivable	8,894
Prepays	<u>98,752</u>
Total assets	<u><u>\$ 7,482,450</u></u>
Liabilities and Net Position	
Liabilities	
Accounts payable	\$ 481,815
Net Position	
Unrestricted	<u>7,000,635</u>
Total liabilities and net position	<u><u>\$ 7,482,450</u></u>

Independent School District No. 277
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended June 30, 2026

	Governmental Activities - Internal Service Funds
Operating Revenue	
Charges for services	\$ 5,762,522
Operating Expenses	
Employee benefits	6,018,771
Professional services	229
Total operating expenses	<u>6,019,000</u>
Operating income (loss)	(256,478)
Nonoperating Revenue	
Investment income	<u>99,557</u>
Change in net position	(156,921)
Net Position	
Beginning of year	<u>7,157,556</u>
End of year	<u><u>\$ 7,000,635</u></u>

Independent School District No. 277
Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2026

	Governmental Activities - Internal Service Funds
Cash Flows - Operating Activities	
Receipts from employee contributions	\$ 5,734,866
Payments to employees	(5,869,260)
Payments to vendors	(229)
Net cash flows - operating activities	<u>(134,623)</u>
Cash Flows - Investment Activities	
Sale (purchase) of investments	253,397
Interest received	105,077
Net cash flows - investment activities	<u>358,474</u>
Net change in cash and cash equivalents	223,851
Cash and Cash Equivalents	
Beginning of year	<u>5,943,870</u>
End of year	<u><u>\$ 6,167,721</u></u>
Reconciliation of Operating Income to Net Cash Flows - Operating Activities	
Operating income	\$ (256,478)
Adjustments to reconcile operating income to net cash flows - operating activities	
Accounts payable	149,511
Prepaid items	(27,656)
Net adjustments	<u>121,855</u>
Net cash flows - operating activities	<u><u>\$ (134,623)</u></u>

Independent School District No. 277
Statement of Fiduciary Net Position
Year Ended June 30, 2026

	<u>Custodial Fund</u>
Assets	
Cash and investments	<u>\$ 170,227</u>
Net Position	
Restricted for scholarships	<u>\$ 170,227</u>

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2026

	<u>Custodial Fund</u>
Additions	
Contributions	\$ 114,300
Interest revenue	4,328
Total additions	<u>118,628</u>
Deductions	
Administrative	340
Scholarships	96,357
Total deductions	<u>96,697</u>
Change in net position	21,931
Net Position	
Beginning of year	<u>148,296</u>
End of year	<u>\$ 170,227</u>

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Independent School District No. 277
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the basic financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

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

The student activity accounts of the District are under board control and are reported in the General Fund.

B. Basic Financial Statement Information

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

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

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Fund is employee and District contributions. Operating expenses for proprietary funds include claims paid. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 and proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner.

1. Revenue Recognition

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

2. Recording of Expenditures

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

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance are available. Further, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned and unassigned.

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds:

Major Funds:

General Fund - This fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

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

Building Construction - Capital Projects - This fund is used to account for financial resources used for the maintenance projects authorized with the School Building Bonds.

Nonmajor Funds:

Food Service Special Revenue Fund - This fund is used to account for food service revenues and expenditures. Local, state, and federal revenues are received in this Fund to specifically support the food service program.

Community Service Special Revenue Fund - This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education or other similar services. The District receipts property tax and local and state revenues in this Fund that were received for these specific purposes.

Fiduciary Fund:

Custodial Fund - This fund is used to account for resources received and held by the District on behalf of a third party to be used in making scholarship awards.

Proprietary Funds:

Post Employment Benefits Revocable Trust Internal Service Fund - This fund is used to account for the accumulation of resources to fund post-employment benefits.

Self-Insured Benefits Internal Service Fund - This fund is used to account for the activity of the self-insured employee health and dental plans.

D. Deposits and Investments

All governmental and fiduciary funds of the District participate in a government-wide investment pool. Cash and investment balances from all funds are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances. Deposits and investments in the OPEB Internal Service Fund are not pooled with the rest of the District's deposits and investments.

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

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

Cash and investments at June 30, 2026, were comprised of deposits, certificates of deposits and money market accounts and government securities.

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

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

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2025, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2026. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Prepaid Items

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

I. Property Taxes

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Hennepin County is the collecting agency for the levy and remits the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than \$10,000. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 40 years for land improvements and buildings, and 5 to 20 years for equipment.

Capital assets not being depreciated include land and construction in progress. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has two items that qualify for reporting in this category. Deferred outflows related to pension activity reported in the government-wide Statement of Net Position. A deferred outflow relating to pension activity results from the difference between actual and expected economic experience, changes in actuarial assumptions and employer contributions subsequent to the measurement date. Deferred outflows of resources related to OPEB is recorded for various estimate differences that will be amortized and recognized over future years.

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has five types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. The third item is a deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The fourth and fifth items are deferred inflows related to pension and OPEB activity as a result of the net difference between projected and actual earnings on plan investments and changes in proportionate share.

L. Unearned Revenue

Unearned revenue represents monies received prior to June 30, 2026, but earned subsequent to year-end.

M. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

N. Compensated Absences

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

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015.

P. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2026.

Q. Fund Equity

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in these funds can be spent.

- **Nonspendable Fund Balances** - These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include inventory and prepaid items.
- **Restricted Fund Balances** - These are subject to externally enforceable legal restrictions.
- **Committed Fund Balances** - These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action.
- **Assigned Fund Balances** - The School Board delegates the Superintendent and Director of Finance the power to assign balances for specific purposes.
- **Unassigned Fund Balances** - These are amounts that have not been restricted, committed or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Equity (Continued)

- **Minimum Fund Balance Policy** - The District's annual budget will be developed to maintain a minimum unassigned General Fund balance of 8% of the prior year's expenditures and a maximum of 18% of the prior year's expenditures.

R. Net Position

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

S. Use of Estimates

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

T. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service and Capital Project Funds.
4. Budgets for the General, Special Revenue, Debt Service and Capital Project Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 103, Financial Reporting Model Improvements which moved budgetary comparison schedules to Required Supplementary Information (RSI) and added additional notes to the RSI.

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk - Deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy which requires deposits in excess of federal deposit coverage to be collateralized as required by *Minnesota Statute* § 118A.03.

As of June 30, 2026, the District's bank balances were not exposed to custodial credit risk as they were insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

At June 30, 2026, the District had the following deposits:

Checking - non-pooled	\$ 425,035
Certificate of deposits - pooled	2,632,440
Certificate of deposits - non-pooled	30,744,434
Savings - pooled	1,019,193
Total	<u><u>\$ 34,821,102</u></u>

B. Investments

As of June 30, 2026, the District had the following investments:

Investment	Rating	Fair	Investment Maturities		
		Value	Less than 1 year	1-2 years	2-5 years
Pooled investments					
Money market	NR	\$ 16,318,564	\$ 16,318,564	\$ -	\$ -
LTD	NR	5,627,011	5,627,011	-	-
Term Series	NR	5,500,000	-	5,500,000	-
Total pooled investments		<u>27,445,575</u>	<u>21,945,575</u>	<u>5,500,000</u>	<u>-</u>
Non-pooled investments					
Money market	NR	12,627,118	12,627,118	-	-
Municipal bonds	BB+	1,207,083	375,780	361,762	469,541
US Treasury securities	AA	2,007,040	2,007,040	-	-
Total non-pooled investments		<u>15,841,241</u>	<u>15,009,938</u>	<u>361,762</u>	<u>469,541</u>
Total		\$ 43,286,816	\$ 36,955,513	\$ 5,861,762	\$ 469,541

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* §§ 118A.04 and 118A.05 limit investments to the top two rating issued by nationally recognized statistical rating organizations. The District's investment policy limits investments to those specified in the above statutes. The District's investments in certificates of deposit are not rated. The District's investments in government securities were rated BB+ or higher by Moody's. The remaining investment types are unrated and, therefore, not subject to credit risk.

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states the District will diversify its investment to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The District's investments were not exposed to credit risk at June 30, 2026.

Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy states the District's investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account cash flow requirements.

Custodial Credit Risk - Investments: This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states all investments shall be held in third party safekeeping by an institution designated as custodial agent. The custodial agent shall issue a safe keeping receipt to the District listing pertinent information related to the securities held.

The District has the following recurring fair value measurements as of June 30, 2026:

- Investments of \$38,368,339 are valued using amortized cost or net asset value.
- Investments of \$1,704,354 are valued at quoted market prices (Level 1 inputs).
- Investments of \$3,214,123 are valued using a matrix pricing model (Level 2 inputs).

Following is a summary of deposits and investments at June 30, 2026:

Deposits (Note 2.A.)	\$ 34,821,102
Petty cash	150
Investments - pooled	27,445,575
Investments - non-pooled	15,841,241
Total deposits and investments	\$ 78,108,068

Deposits and investments are presented in the June 30, 2026, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 77,937,841
Statement of fiduciary net position	
Scholarship Custodial Fund - cash and investments	170,227
Total deposits and investments	\$ 78,108,068

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2026, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,345,834	\$ -	\$ -	\$ 2,345,834
Construction in progress	18,537,232	46,893,654	-	65,430,886
Total capital assets not being depreciated	20,883,066	46,893,654	-	67,776,720
Capital assets being depreciated				
Land improvements	5,671,033	163,945	(1,581,602)	4,253,376
Buildings	74,486,393	-	(13,795,198)	60,691,195
Equipment	12,145,751	1,202,071	(8,402,060)	4,945,762
Vehicles	222,229	55,522	(180,293)	97,458
Total capital assets being depreciated	92,525,406	1,421,538	(23,959,153)	69,987,791
Less accumulated				
Land improvements	3,263,432	206,891	(1,232,398)	2,237,925
Buildings	25,639,174	1,638,396	(11,813,279)	15,464,291
Equipment	8,414,828	591,032	(6,926,264)	2,079,596
Vehicles	125,307	8,779	(100,969)	33,117
Total accumulated depreciation	37,442,741	2,445,098	(20,072,910)	19,814,929
Total capital assets being depreciated, net	55,082,665	(1,023,560)	(3,886,243)	50,172,862
Governmental activities, capital assets, net	\$ 75,965,731	\$ 45,870,094	\$ (3,886,243)	\$ 117,949,582

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 3 - CAPITAL ASSETS (CONTINUED)

Depreciation expense of \$2,445,098 for the year ended June 30, 2026, was charged to the following governmental functions:

District Support Services	\$ 91,938
Elementary and Secondary Regular Instruction	349,644
Vocational Instruction	2,606
Special Education Instruction	8,582
Community Education and Services	8,503
Instructional Support Services	374
Pupil Support Services	3,683
Sites and Buildings	1,927,126
Food Service	52,642
Total depreciation expense	<u><u>\$ 2,445,098</u></u>

NOTE 4 - LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One year
Long-term liabilities						
G.O. Bonds including						
Refunding Bonds						
G.O. School Building, Facility						
Maintenance, Tax Abatement,						
and Refunding Bonds						
Series 2026A	01/28/26	4.00-5.00%	\$ 71,080,000	02/04/49	\$ 71,080,000	\$ 670,000
G.O. School Building Bonds						
Series 2024A	02/01/24	4.00-5.00%	43,100,000	02/01/44	40,275,000	-
G.O. School Building Bonds						
Series 2020A	11/05/20	5.00%	11,700,000	02/01/27	2,220,000	2,220,000
G.O. Tax Abatement Bonds						
Series 2018A	06/27/18	3.00%-5.00%	1,835,000	02/01/29	625,000	200,000
Total G.O. bonds					114,200,000	3,090,000
Unamortized bond premium					7,142,091	-
Notes from direct borrowing					1,211,873	252,833
Compensated absences payable					164,713	91,394
Total all long-term liabilities					<u><u>\$ 122,718,677</u></u>	<u><u>\$ 3,434,227</u></u>

The long-term bond liabilities listed above were issued to finance acquisition and construction of capital facilities.

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 4 - LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds

Minimum annual principal and interest payments required to retire G.O. bonds are as follows:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2027	\$ 3,090,000	\$ 5,132,411	\$ 8,222,411
2028	3,865,000	5,015,600	8,880,600
2029	3,965,000	4,824,450	8,789,450
2030	4,385,000	4,626,200	9,011,200
2031	4,655,000	4,449,250	9,104,250
2032-2036	23,630,000	18,600,000	42,230,000
2037-2041	22,970,000	13,031,450	36,001,450
2042-2046	27,950,000	7,820,620	35,770,620
2047-2049	19,690,000	1,746,938	21,436,938
Total	<u>\$ 114,200,000</u>	<u>\$ 65,246,919</u>	<u>\$ 179,446,919</u>

C. Notes from Direct Borrowing

On May 19, 2016, the District entered into a finance purchase agreement for building improvements. The finance purchase totaled \$2,803,400. The finance purchase agreement includes annual principal and interest payments of \$224,996. On July 26, 2023, the District entered into a finance purchase agreement for copier equipment. The finance purchase totaled \$154,226. The finance purchase agreement includes monthly principal and interest payments of \$3,110. On July 1, 2025, the District entered into two finance purchase agreements for copier equipment. The finance purchase totaled \$109,336. The finance purchase agreement includes monthly principal and interest payments totaling \$2,043.

Minimum annual principal and interest payments required to retire notes from direct borrowing are as follows:

Year Ending June 30,	Notes form Direct Borrowing		
	Principal	Interest	Total
2027	\$ 252,833	\$ 34,004	\$ 286,837
2028	261,685	25,153	286,838
2029	234,380	16,699	251,079
2030	238,311	10,519	248,830
2031	224,664	4,304	228,968
Total	<u>\$ 1,211,873</u>	<u>\$ 90,679</u>	<u>\$ 1,302,552</u>

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 4 - LONG-TERM DEBT (CONTINUED)

D. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	\$ 63,220,000	\$ 71,080,000	\$ 20,100,000	\$ 114,200,000
Unamortized bond premium	5,403,479	3,362,323	1,623,711	7,142,091
Notes from direct borrowing	1,370,914	109,336	268,377	1,211,873
Compensated absences payable	431,876	-	267,163	164,713
	<u>431,876</u>	<u>-</u>	<u>267,163</u>	<u>164,713</u>
Total long-term liabilities	<u>\$ 70,426,269</u>	<u>\$ 74,551,659</u>	<u>\$ 22,259,251</u>	<u>\$ 122,718,677</u>

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

On January 28, 2026, the District issued \$71,080,000 G.O. School Building, Facilities Maintenance, Tax Abatement and Refunding Bonds, Series 2026A, of which \$14,330,000 was issued for the current refunding of the 2027 through 2032 maturities of the G.O. School Building Bonds, Series 2016A. Proceeds from the sale were placed in an escrow fund to be used to redeem the refunded debt on March 5, 2026, at which time the refunded bonds were no longer outstanding. This refunding resulted in an economic gain as well as savings from the refunding. The economic gain realized in this refunding was \$294,105 and the savings resulting from the refunding was \$351,122.

NOTE 5 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures over Appropriations

Budgetary control for governmental funds is established by each fund's total appropriations. Expenditures of \$45,186,463 exceeded appropriations of \$44,622,951 in the General Fund for the year ending June 30, 2026.

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 6 - FUND BALANCES/NET POSITION

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

A. Fund Balances

Fund balances are classified as listed on the following page to reflect the limitations and restrictions of the respective funds.

	General Fund	Debt Service	Building Construction	Nonmajor Funds	Total
Nonspendable					
Inventory	\$ 34,874	\$ -	\$ -	\$ 11,048	\$ 45,922
Prepaid items	62,254	-	441,066	147,918	651,238
Total nonspendable	97,128	-	441,066	158,966	697,160
Restricted/reserved for					
Student Activities	511,139	-	-	-	511,139
Capital Projects Levy	351,535	-	-	-	351,535
Operating Capital	438,560	-	-	-	438,560
Teacher Comp Read Act	507	-	-	-	507
Community Education	-	-	-	335,162	335,162
Early Childhood and Family Education	-	-	-	12,862	12,862
School Readiness	-	-	-	2,662	2,662
Long-term Facility Maintenance	107,022	-	-	-	107,022
Community Service	-	-	-	79,084	79,084
Food Service	-	-	-	369,393	369,393
Debt Service	-	1,623,342	-	-	1,623,342
Building projects	-	-	42,907,633	-	42,907,633
Total restricted/reserved	1,408,763	1,623,342	42,907,633	799,163	46,738,901
Committed for					
Separation/retirement benefits	95,638	-	-	-	95,638
Assigned for					
Special education	600,000	-	-	-	600,000
Class size reduction	1,500,000	-	-	-	1,500,000
Technology repairs	134,229	-	-	-	134,229
Westonka Wings	66,346	-	-	-	66,346
Furniture, fixtures, and equipment	900,000	-	-	-	900,000
Total assigned	3,200,575	-	-	-	3,200,575
Unassigned	4,272,177	-	-	-	4,272,177
Total fund balance	<u>\$ 9,074,281</u>	<u>\$ 1,623,342</u>	<u>\$ 43,348,699</u>	<u>\$ 958,129</u>	<u>\$ 55,004,451</u>

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 6 - FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

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

Nonspendable for Prepaid Items - This balance represents a portion of the fund balance that is not available since the amounts have already been spent by the District on expenses for the next fiscal year.

Restricted/Reserved for Student Activities - This balance represents available resources to be used for the extracurricular activity funds raised by the students.

Restricted/Reserved for Capital Projects Levy - This balance represents available resources from the capital projects levy to be used for building construction and other projects under *Minnesota Statute* § 126C.10, subd. 14. All interest income attributable to the capital projects levy must be credited to this account.

Restricted/Reserved for Operating Capital - This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

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

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

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

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

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

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

Restricted/Reserved for Food Service - This balance represents the positive fund balance of the Food Service Fund.

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

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 6 - FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

Restricted/Reserved for Building Projects - This balance represents available resources from the issuance of the 2024A school building bonds.

Committed for Separation/Retirement Benefits - This balance represents an amount set aside by the School Board for retirement benefits.

Assigned - This balance represents estimated amounts that are set aside for special education, class size reduction, technology repairs, Westonka Wings program and school renovation.

B. Net Position

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

NOTE 7 - DEFINED BENEFIT PENSION PLANS - STATE-WIDE

Teachers' Retirement Association

The District participates in various pension plans. Total pension expense for the year ended June 30, 2026, was \$1,369,104. The components of pension expense are noted in the following plan summaries.

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

A. Plan Description

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

Educators employed in Minnesota's public elementary and secondary schools, charter schools and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those teachers employed by St. Paul Schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined Contribution Retirement Plan (DCR) administered by Minnesota State. A teacher employed by Minnesota State and electing the DCR plan is not a member of TRA except for purposes of social security coverage.

B. Benefits Provided

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

Independent School District No. 277
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

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

Tier I Benefits

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

With these provisions:

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

Or

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members is applied. For years of service July 1, 2006, and after, a level formula of 1.9% per year for Coordinated members and 2.7% for Basic members applies. An early retirement reduction is applied to members retiring prior to age 65. Beginning June 30, 2025, new reduction factors will apply, including special factors for members retiring at age 60 or later with at least 30 years of service.

Tier II Benefits

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 65, effective July 1, 2024. An early retirement reduction is applied to members retiring before age 65. Beginning June 30, 2025, new reduction factors will apply, including special factors for members retiring at age 60 or later with at least 30 years of service.

Independent School District No. 277
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits (Continued)

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

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

C. Contributions

Per *Minnesota Statute* Chapter 354 sets the contribution rates for employees and employers. Rates for the fiscal year 2026 for coordinated were 8.00% for the employee and 9.81% for the employer. The District's contributions to TRA for the plan's fiscal year ended June 30, 2026 were \$1,833,674. The District's contributions were equal to the required contributions for each year as set by state statute.

Independent School District No. 277
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the July 1, 2025, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Experience study	August 2, 2023 (demographic and economic assumptions)*
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.00%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028, and 3.25% after June 30, 2028.
Projected salary increase	2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% after June 30, 2028.
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

Mortality Assumptions

Pre-retirement	PubT-2010(A) Employee Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Post-retirement	PubT-2010(A) Retiree Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Beneficiaries	Pub-2010(A) Contingent Survivor Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.
Disabled retirees	PubNS-2010 Disabled Retiree Mortality Table, male rates set forward 1 year and female rates unadjusted. Generational projection uses the MP-2021 scale.

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

Independent School District No. 277
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	33.5 %	5.10 %
International equity	16.5	5.30
Private markets	25.0	5.90
Fixed income	25.0	0.75
 Total	 <u>100.0 %</u>	

Changes in actuarial assumptions since the previous valuation:

- Liability load for inactive non-vested members changed from 9% to 13% and the liability load for inactive vested members changed from 7% to 6%.

E. Discount Rate

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

F. Net Pension Liability

As of June 30, 2026, the District reported a liability of \$14,911,450 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2025. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.2602% at the end of the measurement period and 0.2592% for the beginning of the year.

Independent School District No. 277
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

District's proportionate share of net pension liability	\$ 14,911,450
State's proportionate share of the net pension liability associated with the District	926,107

For the year ended June 30, 2026, the District recognized pension expense of \$1,346,163. Included in this amount, the District recognized (\$23,192) as pension expense for the support provided by direct aid.

During the plan year ended June 30, 2025, the State of Minnesota contributed \$28,462,000 million to the Fund. The State of Minnesota is not included as a non-employer contributing entity in the plan pension allocation schedules for the \$28,462,000 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The District recognized \$74,057 for the year ended June 30, 2026 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Fund.

As of June 30, 2026, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 687,620	\$ 146,446
Net difference between projected and actual earnings on plan investments	-	2,994,135
Changes of actuarial assumptions	842,299	1,577,350
Changes in proportionate share	541,705	181,465
District's contributions to TRA subsequent to the measurement date	1,833,674	-
Total	<u>\$ 3,905,298</u>	<u>\$ 4,899,396</u>

The \$1,833,674 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a relation of the net pension liability in the year ended June 30, 2027.

Independent School District No. 277
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

Year Ended June 30,	Pension Expense Amount
2027	\$ 1,044,756
2028	(1,745,566)
2029	(1,467,510)
2030	(698,231)
2031	38,779
Total	<u>\$ (2,827,772)</u>

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.0% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.0%) and 1 percent higher (8.0%) than the current rate.

Sensitivity of NPL to Changes in the Discount Rate		
1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
\$ 28,127,154	\$ 14,911,450	\$ 4,035,021

H. Pension Plan Fiduciary Net Position

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

**Independent School District No. 277
Notes to Basic Financial Statements**

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

Teachers' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position (Continued)

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan

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

B. Benefits Provided

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

General Employees Plan Benefits

General Employees Plan requires three years of service to vest. Benefits are based on a member's highest average salary for any 5 successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for General Plan members. Members hired prior to July 1, 1989, receive the higher of Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2% of the highest average salary for each of the first 10 years of service and 1.7% for each additional year. Under the Level formula, General Plan members receive 1.7% of the highest average salary for all years of service. For members hired prior to July 1, 1989, a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25% for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25% for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Independent School District No. 277
Notes to Basic Financial Statements

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

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan Benefits (Continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0% and a maximum of 1.5%. The 2025 annual increase was 1.25%. 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.

C. Contributions

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

General Employees Fund Contributions

General Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2026 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2026, were \$564,975. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2026, the District reported a liability of \$2,682,998 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 \$64,722.

District's proportionate share of net pension liability	\$ 2,682,998
State's proportionate share of the net pension liability associated with the District	<u>64,722</u>
Total	<u><u>\$ 2,747,720</u></u>

Independent School District No. 277
Notes to Basic Financial Statements

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

The net pension liability was measured as of June 30, 2025, 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, 2024, through June 30, 2025, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0810% at the end of the measurement period and 0.0758% for the beginning of the period.

For the year ended June 30, 2026, the District recognized pension expense of \$22,942 for its proportionate share of General Employees Plan's pension expense. Included in this amount, the District recognized (\$9,927) as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2026, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 255,632	\$ -
Changes in actuarial assumptions	64,645	617,348
Difference between projected and actual investments earnings	-	1,067,592
Changes in proportion	268,219	-
District's contributions to PERA subsequent to the measurement date	564,975	-
	<u>\$ 1,153,471</u>	<u>\$ 1,684,940</u>
Total		

Independent School District No. 277
Notes to Basic Financial Statements

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

The \$564,975 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, 2027. 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
2027	\$ (186,610)
2028	(425,592)
2029	(293,531)
2030	(190,711)
Total	<u><u>\$ (1,096,444)</u></u>

Independent School District No. 277
Notes to Basic Financial Statements

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

Public Employees' Retirement Association (Continued)

E. Long-Term Expected Return on Investment

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

<u>Asset Class</u>	<u>Final Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	33.5 %	5.10 %
International stocks	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	100.0 %	

F. Actuarial Methods and Assumptions

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2025, using the entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0%. The 7.0% assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates considered reasonable by the actuary. An investment return of 7.0% is within that range.

Inflation is assumed to be 2.25% for the General Employees Plan. Benefit increases after retirement are assumed to be 1.5% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 11.5% after one year of service to 3.0% after 27 years of service.

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

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

Independent School District No. 277
Notes to Basic Financial Statements

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

Public Employees' Retirement Association (Continued)

F. Actuarial Methods and Assumptions (Continued)

The following changes in actuarial assumptions and plan provisions occurred in 2025:

Changes in Actuarial Assumptions

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increased changes from 1.25% to 1.5%.

Changes in Plan Provisions

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75%, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

G. Discount Rate

The discount rate used to measure the total pension liability in 2025 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
District's proportionate share of the PERA net pension liability	\$ 6,516,579	\$ 2,682,998	\$ (426,901)

I. Pension Plan Fiduciary Net Position

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

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 8 - POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District's defined benefit OPEB plan provides a single employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. Medical coverage is administered by Health Partners. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Benefits Paid

Teachers who apply for early retirement shall remain eligible to receive certain health insurance benefits until the end of the school year in which the teacher becomes Medicare eligible. Full vesting of such amounts occurs upon attaining 56 years of age. The General Fund, Food Service Fund and Community Service Fund typically liquidate the Liability related to OPEB.

C. Members

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

Inactive employees or beneficiaries currently receiving benefits	17
Active employees	<u>347</u>
Total	<u><u>364</u></u>

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Health Partners. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2026, the District contributed \$272,021 to the plan.

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation measured as of July 1, 2025, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Salary increases	2.85% to 10.25% per service graded table
Inflation	2.50%
Healthcare cost trend increases	6.25% in 2025, grading to 5.00% over 5 years and then to 4.00% over the next 48 years
Mortality Assumption	Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers)

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 8 - POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2026, valuation report were based on the results of an actuarial experience study for the period July 1, 2024, through June 30, 2025.

The discount rate used to measure the total OPEB liability was 4.90% based on the 20-year Municipal Bond Yield.

Plan Changes

- None

Assumption Changes

- The discount rate was changed from 4.10% to 4.90%.

F. Total OPEB Liability

The District's total OPEB liability of \$4,088,604 was measured as of July 1, 2025, and was determined by an actuarial valuation as of July 1, 2024.

Changes in the total OPEB liability are as follows:

	Total OPEB Liability
Balances at June 30, 2025	<u>\$ 4,109,577</u>
Changes for the year	
Service cost	219,519
Interest cost	172,428
Assumption changes	(163,351)
Plan changes	-
Differences between expected and actual economic experience	-
Benefit payments	<u>(249,569)</u>
Net changes	<u>(20,973)</u>
Balances at June 30, 2026	<u><u>\$ 4,088,604</u></u>

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 8 - POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. OPEB Liability Sensitivity

The following presents the District's net OPEB liability calculated using the discount rate of 4.9% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% Decrease in Discount Rate (3.9%)	Current Discount Rate (4.9%)	1% Increase in Discount Rate (5.9%)
Total OPEB Liability (Asset)	\$ 4,329,727	\$ 4,088,604	\$ 3,853,870

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

	1% Decrease in Discount Rate (5.25% Decreasing to 3.0%)	Current Discount Rate (6.25% Decreasing to 4.0%)	1% Decrease in Discount Rate (7.25% Decreasing to 5.0%)
Total OPEB Liability (Asset)	\$ 3,725,275	\$ 4,088,604	\$ 4,506,211

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

For the year ended June 30, 2026, the District recognized OPEB expense of \$108,414. At June 30, 2026, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability gain or loss	\$ -	\$ 582,306
Contributions made subsequent to the measurement date	272,021	-
Changes in actuarial assumptions	43,465	291,301
Total	<u>\$ 315,486</u>	<u>\$ 873,607</u>

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 8 - POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

**H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to OPEB (Continued)**

The \$272,021 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2027. 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,	Total
2027	\$ (300,196)
2028	(186,107)
2029	(195,762)
2030	(63,837)
2031	(60,905)
Thereafter	(23,335)
Total	<u>\$ (830,142)</u>

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2026.

On July 1, 2013, the District began to self-insure for dental insurance. Under this program, the fund provides up to a maximum of \$2,000 of benefit per covered person per calendar year. The General, Food Service and Community Service Funds of the District participate in the program and make payments to the dental insurance plan recorded in the General Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Payments are made based on actuarial estimates of the amounts needed to pay claims. The Self-Insured Dental Benefits Internal Service Fund includes a reserve of \$278,736 for catastrophe losses. The total claims liability reported in the Fund at June 30, 2026, is \$16,048 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

Independent School District No. 277
Notes to Basic Financial Statements

NOTE 9 - RISK MANAGEMENT (CONTINUED)

On July 1, 2016, the District began to self-insure for health insurance. A stop-loss policy was purchased that limits the District's loss to \$100,000 of claims per person at which point the reinsurance coverage is available. The District also has aggregate stop-loss coverage in place which limits the District's liability to 115% of the current year's total expected annual claims at which point the reinsurance coverage is available.

The General, Food Service, Community Service and Agency Funds of the District participate in the program and make payments to the Self Insured Medical Benefits Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Participants in the program make premium payments to the fund based on the insurance premium. The Self Insured Medical Benefits Internal Service Fund does not include a reserve for catastrophe losses. The total claims liability reported in the Fund at June 30, 2026, is \$465,767 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

Changes in the Self-Insured Benefits Fund's claims liability amounts for the past three years were as follows:

	Balance, Beginning of Year	Claims, Expense and Estimates	Claims Payments	Balance, End of Year
2023-2024	\$ 214,461	\$ 4,558,681	\$ (4,657,027)	\$ 116,115
2024-2025	116,115	5,853,637	(5,637,448)	332,304
2025-2026	332,304	5,746,749	(5,597,238)	481,815

NOTE 10 - COMMITMENTS

At June 30, 2026, the District had various construction contract commitments for projects outstanding totaling \$26,551,841.

NOTE 11 - GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 105, *Subsequent Events*. This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. This Statement will be effective for the year ending June 30, 2027.

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 277
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2026

	Budgeted Amounts		Variance with Original Budget - Over (Under) Final Budget	Actual Amounts	Variance with Final Budget - Over (Under) Actual Amounts
	Original	Final			
Revenues					
Local property taxes	\$ 13,240,817	\$ 13,353,296	\$ 112,479	\$ 13,345,074	\$ (8,222)
Other local and county revenues	2,124,477	2,258,754	134,277	2,456,746	197,992
Revenue from state sources	26,963,816	28,484,102	1,520,286	29,027,230	543,128
Revenue from federal sources	743,365	722,566	(20,799)	783,923	61,357
Sales and other conversion of assets	62,885	68,014	5,129	84,049	16,035
Total revenues	43,135,360	44,886,732	1,751,372	45,697,022	810,290
Expenditures					
Current					
Administration	1,437,001	1,448,194	11,193	1,463,924	15,730
District support services	1,608,245	1,966,603	358,358	2,132,818	166,215
Elementary and secondary regular instruction	18,296,260	18,538,495	242,235	18,598,248	59,753
Vocational education instruction	436,964	446,237	9,273	431,748	(14,489)
Special education instruction	9,379,777	9,806,932	427,155	9,784,695	(22,237)
Instructional support services	2,294,249	2,098,939	(195,310)	2,172,897	73,958
Pupil support services	2,959,128	3,268,682	309,554	3,240,717	(27,965)
Sites and buildings	3,207,807	3,801,843	594,036	3,729,884	(71,959)
Fiscal and other fixed cost programs	274,829	257,560	(17,269)	257,594	34
Capital outlay					
Administration	997	500	(497)	1,416	916
District support services	628,505	1,084,943	456,438	1,173,471	88,528
Elementary and secondary regular instruction	587,568	492,959	(94,609)	593,838	100,879
Vocational education instruction	-	19,992	19,992	27,227	7,235
Special education instruction	16,642	15,142	(1,500)	2,690	(12,452)
Instructional support services	-	4,736	4,736	15,431	10,695
Pupil support services	-	-	-	2,006	2,006
Sites and buildings	1,322,289	1,081,467	(240,822)	1,270,739	189,272
Debt service					
Principal	251,225	247,256	(3,969)	248,980	1,724
Interest and fiscal charges	40,264	42,471	2,207	38,140	(4,331)
Total expenditures	42,741,750	44,622,951	1,881,201	45,186,463	563,512
Excess of revenues over (under) expenditures	393,610	263,781	(129,829)	510,559	246,778
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	\$ 51,400	\$ 35,000	\$ (16,400)	\$ 25,510	\$ (9,490)
Note from direct borrowing issuance	-	107,428	107,428	109,336	1,908
Insurance recovery	-	-	-	22,622	22,622
Total other financing sources (uses)	51,400	142,428	91,028	157,468	15,040
Net change in fund balance	\$ 445,010	\$ 406,209	\$ (38,801)	668,027	\$ 261,818
Fund Balance					
Beginning of year				8,406,254	
End of year				\$ 9,074,281	

Independent School District No. 277
Notes to the Required Supplementary Information - Budget

Budgetary Comparison Schedules

Final Budget to Actual

Revenues

Revenue from state sources was over budget by \$543,128 due to special education aid coming in more than what was anticipated.

Expenditures

District support services were \$254,743 over budget primarily due to equipment expenditures coming in higher than anticipated.

Original Budget to Final Budget

Revenues

Revenue from state sources was increased by \$1,520,286 due to updated financial data including the revised budget anticipating a gain of 40 students compared to the original budget, which impacts state aids.

Expenditures

District support services current expenditures increased \$358,358, elementary and secondary regular instruction current expenditures increased \$242,235, special education instruction current expenditures increased \$427,155, pupil support services current expenditures increased \$309,554, sites and buildings current expenditures increased \$594,036. District support services capital expenditures increased \$456,438. Expenditures were adjusted based on current staff, their benefits and historical trends. The revised budget anticipated a gain of 40 students compared to the original budget.

Independent School District No. 277
Schedule of Changes in Total OPEB Liability
and Related Ratios

	<u>June 30, 2026</u>	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Total OPEB Liability					
Service cost	\$ 219,519	\$ 240,326	\$ 235,723	\$ 232,345	\$ 341,084
Interest cost	172,428	167,819	157,646	103,317	111,677
Assumption changes	(163,351)	33,804	(20,556)	(318,148)	67,626
Plan changes	-	24,240	-	-	-
Differences between expected and actual experience	-	(296,775)	-	(605,336)	-
Benefit payments	(249,569)	(242,822)	(203,451)	(171,240)	(118,937)
Other changes	-	-	-	-	-
Net change in total OPEB liability	<u>\$ (20,973)</u>	<u>\$ (73,408)</u>	<u>\$ 169,362</u>	<u>\$ (759,062)</u>	<u>\$ 401,450</u>
Beginning of year	<u>4,109,577</u>	<u>4,182,985</u>	<u>4,013,623</u>	<u>4,772,685</u>	<u>4,371,235</u>
End of year	<u>\$ 4,088,604</u>	<u>\$ 4,109,577</u>	<u>\$ 4,182,985</u>	<u>\$ 4,013,623</u>	<u>\$ 4,772,685</u>
Covered payroll	\$ 23,361,398	\$ 22,680,969	\$ 19,762,735	\$ 19,187,121	\$ 19,090,220
Total OPEB liability as a percentage of covered-employee payroll	17.50%	18.12%	21.17%	20.92%	25.00%

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

June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
\$ 316,997	\$ 305,712	\$ 278,558	\$ 272,018
157,345	161,114	153,243	144,975
(22,369)	116,710	10,113	-
-	-	46,759	-
(776,315)	-	(276,957)	-
(125,190)	(119,593)	(165,557)	(194,940)
-	-	-	-
<u>\$ (449,532)</u>	<u>\$ 463,943</u>	<u>\$ 46,159</u>	<u>\$ 222,053</u>
<u>4,820,767</u>	<u>4,356,824</u>	<u>4,310,665</u>	<u>4,088,612</u>
<u>\$ 4,371,235</u>	<u>\$ 4,820,767</u>	<u>\$ 4,356,824</u>	<u>\$ 4,310,665</u>
\$ 18,534,194	\$ 17,674,747	\$ 17,159,949	\$ 15,532,150
23.58%	27.27%	25.39%	27.75%

Independent School District No. 277
Notes to the Required Supplementary Information - OPEB

Post Employment Health Care Plan

2026 Changes

Assumption Changes

- The discount rate was changed from 4.10% to 4.90%.

2025 Changes

Changes in Plan Provisions

- The tax-deferred matching contribution for School Service employees was increased from \$700 to \$800 effective July 1, 2023 and to \$900 effective July 1, 2024. Note: The matching contributions are not included in the liability in this GASB 75 report, but they are used to offset GASB 75 severance payments.
- The Superintendent's post-employment subsidy changed from full district paid single medical premiums to full district paid employee plus spouse medical premiums.

Assumption Changes

- The health care trend rates were updated.
- The discount rate was changed from 3.90% to 4.10%.

2024 Changes

Assumption Changes

- The discount rate was changed from 3.80% to 3.90%.

2023 Changes

Assumption Changes

- The discount rate was changed from 2.10% to 3.80%.
- 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-2019 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 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.

2022 Changes

Assumption Changes

- The discount rate was changed from 2.40% to 2.10%.

2021 Changes

Assumption Changes

- The health care trend rates, mortality tables and salary increase rates were updated.
- The discount rate was changed from 3.10% to 2.40%.

2020 Changes

Assumption Changes

- The discount rate was changed from 3.50% to 3.10%.

Independent School District No. 277
Notes to the Required Supplementary Information - OPEB

Post Employment Health Care Plan (Continued)

2019 Changes

Changes in Plan Provisions

- A post-employment subsidized benefit was added for all food service employees.

Assumption Changes

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The discount rate was changed from 3.40% to 3.50%.

Independent School District No. 277
Schedule of District's and Non-Employer Proportionate Share
of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0693%	\$ 5,626,816	\$ 73,483	\$ 5,700,299	\$ 4,035,806	139.4%	68.9%
2017	0.0688%	4,392,147	55,244	4,447,391	4,433,560	99.1%	75.9%
2018	0.0770%	4,271,644	140,248	4,411,892	5,178,013	82.5%	79.5%
2019	0.0809%	4,472,780	138,994	4,611,774	5,724,280	78.1%	80.2%
2020	0.0759%	4,550,552	140,250	4,690,802	5,411,947	84.1%	79.1%
2021	0.0729%	3,113,157	95,163	3,208,320	5,247,520	59.3%	87.0%
2022	0.0732%	5,797,464	169,861	5,967,325	5,479,920	105.8%	76.7%
2023	0.0755%	4,221,875	116,411	4,338,286	6,003,227	70.3%	83.1%
2024	0.0758%	2,803,577	72,495	2,876,072	6,418,347	43.7%	89.1%
2025	0.0810%	2,682,998	64,722	2,747,720	7,332,587	36.6%	90.8%

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

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.2313%	\$ 55,170,569	\$ 5,537,327	\$ 60,707,896	\$ 11,509,427	479.4%	44.9%
2017	0.2334%	46,590,874	4,504,458	51,095,332	12,562,613	370.9%	51.6%
2018	0.2430%	15,261,941	1,433,806	16,695,747	13,424,853	113.7%	78.1%
2019	0.2465%	15,711,962	1,390,386	17,102,348	13,991,556	112.3%	78.2%
2020	0.2514%	18,573,769	1,556,718	20,130,487	14,609,899	127.1%	75.5%
2021	0.2560%	11,203,325	944,906	12,148,231	15,305,191	73.2%	86.6%
2022	0.2528%	20,242,887	1,501,471	21,744,358	15,629,245	129.5%	76.2%
2023	0.2511%	20,731,378	1,452,262	22,183,640	15,962,199	129.9%	76.4%
2024	0.2592%	16,470,845	1,077,261	17,548,106	17,172,823	95.9%	82.1%
2025	0.2602%	14,911,450	926,107	15,837,557	18,097,383	82.4%	84.5%

Independent School District No. 277
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2017	\$ 332,517	\$ 332,517	\$ -	\$ 4,433,560	7.50%
2018	388,351	388,351	-	5,178,013	7.50%
2019	429,321	429,321	-	5,724,280	7.50%
2020	405,896	405,896	-	5,411,947	7.50%
2021	393,564	393,564	-	5,247,520	7.50%
2022	410,994	410,994	-	5,479,920	7.50%
2023	450,242	450,242	-	6,003,227	7.50%
2024	481,376	481,376	-	6,418,347	7.50%
2025	549,944	549,944	-	7,332,587	7.50%
2026	564,975	564,975	-	7,533,000	7.50%

Schedule of District Contributions
TRA Retirement Fund
Last Ten Years

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2017	\$ 942,196	\$ 942,196	\$ -	\$ 12,562,613	7.50%
2018	1,006,864	1,006,864	-	13,424,853	7.50%
2019	1,078,749	1,078,749	-	13,991,556	7.71%
2020	1,157,104	1,157,104	-	14,609,899	7.92%
2021	1,244,312	1,244,312	-	15,305,191	8.13%
2022	1,303,479	1,303,479	-	15,629,245	8.34%
2023	1,364,768	1,364,768	-	15,962,199	8.55%
2024	1,502,622	1,502,622	-	17,172,823	8.75%
2025	1,583,521	1,583,521	-	18,097,383	8.75%
2026	1,833,674	1,833,674	-	18,691,886	9.81%

Independent School District No. 277
Notes to the Required Supplementary Information - Pension

TRA Retirement Funds

2025 Changes

Changes in Actuarial Assumptions

- Liability load for inactive non-vested members changed from 9% to 13% and the liability load for inactive vested members changed from 7% to 6%.

2024 Changes

Changes in Actuarial Assumptions

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

Changes of Benefit Terms

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

2023 Changes

Changes in Actuarial Assumptions

- None

2022 Changes

Changes in Actuarial Assumptions

- None

2021 Changes

Changes in Actuarial Assumptions

- The investment return assumption was changed from 7.5% to 7.0%.

2020 Changes

Changes in Actuarial Assumptions

- Assumed termination rates were changed to more closely reflect actual experience.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP 2015 scale.
- Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

2019 Changes

Changes in Actuarial Assumptions

- None

Independent School District No. 277
Notes to the Required Supplementary Information - Pension

TRA Retirement Funds (Continued)

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The cost-of-living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022 and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2017 Changes

Changes in Actuarial Assumptions

- The discount rate was increased to 5.12% from 4.66%.
- The cost-of-living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.

Independent School District No. 277
Notes to the Required Supplementary Information - Pension

TRA Retirement Funds (Continued)

2016 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

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

Independent School District No. 277
Notes to the Required Supplementary Information - Pension

General Employees Fund

2025 Changes

Changes in Actuarial Assumptions

- The combined service annuity loading factors increased from 15% to 19% for vested terminated members and from 3% to 44% for non-vested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25% to 1.5%.

Changes in Plan Provisions

- The post-retirement benefit increase formula changed to 100% of the Social Security annual increase, between 1% and 1.75% , beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85% for the last two consecutive annual valuations or is less than 80% in the most recent actuarial valuation, the maximum is reduced to 1.5%. Previously, the benefit increase was 50% of the Social Security annual increase, between 1% and 1.5%.
- The 1% additional employer contribution is eliminated when the plan reaches 98% funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100% funded status.

2024 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2023 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2022 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

Independent School District No. 277
Notes to the Required Supplementary Information - Pension

General Employees Fund (Continued)

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were 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 and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

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

2019 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

Independent School District No. 277
Notes to the Required Supplementary Information - Pension

General Employees Fund (Continued)

2018 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. This does not apply to Rule of 90 retirees, disability benefit recipients or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions

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

2016 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

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SUPPLEMENTARY INFORMATION

Independent School District No. 277
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2026

	Special Revenue Funds			Total Nonmajor Funds
	Food Service	Community Service	Total Special Revenue	
Assets				
Cash and investments	\$ 243,275	\$ 1,013,348	\$ 1,256,623	\$ 1,256,623
Current property taxes receivable	-	490,189	490,189	490,189
Delinquent property taxes receivable	-	22,864	22,864	22,864
Accounts receivable	-	78,295	78,295	78,295
Due from Department of Education	143,612	24,484	168,096	168,096
Due from other Minnesota school districts	-	7,176	7,176	7,176
Due from Federal Government through Department of Education	86,615	-	86,615	86,615
Inventory	11,048	-	11,048	11,048
Prepaid items	124,820	23,098	147,918	147,918
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 609,370</u>	<u>\$ 1,659,454</u>	<u>\$ 2,268,824</u>	<u>\$ 2,268,824</u>
Liabilities				
Accounts payable	\$ 8,624	55,337	63,961	\$ 63,961
Salaries and benefits payable	10,652	147,037	157,689	157,689
Unearned revenue	84,833	-	84,833	84,833
Total liabilities	<u>104,109</u>	<u>202,374</u>	<u>306,483</u>	<u>306,483</u>
Deferred Inflows of Resources				
Unavailable revenue - delinquent property taxes	-	18,405	18,405	18,405
Property taxes levied for subsequent year's expenditures	-	985,807	985,807	985,807
Total deferred inflows of resources	<u>-</u>	<u>1,004,212</u>	<u>1,004,212</u>	<u>1,004,212</u>
Fund Balances				
Nonspendable	135,868	23,098	158,966	158,966
Restricted	369,393	429,770	799,163	799,163
Total fund balances	<u>505,261</u>	<u>452,868</u>	<u>958,129</u>	<u>958,129</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 609,370</u>	<u>\$ 1,659,454</u>	<u>\$ 2,268,824</u>	<u>\$ 2,268,824</u>

Independent School District No. 277
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2026

	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>Food Service</u>	<u>Community Service</u>	<u>Total Special Revenue</u>	<u>Nonmajor Funds</u>
Revenues				
Local property taxes	\$ -	\$ 1,118,761	\$ 1,118,761	\$ 1,118,761
Other local and county revenues	35,885	3,516,639	3,552,524	3,552,524
Revenue from state sources	1,224,315	389,868	1,614,183	1,614,183
Revenue from federal sources	698,847	-	698,847	698,847
Sales and other conversion of assets	213,155	-	213,155	213,155
Total revenues	<u>2,172,202</u>	<u>5,025,268</u>	<u>7,197,470</u>	<u>7,197,470</u>
Expenditures				
Current				
Food service	2,252,195	-	2,252,195	2,252,195
Community education and services	-	4,933,616	4,933,616	4,933,616
Capital outlay				
Food service	513,089	-	513,089	513,089
Community education and services	-	12,640	12,640	12,640
Debt service				
Principal	-	19,397	19,397	19,397
Interest and fiscal charges	-	1,242	1,242	1,242
Total expenditures	<u>2,765,284</u>	<u>4,966,895</u>	<u>7,732,179</u>	<u>7,732,179</u>
Excess of revenues over (under) expenditures	(593,082)	58,373	(534,709)	(534,709)
Other Financing Sources				
Proceeds from sale of capital assets	<u>15,299</u>	<u>-</u>	<u>15,299</u>	<u>15,299</u>
Net change in fund balances	(577,783)	58,373	(519,410)	(519,410)
Fund Balances				
Beginning of year	<u>1,083,044</u>	<u>394,495</u>	<u>1,477,539</u>	<u>1,477,539</u>
End of year	<u>\$ 505,261</u>	<u>\$ 452,868</u>	<u>\$ 958,129</u>	<u>\$ 958,129</u>

Independent School District No. 277
Combining Statement of
Net Position - Internal Service Funds
June 30, 2026

Internal Service Funds			
	Post Employment Benefits Revocable Trust Fund	Self-Insured Benefits	Total
Assets			
Cash and cash equivalents	\$ 1,990,314	\$ 4,177,407	\$ 6,167,721
Investments	1,207,083	-	1,207,083
Interest receivable	8,894	-	8,894
Prepaid items	-	98,752	98,752
Total assets	<u>\$ 3,206,291</u>	<u>\$ 4,276,159</u>	<u>\$ 7,482,450</u>
Liabilities and Net Position			
Liabilities			
Accounts payable	\$ -	\$ 481,815	\$ 481,815
Net Position			
Unrestricted	<u>3,206,291</u>	<u>3,794,344</u>	<u>7,000,635</u>
Total liabilities and net position	<u>\$ 3,206,291</u>	<u>\$ 4,276,159</u>	<u>\$ 7,482,450</u>

Independent School District No. 277
Combining Statement of Revenues, Expenses, and Changes
in Fund Net Position - Internal Service Funds
Year Ended June 30, 2026

	Internal Service Funds		
	Post Employment Benefits Revocable Trust Fund	Self-Insured Benefits	Total
Operating Revenues			
Charges for services	\$ -	\$ 5,762,522	\$ 5,762,522
Operating Expenses			
Employee benefits	272,022	5,746,749	6,018,771
Professional services	229	-	229
Total operating expenses	<u>272,251</u>	<u>5,746,749</u>	<u>6,019,000</u>
Operating income (loss)	(272,251)	15,773	(256,478)
Nonoperating Revenues			
Investment income	<u>99,557</u>	<u>-</u>	<u>99,557</u>
Change in net position	(172,694)	15,773	(156,921)
Net Position			
Beginning of year	<u>3,378,985</u>	<u>3,778,571</u>	<u>7,157,556</u>
End of year	<u>\$ 3,206,291</u>	<u>\$ 3,794,344</u>	<u>\$ 7,000,635</u>

Independent School District No. 277
Combining Statement of Cash Flows -
Internal Service Funds
Year Ended June 30, 2026

	Internal Service Funds		
	Post Employment Benefits Revocable Trust Fund	Self-Insured Benefits	Total
Cash Flows - Operating Activities			
Receipts from employee contributions	\$ -	\$ 5,734,866	\$ 5,734,866
Payments to employees	(272,022)	(5,597,238)	(5,869,260)
Payments to vendors	(229)	-	(229)
Net cash flows - operating activities	(272,251)	137,628	(134,623)
Cash Flows - Investment Activities			
Sale (purchase) of investments	253,397	-	253,397
Interest received	105,077	-	105,077
Net cash flows - investment activities	358,474	-	358,474
Net change in cash and cash equivalents	86,223	137,628	223,851
Cash and Cash Equivalents			
Beginning of year	1,904,091	4,039,779	5,943,870
End of year	\$ 1,990,314	\$ 4,177,407	\$ 6,167,721
Reconciliation of Operating Income to Net Cash Flows - Operating Activities			
Operating loss	\$ (272,251)	\$ 15,773	\$ (256,478)
Adjustments to reconcile operating loss to net cash flows - operating activities			
Accounts payable	-	149,511	149,511
Prepays	-	(27,656)	(27,656)
Net adjustments	-	121,855	121,855
Net cash flows - operating activities	\$ (272,251)	\$ 137,628	\$ (134,623)

Independent School District No. 277
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2026

	Audit	UFARS	Audit- UFARS		Audit	UFARS	Audit- UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total revenue	\$ 45,697,022	\$ 45,697,022	\$ -	Total revenue	\$ 1,504,214	\$ 1,504,214	\$ -
Total expenditures	45,186,463	45,186,462	1	Total expenditures	48,204,257	48,204,256	1
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable Fund Balance	97,128	97,128	-	4.60 Nonspendable Fund Balance	441,066	441,066	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
4.01 Student Activities	511,139	511,139	-	4.07 Capital Projects Levy	-	-	-
4.02 Scholarships	-	-	-	4.13 Funded by COP/FP	-	-	-
4.03 Staff Development	-	-	-	4.67 LTFM	-	-	-
4.07 Capital Projects Levy	351,535	351,535	-	<i>Restricted:</i>			
4.08 Cooperative Revenue	-	-	-	4.64 Restricted Fund Balance	42,907,633	42,907,633	-
4.12 Literacy Incentive Aid	-	-	-	<i>Unassigned:</i>			
4.14 Operating Debt	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.16 Levy Reduction	-	-	-				
4.17 Taconite Building Maintenance	-	-	-	07 DEBT SERVICE FUND			
4.20 American Indian Education Aid	-	-	-				
4.24 Operating Capital	438,560	438,560	-	Total revenue	\$ 7,588,824	\$ 7,588,825	\$ (1)
4.26 \$25 Taconite	-	-	-	Total expenditures	7,253,756	7,253,759	(3)
4.27 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
4.28 Learning and Development	-	-	-	4.60 Nonspendable Fund Balance	-	-	-
4.34 Area Learning Center	-	-	-	<i>Restricted/reserved:</i>			
4.35 Contracted Alt. Programs	-	-	-	4.25 Bond Refunding	-	-	-
4.36 State Approved Alt. Program	-	-	-	4.33 Maximum Effort Loan Aid	-	-	-
4.37 Q Comp	-	-	-	4.51 QZAB Payments	-	-	-
4.38 Gifted and Talented	-	-	-	4.67 LTFM	-	-	-
4.39 English Learner	-	-	-	<i>Restricted:</i>			
4.40 Teacher Development and Evaluation	-	-	-	4.64 Restricted Fund Balance	1,623,342	1,623,341	1
4.41 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
4.43 School Library Aid	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.48 Achievement and Integration	-	-	-				
4.49 Safe School Levy	-	-	-	08 TRUST FUND			
4.51 QZAB Payments	-	-	-	Total revenue	\$ -	\$ -	\$ -
4.52 OPEB Liab Not in Trust	-	-	-	Total expenditures	-	-	-
4.53 Unfunded Sev & Retirement Levy	-	-	-	<i>Unassigned:</i>			
4.56 READ Act - Literacy Aid	-	-	-	4.01 Student Activities	-	-	-
4.57 READ Act - Tchr Training	-	-	-	4.02 Scholarships	-	-	-
Compensation	507	507	-	4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.67 LTFM	107,022	107,022	-				
4.71 Student Support Personnel Aid	-	-	-	18 CUSTODIAL FUND			
4.72 Medical Assistance	-	-	-				
<i>Restricted:</i>				Total revenue	\$ 118,628	\$ 118,628	\$ -
4.64 Restricted Fund Balance	-	-	-	Total expenditures	96,697	96,697	-
4.75 Title VII - Impact Aid	-	-	-	<i>Unassigned:</i>			
4.76 Payments in Lieu of Taxes	-	-	-	4.01 Student Activities	-	-	-
<i>Committed:</i>				4.02 Scholarships	170,227	170,227	-
4.18 Committed for Separation	95,638	95,638	-	4.48 Achievement and Integration	-	-	-
4.61 Committed Fund Balance	-	-	-	4.64 Restricted Fund Balance	-	-	-
<i>Assigned:</i>							
4.62 Assigned Fund Balance	3,200,575	3,200,575	-	20 INTERNAL SERVICE FUND			
<i>Unassigned:</i>							
4.22 Unassigned Fund Balance	4,272,177	4,272,181	(4)	Total revenue	\$ 5,762,522	\$ 5,762,522	\$ -
				Total expenditures	5,746,749	5,746,748	1
02 FOOD SERVICE FUND				<i>Unassigned:</i>			
Total revenue	\$ 2,172,202	\$ 2,172,201	\$ 1	4.22 Unassigned Fund Balance (Net Assets)	3,794,344	3,794,344	-
Total expenditures	2,765,284	2,765,285	(1)				
<i>Nonspendable:</i>				25 OPEB REVOCABLE TRUST			
4.60 Nonspendable Fund Balance	135,868	135,867	1				
<i>Restricted/reserved:</i>				Total revenue	\$ 99,557	\$ 99,557	\$ -
4.52 OPEB Liab Not in trust	-	-	-	Total expenditures	272,251	272,250	1
<i>Restricted:</i>				<i>Unassigned:</i>			
4.64 Restricted Fund Balance	369,393	369,392	1	4.22 Unassigned Fund Balance (Net Assets)	3,206,291	3,206,292	(1)
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	-	-	-	45 OPEB IRREVOCABLE TRUST			
04 COMMUNITY SERVICE FUND				Total revenue	\$ -	\$ -	\$ -
Total revenue	\$ 5,025,268	\$ 5,025,266	\$ 2	Total expenditures	-	-	-
Total expenditures	4,966,895	4,966,891	4	<i>Unassigned:</i>			
<i>Nonspendable:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.60 Nonspendable Fund Balance	23,098	23,098	-				
<i>Restricted/reserved:</i>				47 OPEB DEBT SERVICE			
4.26 \$25 Taconite	-	-	-				
4.31 Community Education	335,162	335,162	-	Total revenue	\$ -	\$ -	\$ -
4.32 E.C.F.E.	12,862	12,862	-	Total expenditures	-	-	-
4.40 Teacher Development and Evaluation	-	-	-	<i>Nonspendable</i>			
4.44 School Readiness	2,662	2,662	-	4.60 Nonspendable Fund Balance	-	-	-
4.47 Adult Basic Education	-	-	-	<i>Restricted</i>			
4.52 OPEB Liab Not in Trust	-	-	-	4.25 Bond Refundings	-	-	-
4.56 READ Act - Literacy Aid	-	-	-	4.64 Restricted Fund Balance	-	-	-
4.57 READ Act - Tchr Training	-	-	-	<i>Unassigned</i>			
Compensation	-	-	-	4.63 Unassigned Fund Balance	-	-	-
<i>Restricted:</i>							
4.64 Restricted Fund Balance	79,084	79,085	(1)				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	-	-	-				

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

Independent Auditor's Report

To the School Board
Independent School District No. 277
Minnetrista, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ending June 30, 2026, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 6, 2026.

Report on Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Corrective Action Plans on Internal Control as audit finding 2026-001 to be a significant deficiency.

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the finding identified in our audit and described in the accompanying Schedule of Findings and **Corrective Action Plans on Internal Control**. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

BerganKDV, Ltd.

Minneapolis, Minnesota
October 6, 2026

**Independent School District No. 277
Schedule of Findings and Corrective
Action Plans on Internal Control**

FINANCIAL STATEMENT FINDINGS

Audit Finding 2026-001 - Lack of Segregation of Accounting Duties

Criteria:

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

Condition:

During the year ended June 30, 2026, the District had a lack of segregation of accounting duties due to a limited number of office employees. This condition increases the risk that errors could occur which would not be prevented or detected and corrected, on a timely basis. This lack of segregation can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Director of Finance has access to all areas of the accounting system.
- The District Accountant inputs employees' hours, generates direct deposit checks and sends the transfer amount to the bank.
- The Director of Finance records and maintains all capital asset records.
- The District Accountant records the deposits and prepares the bank reconciliation.
- The Director of Finance records and maintains state, federal and tax revenues and receivables.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Because of this reason, management has determined a complete segregation of accounting duties is impractical to correct.

Context:

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

Cause:

There are a limited number of office employees.

Effect or Potential Effect:

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

Recommendation:

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

**Independent School District No. 277
Schedule of Findings and Corrective
Action Plans on Internal Control**

FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2026-001 (Continued)

Views of the Responsible Officials and Planned Corrective Actions:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will take the necessary corrective action to address the lack of segregation of duties identified as an audit finding. The District will also evaluate other key accounting processes and procedures to ensure adequate segregation of duties is achieved.
3. Official Responsible for Ensuring CAP
Kathy Miller, Director of Finance, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2027.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.



Minnesota Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 277
Minnetrista, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2026, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 6, 2026.

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

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

BerganKDV, Ltd.

Minneapolis, Minnesota
October 6, 2026