# Independent School District No. 318
# Grand Rapids, Minnesota

## Basic Financial Statements

## June 30, 2023

bergankdv.com // DO MORE.

**Independent School District No. 318**
**Table of Contents**

**Independent School District No. 318**
**Table of Contents**

**Independent School District No. 318**
**Board of Education and Administration**
**June 30, 2023**

| Board of Education | Position | Term Expires |
|---|---|---|
| Mark Schroeder | Chairperson | January 1, 2027 |
| David Marty | Clerk | January 1, 2027 |
| Ben Hawkins | Treasurer | January 1, 2025 |
| Melissa Bahr | Director | January 1, 2027 |
| Pat Medure | Director | January 1, 2025 |
| Mindy Nuhring | Director | January 1, 2025 |

| Administration | |
|---|---|
| Matt Grose | Superintendent |
| Kara Lundin | Business Manager |

## Independent Auditor's Report

To the School Board
Independent School District No. 318
Grand Rapids, Minnesota

**Report on the Audit of the Financial Statements**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 318, Grand Rapids, Minnesota, as of and for the year ended June 30, 2023, 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. 318, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independent School District No. 318 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 – Implementation of GASB 96**

The District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

**Responsibilities of Management for the Financial Statements**

The management of Independent School District No. 318 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, which 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 combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***
In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV, Ltd.

St. Cloud, Minnesota
November 2, 2023

**Independent School District No. 318**
**Management's Discussion and Analysis**

This section of Independent School District No. 318, Grand Rapids, annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2023. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model required by GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. GASB Statement No. 34 establishes reporting requirements that include financial statements, expanded disclosure, and supplemental information, including the MD&A (this section).

Comparative information between the current fiscal year and the prior fiscal year is presented in the MD&A.

## FINANCIAL HIGHLIGHTS

Key financial highlights for the 2022-2023 fiscal year include the following:

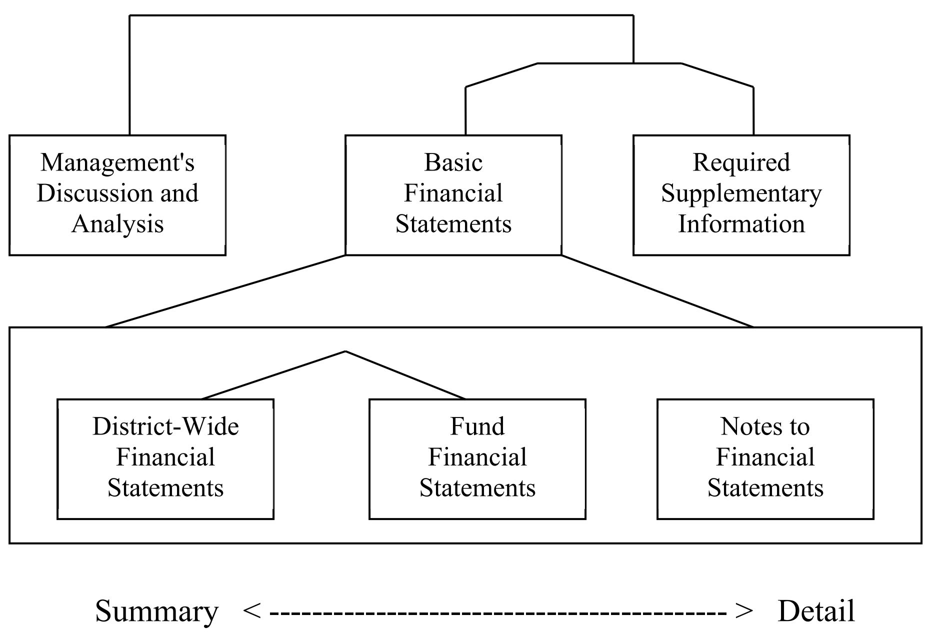
- The General Fund had an operating surplus for the first time since the FY2015-2016 school year.
- Both the Food Service and Community Service Funds had operating surpluses.
- The District increased its health insurance premiums by 25% and 18% over the past two years in order to offset the prior 4-years of operating losses in the Health Insurance Fund. The net position increased over the past two years by approximately $1,498,000, or 200% going from $743,655 at the end of fiscal year 2021 to $2,241,975 as of June 30, 2023. The District's goal is 35% of expenses or $5.3 million.
- The City of Bigfork was awarded a $1.5 million cash bill from the 2023 legislature for the Bigfork School's new fitness facility and other amenities. These funds will not be received until FY24.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor's Report; required supplementary information, which includes the MD&A (this section); the basic financial statements and the supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund-financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements. There are three types of these.
- The first type are governmental funds statements that tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- The second type is fiduciary funds statements which provide information about the financial relationships in which the District acts solely as a trustee or custodian for the benefit of others to whom the resources belong.
- The third type is proprietary funds statements which provide information about activities the District operates like a business. The District currently has two internal service funds that account for the District's self-insured risks and other post-employment benefits.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The diagram below shows how the various parts of this annual report is arranged and related to one another.



## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

| Fund Financial Statements | | | | |
|---|---|---|---|---|
| | **District-Wide Statements** | **Governmental Funds** | **Fiduciary Fund** | **Proprietary Funds** |
| Scope | Entire District (except fiduciary funds) | The activities of the District that are not fiduciary, such as general education, special education and building maintenance. | Instances in which the District administers resources on behalf of someone else - scholarships. | The activities the District operates like a business, such as retiree and District employee's self-funded health insurances benefits. |
| Required Financial Statements | • Statement of Net Position<br>• Statement of Activities | • Balance Sheet<br>• Statement of Revenues, Expenditures, and Changes in Fund Balances | • Statement of Fiduciary Position<br>• Statement of Changes in Fiduciary Net Position | • Statement of Net Position<br>• Statement of Revenues, Expenses, and Changes in Fund Net Position<br>• Statement of Cash Flows |
| Accounting Basis and Measurement Focus | Accrual accounting and economic resources focus. | Modified accrual accounting and current financial focus. | Accrual accounting and economic resources focus. | Accrual accounting and economic resources focus. |
| Type of Assets/Liability Information | All assets and liabilities, both financial and capital, short-term and long-term. | Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities are included. | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can. | All assets and liabilities, both financial and capital, and short-term and long-term. |
| Type of Inflow/Outflow Information | All revenues and expenses during year, regardless of when cash is received or paid. | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable. | All additions and deductions during the year, regardless of when cash is received or paid. | All revenues and expenses during the year, regardless of when cash is received or paid. |

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### District-Wide Statements

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

The two district-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one way to measure the District's financial health or position.

- Over time, increases, or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base, the condition of school buildings and other facilities and the long-term retirement commitments that have been made to certain employees.

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

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

### Fund Financial Statements

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

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues.

The District has three kinds of funds:

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

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### Fund Financial Statements (Continued)

The District has three kinds of funds: (Continued)

- Proprietary Funds: The District uses Internal Service Funds to account for operations of the District's self-insured Health Insurance plans and to account for its retiree health insurance costs and the payments of these from its revocable trust fund. The activities of these funds are reported in a separate Statement of Net Position, Statement of Revenues, Expenses, and changes in Fund Net Position, and Statement of Cash Flows. This activity is also included in the Government-Wide Statement of Net Position and Statement of Activities.

- Fiduciary Funds: The District is the trustee, or fiduciary, for assets that belong to others to provide scholarships to students. The District is responsible for ensuring that the assets reported in these funds are used only by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS)

### Net Position

The District's combined net position at June 30, 2023, was ($101,380,000), an increase of nearly $11 million from fiscal year ended June 30, 2022. While the deficit net position is significant, the largest reason for this is the retiree health insurance and pension liabilities. Without those future obligations, the District would have a positive net position.

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

| | 2022 | 2023 | Change | |
|---|---|---|---|---|
| Capital assets | $ 140,898,892 | $ 142,046,532 | $ 1,147,640 | 1% |
| Current and other assets | 54,659,742 | 53,934,359 | (725,383) | -1% |
| Total assets | 195,558,634 | 195,980,891 | 422,257 | 0% |
| Deferred Outflows of Resources | 50,036,124 | 43,650,685 | (6,385,439) | -13% |
| Long-term liabilities | 283,335,780 | 265,412,466 | (17,923,314) | -6% |
| Other liabilities | 14,633,076 | 17,649,311 | 3,016,235 | 21% |
| Total liabilities | 297,968,856 | 283,061,777 | (14,907,079) | -5% |
| Deferred Inflows of Resources | 59,884,841 | 57,951,537 | (1,933,304) | -3% |
| Net position | | | | |
| Net investment in capital assets | 63,707,569 | 58,361,234 | (5,346,335) | -8% |
| Restricted | 5,170,680 | 5,916,778 | 746,098 | 14% |
| Unrestricted (deficit) | (181,137,188) | (165,659,750) | 15,477,438 | 9% |
| Total net position (deficit) | $ (112,258,939) | $ (101,381,738) | $ 10,877,201 | 10% |

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)

### Change in Net Position

The District's revenues exceeded its expenses for the year ended June 30, 2023. A summary of the revenues and expenses is presented in Table A-2 below.

**Table A-2**

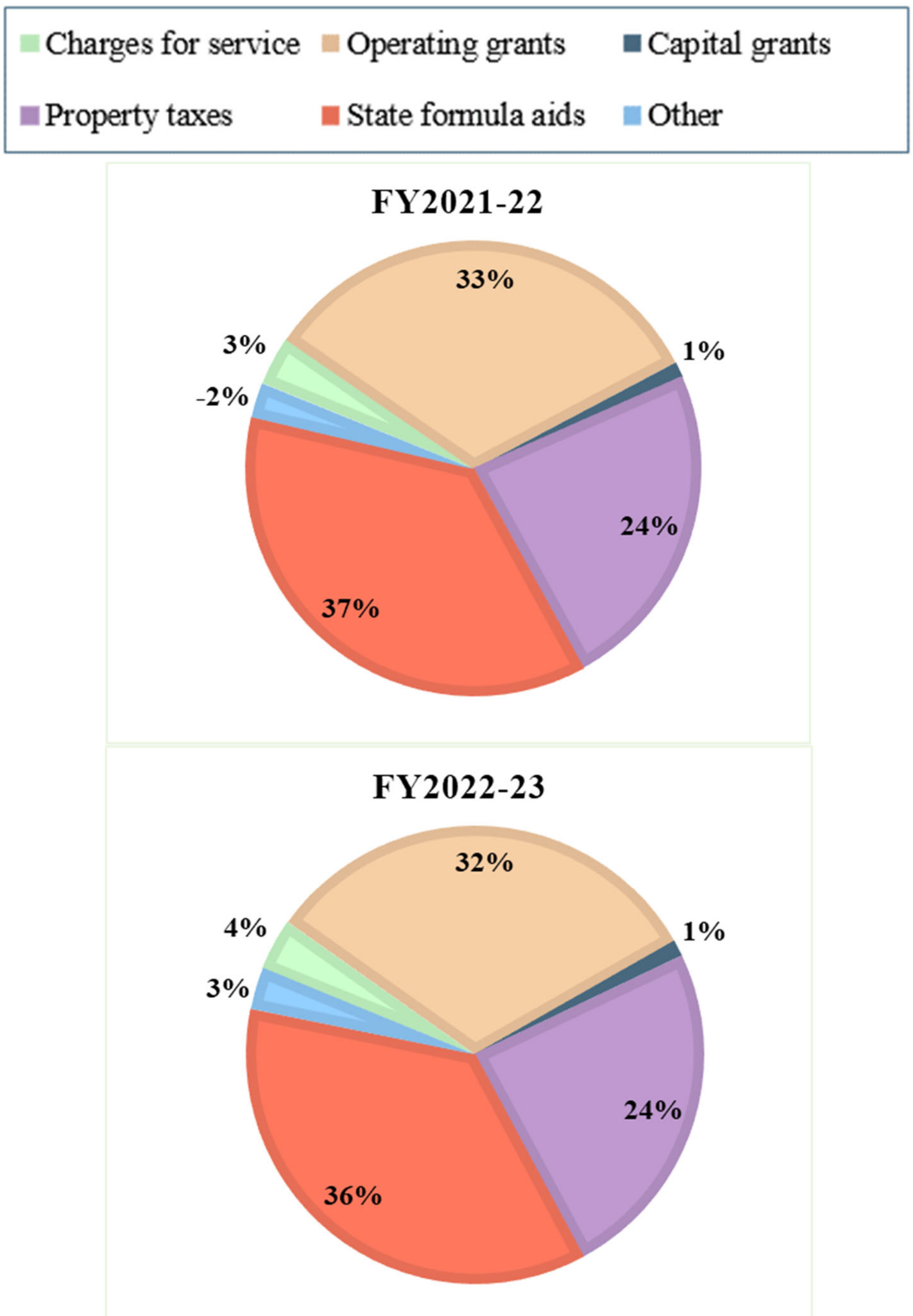
| | 2022 | 2023 | Change | |
|---|---|---|---|---|
| Revenues | | | | |
| Program revenues | | | | |
| Charges for service | $ 2,456,854 | $ 2,723,469 | $ 266,615 | 11% |
| Operating grants and contributions | 23,261,057 | 23,611,420 | 350,363 | 2% |
| Capital grants and contributions | 794,389 | 858,081 | 63,692 | 8% |
| General revenues | | | | |
| Property taxes | 16,803,982 | 17,866,818 | 1,062,836 | 6% |
| State formula aids | 26,058,693 | 26,601,182 | 542,489 | 2% |
| Other | (1,746,502) | 2,176,933 | 3,923,435 | 225% |
| Total revenues | 67,628,473 | 73,837,903 | 6,209,430 | 9% |
| Expenses | | | | |
| District and school administration | 3,787,404 | 3,015,638 | (771,766) | -20% |
| District support services | 1,661,024 | 1,787,091 | 126,067 | 8% |
| Regular instruction | 29,189,540 | 20,103,040 | (9,086,500) | -31% |
| Vocational instruction | 1,123,994 | 844,861 | (279,133) | -25% |
| Special education instruction | 13,802,295 | 10,939,745 | (2,862,550) | -21% |
| Instructional support services | 3,028,125 | 2,127,653 | (900,472) | -30% |
| Pupil support services | 6,041,572 | 5,669,051 | (372,521) | -6% |
| Sites, buildings and equipment | 5,852,758 | 5,223,018 | (629,740) | -11% |
| Food service | 2,322,291 | 2,441,991 | 119,700 | 5% |
| Community service | 1,296,029 | 1,215,989 | (80,040) | -6% |
| Interest & fiscal charges on lt debt | 3,281,128 | 3,446,506 | 165,378 | 5% |
| Fiscal and other fixed cost programs | 229,762 | 273,704 | 43,942 | 19% |
| Unallocated depreciation expense | 3,428,119 | 5,872,415 | 2,444,296 | 71% |
| Total expenses | 75,044,041 | 62,960,702 | (12,083,339) | -16% |
| Change in net position | (7,415,568) | 10,877,201 | 18,292,769 | 247% |
| Beginning of year net position | (104,843,371) | (112,258,939) | (7,415,568) | -7% |
| End of year net position (deficit) | $ (112,258,939) | $ (101,381,738) | $ 10,877,201 | 10% |

The significant decreases in program expenses from FY22 to FY23 are a result of the changes in the District's pension and OPEB liabilities. Programs that are mainly made up of teacher salaries and benefits saw the largest decreases as those liabilities decreased due to inflation and higher interest rates assumed in the actuarial calculations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)

The District's total revenue of $74,000,000 consists of the categories below. Overall, revenues were higher than the prior year due to an increase in interest revenue of nearly $4 million as well as other increases in all of the categories. Those other increases were minor.

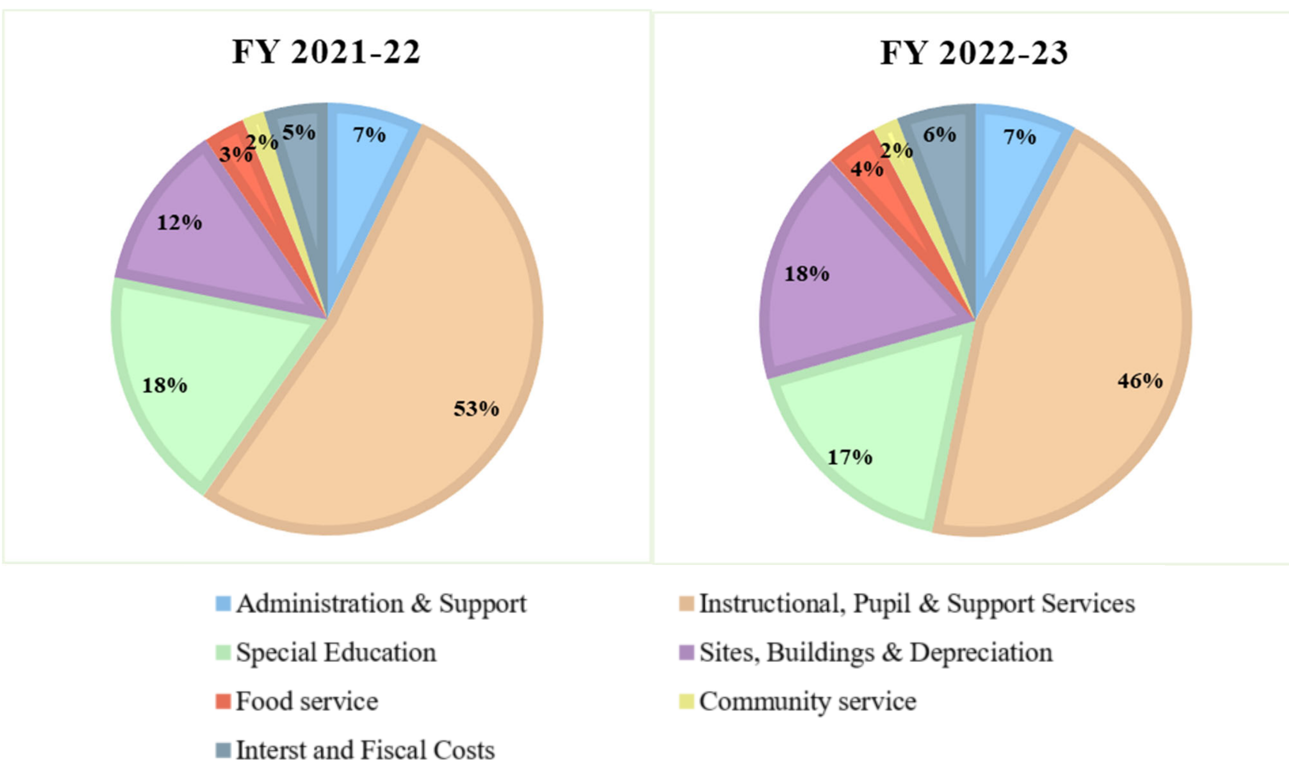
**Revenues Table A-3**



**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)**

The District's total expenses of $62,900,000 decreased from the prior year by 16%. Governmental fund expenditures were approximately $14 million more than the government-wide expenditures. While the District-wide expenses are a culmination of the fiscal year's activity, the long-term assumptions associated with the District's pension and OPEB liabilities make this amount nearly irrelevant. The Statement of Activities includes expenses that aren't recorded in the fund statements or recognized when the District is making current decisions. Program expenses attributed with salaries and benefits had the largest decreases from the prior year due to the pension and OPEB estimates. District expenditures were nearly flat with the prior year, increasing only because of the construction at Bigfork, Southwest and the Grand Rapids High School.

**Expenses – Graphs A-4**




The net cost of governmental activities is the total cost of the program less the related revenues applicable to each category. Table A-5 presents these costs. All category of expense shows a negative net cost of services because property taxes and state aid formula grants support a large part of each program and depreciation expenses it added to increase the expenses. Food service had revenues in excess of its expenses in FY22, however, depreciation expense in FY23 caused the program to have a negative net cost. The decrease in the net costs of services in consistent with the decrease in expenses.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)

### Table A-5

| | Total Cost of Services | | | Net Cost of Services | | |
|---|---|---|---|---|---|---|
| | 2021-22 | 2022-23 | Percent Change | 2021-22 | 2022-23 | Percent Change |
| District and school administration | $ 3,787,404 | $ 3,015,638 | -20% | $ (3,675,959) | $ (2,937,838) | -20% |
| District support services | 1,661,024 | 1,787,091 | 8% | (1,268,038) | (1,600,504) | 26% |
| Regular instruction | 29,189,540 | 20,103,040 | -31% | (23,165,604) | (12,677,842) | -45% |
| Vocational instruction | 1,123,994 | 844,861 | -25% | (1,084,211) | (817,255) | -25% |
| Special education instruction | 13,802,295 | 10,939,745 | -21% | (3,216,774) | (264,461) | -92% |
| Instructional support services | 3,028,125 | 2,127,653 | -30% | (1,681,498) | (996,833) | -41% |
| Pupil support services | 6,041,572 | 5,669,051 | -6% | (2,592,474) | (2,342,657) | -10% |
| Sites, buildings and equipment | 5,852,758 | 5,223,018 | -11% | (4,811,507) | (4,215,822) | -12% |
| Food service | 2,322,291 | 2,441,991 | 5% | 241,362 | (110,752) | -146% |
| Community service | 1,296,029 | 1,215,989 | -6% | (338,029) | (211,143) | -38% |
| Interest & fiscal charges on lt debt | 3,281,128 | 3,446,506 | 5% | (3,281,128) | (3,446,506) | 5% |
| Fiscal and other fixed cost programs | 229,762 | 273,704 | 19% | (229,762) | (273,704) | 19% |
| Unallocated depreciation expense | 3,428,119 | 5,872,415 | 71% | (3,428,119) | (5,872,415) | 71% |
| Total expenses | $ 75,044,041 | $ 62,960,702 | -16% | $ (48,531,741) | $ (35,767,732) | -26% |

### Financial Analysis of the Districts Funds

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of $18,148,000. This is down $676,000 from the prior year's governmental fund balance of $18,824,000. At the end of fiscal year 2023, every fund had an increase in its fund balance, with the exception of the Capital Projects Fund which is meant to recognize bond proceeds and the related project expenditures.

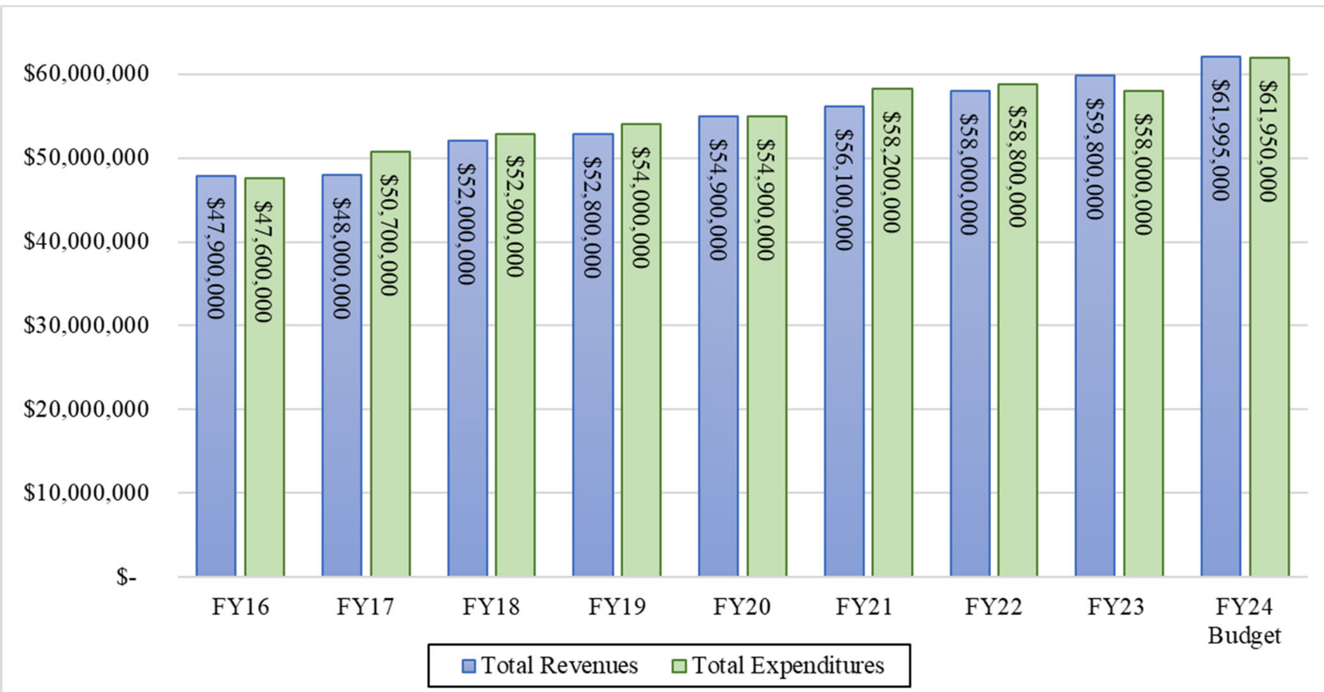
### General Fund

| | Budget | | | Variance | |
|---|---|---|---|---|---|
| | Orignal | Final | Acutual | Over/(Under) | |
| Total Revenues & Other Sources | $ 59,914,600 | $ 60,268,910 | $ 59,809,264 | $ (459,646) | -0.8% |
| Total Expenditures | 59,914,600 | 60,268,910 | 58,058,223 | $ (2,210,687) | -3.7% |
| Net Change in fund balance | - | - | 1,751,041 | 1,751,041 | |
| Fund balance, beginning | 4,863,983 | 4,863,983 | 4,863,983 | $ 4,863,983 | |
| Fund balance, ending | $ 4,863,983 | $ 4,863,983 | $ 6,615,024 | $ 6,615,024 | |

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)

### General Fund (Continued)

For the first time in 7-years, the General Fund's revenues exceeded the expenditures. The District's original budget was balanced as was its revised budget. Both revenues and expenditures were below budget but expenditures by 3.7% and revenues, only 0.8%. Expenditure were under budget due to conservative budgeting with health insurance which has increased significantly over the past two years and because of the grant received for the Bigfork project. It was unknown how much the General Fund would have to cover of that project but since the grant was received and spending has been kept to only the basics, a transfer from the General Fund was not needed. Revenues were under budget due to not drawing on all of the Covid funds originally budgeted. This provides the District with additional funds to use through September 2024.




### Building Construction Fund

The building construction fund is used to account for bond proceeds received and the related capital expenditures. Projects paid for in this fund were the Southwest renovations, Bigfork renovations and the Grand Rapids High School Air Quality project. Bond proceeds received in fiscal year 2023 were for the Southwest renovation as the remaining bond authority from the 2018 voter capital referendum. Projects will be completed in the next two years.

### Debt Service and Postemployment Benefits Debt Service Funds

The Debt service funds are used to collect taxes levied and pay the subsequent principal and interest payments on the related bonds. Both funds are highly regulated through the amount of property taxes that are allowed to be levied for the related payments. The District is allowed to levy up to 105% of the subsequent year's payment. Because taxes are collected at a healthy rate, the District's levy is often reduced since the fund balance is sufficient to make the next year's payments.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)

### Nonmajor Funds

Funds deemed to be nonmajor are reported in the aggregate. The food and community service funds, while very important to the operations of the District, did not meet the financial definition of 'Major' and are therefore, reported together. Below are the details:

| | Revenue | Expenditures | Fund Balance Increase |
|---|---|---|---|
| Food Service Fund | $ 2,364,242 | $ 2,354,258 | $ 9,984 |
| Community Service Fund | 1,374,906 | 1,218,152 | 156,754 |
| Total | $ 3,739,148 | $ 3,572,410 | $ 166,738 |

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

Capital additions in fiscal year 2023 are mainly in Construction in Progress as mentioned earlier. The disposal of land was the sale of the Murphy property. Because of GASB 87, the District is required to recognize lease buildings as assets and the corresponding future lease obligation as an expense. See Note 3 for additional capital asset details.

| | Beginning Balance 7/1/2022 | Additions | Deletions | Ending Balance 6/30/2023 |
|---|---|---|---|---|
| **Capital Assets not being depreciated** | | | | |
| Land | $ 2,667,225 | - | 29,305 | $ 2,637,920 |
| CIP | 915,940 | 6,912,957 | 39,784 | 7,789,113 |
| Total Assets not being depreciated | 3,583,165 | 6,912,957 | 69,089 | 10,427,033 |
| **Capital assets being depreciated/ amortized, net** | | | | |
| Land Improvements | 2,374,733 | 96,702 | 1,783 | 2,469,652 |
| Buildings | 127,268,141 | (3,404,772) | 1,619,684 | 122,243,685 |
| Equipments | 7,108,722 | (1,020,369) | 37,479 | 6,050,874 |
| Leased Buildings | 564,131 | 291,157 | - | 855,288 |
| Total assets being depreciated | 137,315,727 | (4,037,282) | 1,658,946 | 131,619,499 |
| Total Capital Assets, Net | $ 140,898,892 | $ 2,875,675 | $ 1,728,035 | $ 142,046,532 |

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Long-Term Liabilities

At year-end the District had over $270 million in long-term liabilities. Well over half of the liability is attributed to the State of Minnesota's unfunded pension plan ($42m) and the District's retiree health insurance liability ($127m).

| | Beginning Balance 7/1/2022 | Additions | Deletions | Ending Balance 6/30/2023 |
|---|---|---|---|---|
| **Long-Term Liabilities** | | | | |
| G.O. Bonds | $ 95,805,000 | $ 3,470,000 | $ 4,625,000 | $ 94,650,000 |
| Unamortized bond premium | 4,925,359 | 35,938 | 335,301 | 4,625,996 |
| Financed purchase agreement | 117,450 | - | 117,450 | - |
| Lease Liability | 578,888 | 686,043 | 388,863 | 876,068 |
| Compensated absences payable | 447,962 | 521,384 | 493,866 | 475,480 |
| Severance payable | 89,768 | - | 11,699 | 78,069 |
| Net pension liability | 23,221,348 | 18,901,194 | - | 42,122,542 |
| Net OPEB obligation | 163,373,708 | - | 35,574,468 | 127,799,240 |
| Total Long-Term Liabilities | $ 288,559,483 | $ 23,614,559 | $ 41,546,647 | $ 270,627,395 |

## FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District approved a General Fund budget with a small operating surplus for the second year in a row.
- On November 7, 2023, District voters will be asked to consider three levies – two operating levies and a capital projects levy.
- Legislature approved its biennial budget in May 2023. The increase to the basic education formula was passed with a 4% increase in FY24 and a 2% increase in FY25, however, the formula is now linked to inflation to a maximum increase of 3%. In addition to this increase, the legislature also approved an increase in the special education cross subsidy. The percentage of applied to the cross subsidy will now be 44% up from 6.43%.
- With the additional funding came additional mandates. The District is now required to accumulate, track, and provide sick leave benefits for substitutes. In addition, the District now has to pay for unemployment insurance for nonlicensed staff that work less than 12-months. For ISD 318 this includes secretaries, paraprofessionals, bus drivers, food service employees and custodians. The State will pay the first $135 million for the entire liability but after that, Districts have to cover the costs from its General Fund.

## FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- Inflation has been at its highest since 1982 over the past couple years and prices have not decreased. This has had and continues to have a significant effect on the District's expenditures. Since no state-aid formula includes a condition for inflation, the District will need to continue to evaluate operations very closely to determine how the higher costs are affecting the overall budget.
- The District has issued bonds for an indoor air-quality project at Grand Rapids High School, improvements at Southwest Elementary for renovations to move the ALC program, community education and administration services to that location and a lease levy for improvement at Bigfork. Because of inflation construction materials outpaced the original bonded costs. Additional bonds were issued in October 2023 to cover the additional costs.
- The Federal Government has provided significant grants to address the COVID-19 Pandemic and the after-effects of the loss of learning. In total, ISD 318 has been awarded $11,995,000 in grants that are only earned *after* the cost is incurred. At 6.30.23, the District had $4,150,000 remaining in grants to be expended. All of these, if not spent by September 2024 will be lost. These grants have guidelines on what the funding can be spent on. The District must work within the constraints of these rules.
- All contracts for the Fiscal years 2023-24 and 2024-25 were settled as of the date of this report.
- All contracts contain a new high deductible insurance plan that will hopefully reduce the District's insurance costs.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kara Lundin at 218.327.5775 or klundin@isd318.org.

**BASIC FINANCIAL STATEMENTS**

**Independent School District No. 318**
**Statement of Net Position**
**June 30, 2023**

| | Governmental Activities |
|---|---|
| **Assets** | |
| Cash and investments | $ 37,908,190 |
| Current property taxes receivable | 6,382,719 |
| Delinquent property taxes receivable | 486,196 |
| Accounts receivable | 504,714 |
| Due from other Minnesota school districts | 558,652 |
| Due from Department of Education | 3,807,857 |
| Due from Federal Government through Department of Education | 3,206,095 |
| Due from federal government directly | 68,373 |
| Due from other governmental units | 902,184 |
| Prepaid items | 23,797 |
| Inventory | 85,582 |
| Capital assets not being depreciated | |
| Land | 2,637,920 |
| Construction in progress | 7,789,113 |
| Other capital assets, net | |
| Land improvements | 2,469,652 |
| Buildings | 122,243,685 |
| Equipment | 6,050,874 |
| Leased buildings | 855,288 |
| Total assets | 195,980,891 |
| **Deferred Outflows of Resources** | |
| Deferred outflows related to pensions | 12,456,864 |
| Deferred outflows related to OPEB | 31,193,821 |
| Total deferred outflows of resources | 43,650,685 |
| Total assets and deferred outflows of resources | $ 239,631,576 |
| **Liabilities** | |
| Accounts and contracts payable | $ 5,229,822 |
| Salaries and benefits payable | 5,126,779 |
| Interest payable | 1,577,437 |
| Due to other Minnesota school districts | 431,052 |
| Due to other governmental units | 69,292 |
| Bond principal payable (net) | |
| Payable within one year | 4,805,000 |
| Payable after one year | 94,470,996 |
| Lease liability | |
| Payable within one year | 267,285 |
| Payable after one year | 608,783 |
| Compensated absences payable | |
| Payable within one year | 142,644 |
| Payable after one year | 332,836 |
| Severance payable | |
| Payable after one year | 78,069 |
| Net pension liability | 42,122,542 |
| Total OPEB liability | 127,799,240 |
| Total liabilities | 283,061,777 |
| **Deferred Inflows of Resources** | |
| Property taxes levied for subsequent year's expenditures | 13,724,069 |
| Deferred inflows related to pensions | 7,461,809 |
| Deferred inflows related to OPEB | 36,765,659 |
| Total deferred inflows of resources | 57,951,537 |
| **Net Position** | |
| Net investment in capital assets | 58,361,234 |
| Restricted | 5,916,778 |
| Unrestricted | (165,659,750) |
| Total net position | (101,381,738) |
| Total liabilities, deferred inflows of resources, and net position | $ 239,631,576 |

**Independent School District No. 318**
**Statement of Activities**
**Year Ended June 30, 2023**

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenues and Changes in Net Position: Governmental Activities |
|---|---|---|---|---|---|
| Governmental activities | | | | | |
| Administration | $ 3,015,638 | $ - | $ 77,800 | $ - | $ (2,937,838) |
| District support services | 1,787,091 | - | 186,587 | - | (1,600,504) |
| Elementary and secondary regular instruction | 20,103,040 | 1,183,347 | 6,241,851 | - | (12,677,842) |
| Vocational education instruction | 844,861 | - | 27,606 | - | (817,255) |
| Special education instruction | 10,939,745 | 600,180 | 10,075,104 | - | (264,461) |
| Instructional support services | 2,127,653 | - | 1,130,820 | - | (996,833) |
| Pupil support services | 5,669,051 | 19,891 | 3,306,503 | - | (2,342,657) |
| Sites and buildings | 5,223,018 | 55,810 | 93,305 | 858,081 | (4,215,822) |
| Fiscal and other fixed cost programs | 273,704 | - | - | - | (273,704) |
| Food service | 2,441,991 | 612,100 | 1,719,139 | - | (110,752) |
| Community education and services | 1,215,989 | 252,141 | 752,705 | - | (211,143) |
| Unallocated depreciation | 5,872,415 | - | - | - | (5,872,415) |
| Interest and fiscal charges on long-term debt | 3,446,506 | - | - | - | (3,446,506) |
| Total governmental activities | $ 62,960,702 | $ 2,723,469 | $ 23,611,420 | $ 858,081 | (35,767,732) |
| General revenues | | | | | |
| Taxes | | | | | |
| Property taxes, levied for general purposes | | | | | 9,204,979 |
| Property taxes, levied for community service | | | | | 332,491 |
| Property taxes, levied for debt service | | | | | 8,329,348 |
| State aid-formula grants | | | | | 26,601,182 |
| Other general revenues | | | | | 611,065 |
| Investment income | | | | | 1,565,868 |
| Total general revenues | | | | | 46,644,933 |
| Change in net position | | | | | 10,877,201 |
| Net position - beginning | | | | | (112,258,939) |
| Net position - ending | | | | | $ (101,381,738) |

See notes to basic financial statements.

**Independent School District No. 318**
**Balance Sheet - Governmental Funds**
**June 30, 2023**

| | General Fund | Building Construction Capital Project Fund | Debt Service Fund |
|---|---|---|---|
| **Assets** | | | |
| Cash and investments | $ 895,941 | $ 11,350,501 | $ 3,153,157 |
| Current property taxes receivable | 2,640,358 | - | 1,794,093 |
| Delinquent property taxes receivable | 227,383 | - | 94,410 |
| Accounts receivable | 412,530 | - | - |
| Due from other Minnesota school districts | 558,652 | - | - |
| Due from Department of Education | 3,723,218 | - | 28,183 |
| Due from federal government through Department of Education | 3,043,903 | - | - |
| Due from federal government directly | 68,373 | - | - |
| Due from other governmental units | 902,184 | - | - |
| Due from other funds | 5,560,329 | - | - |
| Prepaid items | 23,797 | - | - |
| Inventory | - | - | - |
| Total assets | $ 18,056,668 | $ 11,350,501 | $ 5,069,843 |
| **Liabilities** | | | |
| Accounts and contracts payable | $ 509,091 | $ 3,964,287 | $ - |
| Salaries and benefits payable | 5,126,779 | - | - |
| Due to other Minnesota school districts | 159,025 | - | - |
| Due to other governmental units | 69,292 | - | - |
| Total liabilities | 5,864,187 | 3,964,287 | - |
| **Deferred Inflows of Resources** | | | |
| Property taxes levied for subsequent year's expenditures | 5,350,074 | - | 3,864,706 |
| Unavailable revenue - delinquent property taxes | 227,383 | - | 94,410 |
| Total deferred inflows of resources | 5,577,457 | - | 3,959,116 |
| **Fund Balances** | | | |
| Nonspendable | 23,797 | - | - |
| Restricted | 3,088,573 | 7,386,214 | 1,110,727 |
| Assigned | 905,889 | - | - |
| Unassigned | 2,596,765 | - | - |
| Total fund balances | 6,615,024 | 7,386,214 | 1,110,727 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 18,056,668 | $ 11,350,501 | $ 5,069,843 |

| Postemployment Benefits Debt Service Fund | Nonmajor Funds | Total Governmental Funds |
|---|---|---|
| $ 4,035,287 | $ 1,489,748 | $ 20,924,634 |
| 1,948,268 | - | 6,382,719 |
| 164,403 | - | 486,196 |
| - | 92,184 | 504,714 |
| - | - | 558,652 |
| 2,837 | 53,619 | 3,807,857 |
| - | 162,192 | 3,206,095 |
| - | - | 68,373 |
| - | - | 902,184 |
| - | - | 5,560,329 |
| - | - | 23,797 |
| - | 85,582 | 85,582 |
| $ 6,150,795 | $ 1,883,325 | $ 42,511,132 |
| $ - | $ 52,299 | $ 4,525,677 |
| - | - | 5,126,779 |
| - | 272,027 | 431,052 |
| - | - | 69,292 |
| - | 324,326 | 10,152,800 |
| 4,509,289 | - | 13,724,069 |
| 164,403 | - | 486,196 |
| 4,673,692 | - | 14,210,265 |
| - | 85,582 | 109,379 |
| 1,477,103 | 1,473,417 | 14,536,034 |
| - | - | 905,889 |
| - | - | 2,596,765 |
| 1,477,103 | 1,558,999 | 18,148,067 |
| $ 6,150,795 | $ 1,883,325 | $ 42,511,132 |

(THIS PAGE LEFT BLANK INTENTIONALLY)

**Independent School District No. 318**
**Reconciliation of the Balance Sheet to**
**the Statement of Net Position - Governmental Funds**
**June 30, 2023**

| | |
|---|---|
| Total fund balances - governmental funds | $ 18,148,067 |
| 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 | 202,154,007 |
| Less accumulated depreciation | (60,962,763) |
| Leased assets | 1,358,968 |
| Less accumulated amortization | (503,680) |
| 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 | (94,650,000) |
| Bond premiums | (4,625,996) |
| Lease liability | (876,068) |
| Severance payable | (78,069) |
| Compensated absences payable | (475,480) |
| Net pension liability | (42,122,542) |
| Net OPEB obligation | (127,799,240) |
| Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions and OPEB that are not recognized in the governmental funds. | |
| Deferred outflows of resources related to pensions | 12,456,864 |
| Deferred inflows of resources related to pensions | (7,461,809) |
| Deferred outflows of resources related to OPEB | 31,193,821 |
| Deferred inflows of resources related to OPEB | (36,765,659) |
| 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. | 486,196 |
| Internal service funds are used by management to charge the costs of the self-insured health insurance plan and postemployment benefits. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position and interfund activity is removed. | 10,719,082 |
| Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable. | (1,577,437) |
| Total net position - governmental activities | $ (101,381,738) |

See notes to basic financial statements.

**Independent School District No. 318**
**Statement of Revenues, Expenditures, and**
**Changes in Fund Balances - Governmental Funds**
**Year Ended June 30, 2023**

| | General Fund | Building Construction Capital Project Fund | Debt Service Fund |
|---|---|---|---|
| **Revenues** | | | |
| Local property taxes | $ 9,196,424 | $ - | $ 3,430,779 |
| Other local and county revenues | 2,798,614 | 668,339 | 79,109 |
| State sources | 42,435,446 | - | 266,390 |
| Federal sources | 5,165,069 | - | - |
| Sales and other conversion of assets | 41,130 | - | - |
| Total revenues | 59,636,683 | 668,339 | 3,776,278 |
| **Expenditures** | | | |
| Current | | | |
| Administration | 3,457,434 | - | - |
| District support services | 1,742,853 | - | - |
| Elementary and secondary regular instruction | 25,274,890 | - | - |
| Vocational education instruction | 1,065,549 | - | - |
| Special education instruction | 12,707,300 | - | - |
| Instructional support services | 2,086,011 | - | - |
| Pupil support services | 5,072,382 | - | - |
| Sites and buildings | 4,772,636 | 450,837 | - |
| Fiscal and other fixed cost programs | 273,704 | - | - |
| Food service | 938 | - | - |
| Community service | - | - | - |
| Capital outlay | | | |
| Elementary and secondary regular instruction | 114,511 | - | - |
| Vocational education instruction | 2,798 | - | - |
| Special education instruction | 40,000 | - | - |
| Instructional support services | 39,000 | - | - |
| Pupil support services | 144,042 | - | - |
| Sites and buildings | 718,859 | 6,748,822 | - |
| Food service | - | - | - |
| Debt service | | | |
| Principal | 506,312 | - | 285,000 |
| Interest and fiscal charges | 39,004 | 76,039 | 3,201,999 |
| Total expenditures | 58,058,223 | 7,275,698 | 3,486,999 |
| Excess of revenues over (under) expenditures | 1,578,460 | (6,607,359) | 289,279 |
| **Other Financing Sources (Uses)** | | | |
| Proceeds from lease issuance | 88,317 | - | - |
| Proceeds from sale of capital assets | 78,648 | - | - |
| Insurance recovery | 5,616 | - | - |
| Bond issuance | - | 3,470,000 | - |
| Bond premium | - | 35,938 | - |
| Total other financing sources (uses) | 172,581 | 3,505,938 | - |
| Net change in fund balances | 1,751,041 | (3,101,421) | 289,279 |
| **Fund Balances** | | | |
| Beginning of year | 4,863,983 | 10,487,635 | 821,448 |
| End of year | $ 6,615,024 | $ 7,386,214 | $ 1,110,727 |

| Postemployment Benefits Debt Service Fund | Nonmajor Funds | Total Governmental Funds |
|---|---|---|
| $ 4,885,737 | $ 332,491 | $ 17,845,431 |
| - | 361,844 | 3,907,906 |
| 28,367 | 564,499 | 43,294,702 |
| - | 1,868,214 | 7,033,283 |
| - | 612,100 | 653,230 |
| 4,914,104 | 3,739,148 | 72,734,552 |
| | | |
| - | - | 3,457,434 |
| - | - | 1,742,853 |
| - | - | 25,274,890 |
| - | - | 1,065,549 |
| - | - | 12,707,300 |
| - | - | 2,086,011 |
| - | - | 5,072,382 |
| - | - | 5,223,473 |
| - | - | 273,704 |
| - | 2,351,087 | 2,352,025 |
| - | 1,218,152 | 1,218,152 |
| - | - | 114,511 |
| - | - | 2,798 |
| - | - | 40,000 |
| - | - | 39,000 |
| - | - | 144,042 |
| - | - | 7,467,681 |
| - | 3,171 | 3,171 |
| 4,340,000 | - | 5,131,312 |
| 355,677 | - | 3,672,719 |
| 4,695,677 | 3,572,410 | 77,089,007 |
| | | |
| 218,427 | 166,738 | (4,354,455) |
| | | |
| - | - | 88,317 |
| - | - | 78,648 |
| - | - | 5,616 |
| - | - | 3,470,000 |
| - | - | 35,938 |
| - | - | 3,678,519 |
| | | |
| 218,427 | 166,738 | (675,936) |
| | | |
| 1,258,676 | 1,392,261 | 18,824,003 |
| | | |
| $ 1,477,103 | $ 1,558,999 | $ 18,148,067 |

**Independent School District No. 318**
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities - Governmental Funds**
**Year Ended June 30, 2023**

| | |
|---|---|
| Net change in fund balances - total governmental funds | $ (675,936) |
| 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 | 7,865,486 |
| Depreciation and amortization expense | (5,598,232) |
| Disposal of capital assets | (1,728,035) |
| Remeasurement of leases | 10,695 |
| Compensated absences and severance payable are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. | (15,819) |
| 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. | 4,579,967 |
| 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. | 7,183,347 |
| 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. | 5,131,313 |
| 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. | (109,089) |
| Governmental funds report bond premiums and discounts as other financing sources and uses at the time of issuance. Net premiums and discounts are reported as a liability and deferred charges on refundings are presented as a deferred inflow of resources in the government-wide financial statements and are amortized over the life of the bond. | 335,301 |
| The issuance of long-term debt provides current financial resources to governmental funds and has no effect on net position. 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 | (3,470,000) |
| Bond premium | (35,938) |
| Leases | (88,317) |
| Internal service funds are used by management to charge the costs of the self-insured health insurance plan and postemployment benefits. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position and interfund activity is removed. | (2,528,929) |
| 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. | 21,387 |
| Change in net position - governmental activities | $ 10,877,201 |

**Independent School District No. 318**
**Statement of Revenues, Expenditures, and**
**Changes in Fund Balance -**
**Budget and Actual - General Fund**
**Year Ended June 30, 2023**

| | Budgeted Amounts | | Actual | Variance with Final Budget - |
|---|---|---|---|---|
| | Original | Final | Amounts | Over (Under) |
| **Revenues** | | | | |
| Local property taxes | $ 8,025,035 | $ 8,384,000 | $ 9,196,424 | $ 812,424 |
| Other local and county revenues | 2,471,246 | 2,946,800 | 2,798,614 | (148,186) |
| State sources | 42,873,449 | 41,974,145 | 42,435,446 | 461,301 |
| Federal sources | 6,471,870 | 6,853,465 | 5,165,069 | (1,688,396) |
| Sales and other conversion of assets | 63,000 | 102,500 | 41,130 | (61,370) |
| Total revenues | 59,904,600 | 60,260,910 | 59,636,683 | (624,227) |
| **Expenditures** | | | | |
| Current | | | | |
| Administration | 3,291,400 | 3,291,400 | 3,457,434 | 166,034 |
| District support services | 1,846,600 | 1,866,600 | 1,742,853 | (123,747) |
| Elementary and secondary regular instruction | 25,722,460 | 26,329,270 | 25,274,890 | (1,054,380) |
| Vocational education instruction | 1,053,700 | 1,053,700 | 1,065,549 | 11,849 |
| Special education instruction | 13,895,610 | 13,485,610 | 12,707,300 | (778,310) |
| Instructional support services | 1,906,450 | 1,964,450 | 2,086,011 | 121,561 |
| Pupil support services | 5,158,480 | 5,258,480 | 5,072,382 | (186,098) |
| Sites and buildings | 4,570,821 | 4,703,821 | 4,772,636 | 68,815 |
| Fiscal and other fixed cost programs | 316,900 | 316,900 | 273,704 | (43,196) |
| Food service | - | - | 938 | 938 |
| Capital outlay | | | | |
| Elementary and secondary regular instruction | 62,500 | 109,000 | 114,511 | 5,511 |
| Vocational education instruction | - | - | 2,798 | 2,798 |
| Special education instruction | 45,000 | 45,000 | 40,000 | (5,000) |
| Instructional support services | - | - | 39,000 | 39,000 |
| Pupil support services | 169,000 | 169,000 | 144,042 | (24,958) |
| Sites and buildings | 1,330,000 | 1,130,000 | 718,859 | (411,141) |
| Debt service | | | | |
| Principal | 501,363 | 501,363 | 506,312 | 4,949 |
| Interest and fiscal charges | 44,316 | 44,316 | 39,004 | (5,312) |
| Total expenditures | 59,914,600 | 60,268,910 | 58,058,223 | (2,210,687) |
| Excess of revenues over (under) expenditures | (10,000) | (8,000) | 1,578,460 | 1,586,460 |
| **Other Financing Sources** | | | | |
| Proceeds from lease issuance | - | - | 88,317 | 88,317 |
| Proceeds from sale of capital assets | - | - | 78,648 | 78,648 |
| Insurance recovery | 10,000 | 8,000 | 5,616 | (2,384) |
| Total other financing sources | 10,000 | 8,000 | 172,581 | 164,581 |
| Net change in fund balance | $ - | $ - | 1,751,041 | $ 1,751,041 |
| **Fund Balance** | | | | |
| Beginning of year | | | 4,863,983 | |
| End of year | | | $ 6,615,024 | |

**Independent School District No. 318**
**Statement of Net Position - Proprietary Funds**
**June 30, 2023**

| | Total Internal Service Funds |
|---|---|
| **Assets** | |
| Current assets | |
| Investments | $ 16,983,556 |
| | |
| **Liabilities** | |
| Accounts payable | $ 1,798 |
| Claims payable | 702,347 |
| Due to other funds | 5,560,329 |
| Total liabilities | 6,264,474 |
| | |
| **Net Position** | |
| Unrestricted | 10,719,082 |
| | |
| Total liabilities and net position | $ 16,983,556 |

See notes to basic financial statements.

**Independent School District No. 318**
**Statement of Revenues, Expenses, and Changes**
**in Fund Net Position - Proprietary Funds**
**Year Ended June 30, 2023**

| | Total Internal Service Funds |
|---|---|
| **Operating Revenue** | |
| Contributions from the District and employees | $ 16,329,018 |
| Contributions from employees and retirees | 658,736 |
| Total operating revenues | 16,987,754 |
| | |
| **Operating Expenses** | |
| Healthcare benefits and claims | 19,905,470 |
| Administrative costs | 446,127 |
| Total operating expenses | 20,351,597 |
| | |
| Operating loss | (3,363,843) |
| | |
| **Nonoperating Revenue** | |
| Investment income | 834,914 |
| | |
| Change in net position | (2,528,929) |
| | |
| **Net Position** | |
| Beginning of year | 13,248,011 |
| | |
| End of year | $ 10,719,082 |

**Independent School District No. 318**
**Statement of Cash Flows - Proprietary Funds**
**Year Ended June 30, 2023**

| | Total Internal Service Funds |
|---|---|
| **Cash Flows - Operating Activities** | |
| Contributions from the District and employees | $ 16,329,018 |
| Receipts from retirees and employees | 658,736 |
| Payments for healthcare premiums | (19,805,403) |
| Payments for administrative costs | (446,127) |
| Net cash flows - operating activities | (3,263,776) |
| **Cash Flows - Noncapital Financing Activities** | |
| Amounts repaid to other funds | (3,558,490) |
| Amounts borrowed from other funds | 5,560,329 |
| Net cash flows - noncapital financing activities | 2,001,839 |
| **Cash Flows - Investing Activities** | |
| Proceeds from sales and maturities of investments | 11,852,018 |
| Purchase of investments | (11,424,995) |
| Interest received | 884,331 |
| Trustee fees paid | (49,417) |
| Net cash flows - investing activities | 1,261,937 |
| **Net Change in Cash and Cash Equivalents** | - |
| **Cash and Cash Equivalents** | |
| Beginning of year | - |
| End of year | $ - |
| **Reconciliation of Operating Loss to Net Cash Flows- Operating Activities** | |
| Operating loss | $ (3,363,843) |
| Adjustments to reconcile operating loss to net cash flows - operating activities | |
| Change in accounts payable | (19,792) |
| Change in claims payable | 119,859 |
| Total adjustments | 100,067 |
| Net cash flows - operating activities | $ (3,263,776) |

**Independent School District No. 318**
**Statement of Fiduciary Net Position**
**June 30, 2023**

| | Custodial Fund |
|---|---|
| **Assets** | |
| Cash and investments (including cash equivalents) | $ 64,799 |
| **Liabilities** | |
| Accounts payable | $ 29,850 |
| **Net Position** | |
| Held for student activities | 1,641 |
| Held for scholarships | 33,308 |
| Total Net Position | $ 34,949 |

**Statement of Changes in Fiduciary Net Position**
**Year Ended June 30, 2023**

| | Custodial Fund |
|---|---|
| **Additions** | |
| Contributions and donations | $ 38,050 |
| Interest revenue | 1,927 |
| Total additions | 39,977 |
| **Deductions** | |
| Scholarships | 31,525 |
| Change in net position | 8,452 |
| **Net Position** | |
| Beginning of year | 26,497 |
| End of year | $ 34,949 |

See notes to basic financial statements.

(THIS PAGE LEFT BLANK INTENTIONALLY)

## 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 six member board elected by the voters of the District to serve four-year terms.

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

### A. Reporting Entity

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

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

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

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

### B. Basic Financial Statement Information

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

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Basic Financial Statement Information (Continued)

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.

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

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 District's internal service funds are charges to customers for service. Operating expenses for the internal service funds include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

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

#### 1. Revenue Recognition

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Measurement Focus and Basis of Accounting (Continued)

#### 2. Recording of Expenditures

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

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

**Description of Funds:**

Major Funds:

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

Building Construction Capital Project Fund – This fund is used to account for financial resources used the acquisition and construction of major capital facilities.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond principal, interest, and related costs, other than the District's OPEB bonds.

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

Nonmajor Funds:

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

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Measurement Focus and Basis of Accounting (Continued)

**Description of Funds: (Continued)**

Proprietary Funds:

Postemployment Benefit Revocable Trust Fund – This internal service fund is used for reporting resources set aside and held in a revocable trust arrangement for post-employment benefits other than pensions. District contributions to this fund must be expensed to an operating fund.

Health Insurance Fund – This internal service fund is used to account for health benefits for employees who are covered by the self-insured plan of the District.

Fiduciary Fund:

Custodial Fund – This fund is used to account for fiduciary activities that are not required to be reported as another fiduciary fund type. The District reports funds held in for scholarships in the Custodial Fund.

### D. Deposits and Investments

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

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

Pooled cash and investments at June 30, 2023, were comprised of deposits, and shares in the Minnesota School District Liquid Asset Fund (MSDLAF) including MSDLAF Max. Non-pooled investments were comprised of various investments as detailed in Note 2.

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

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D. Deposits and Investments (Continued)

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

### E. Property Tax Receivable

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

### F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2022, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2023. The remaining portion of the levy will be recognized when measurable and available.

### G. Prepaid Items

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

### H. Inventories

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

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

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at 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. A half year of depreciation expense is deducted the year depreciable assets are placed into service. 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 5 to 50 years.

Capital assets not being depreciated include land and construction in progress. The District's infrastructure capital assets, such as sidewalks and parking lots are considered to be part of the cost of buildings or land improvements.

### K. Right-to-Use Lease Assets/Lease Liabilities

The District recorded right-to-use lease assets as a result of implementing GASB Statement No. 87, *Leases*. The right-to-use lease assets are initially measured at an amount equal to the initial measurement of the lease liability plus any payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-to-use assets are amortized on a straight-line basis over the life of the related lease.

Key estimates and judgments related to leases include (1) the discount rate, (2) lease term, (3) lease payments, and (4) amortization.

The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District determines its estimated borrowing rate. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a re-measurement of the leases and will remeasure the right-to-use lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of the lease liability.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### L. 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 basic financial statement element represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has two items that qualify for reporting in this category. Deferred outflows related to pensions and deferred outflows related to OPEB are reported in the government-wide Statement of Net Position for various estimate differences that will be amortized and recognized over future years.

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 basic financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has four types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent year's expenditures, which represent property taxes received or reported as a receivable before the period for which the taxes are levied and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent year's expenditures are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. Deferred inflows of resources related to pensions and OPEB are reported in the government-wide Statement of Net Position for various estimate differences that will be amortized and recognized over future years.

### M. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### N. Accrued Employee Benefits

*Compensated Absences Payable*
The District has employee and union contracts with several different employee groups. Employee benefits under the contracts are different, but generally include provisions for sick leave and vacation leave. In the fund financial statements, a liability is recorded for unpaid vacation when the employee terminates from the District. In the government-wide financial statements, a liability is recorded for unpaid vacation pay when earned. Unused sick leave is included in the severance benefits payable for certain employees as noted on the next page.

*Severance Benefits Payable*
Upon retirement, certain District employees are entitled to a severance amount based on accumulated unused sick leave, age, years of service and wage rate at the date of retirement, as established by contracts with bargaining units or other employment contracts and reduced by the District's retirement matching contribution. These contracts establish the terms and amounts each retiree is eligible to receive and establish when this severance benefit vests, all of which may differ between each bargaining unit and employee group. In the fund financial statements, a liability is recorded for severance pay when the employee retires. In the government-wide financial statements, a liability is recorded for severance pay at the time the employee becomes eligible for retirement.

*Other Post Employment Benefits*
Under the provisions of various employee and union contracts, the District provides postemployement health care benefits if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. The liability amount was actuarially determined, in accordance with GASB Statement No. 75.

### 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.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### P. Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources in the government-wide, proprietary, and fiduciary 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.

### Q. Fund Equity

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

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include inventory and prepaid items.

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

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

- Assigned Fund Balances – These amounts are comprised of unrestricted funds constrained by the School Board's intent that they be used for a specific purpose, but do not meet the criteria to be restricted or committed. The School Board delegates the Business Manager 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.

- Minimum Fund Balance Policy – The District's annual budget will be developed to maintain a minimum unassigned General Fund balance of 10-15% of the annual expenditures budget.

### R. Use of Estimates

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### S. Budgetary Information

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

1. Prior to July 1, the Business Manager submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Legal budgetary control is at the fund level.
2. The Business Manager 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, and Debt Service governmental funds. The Board also approves a budget for the Internal Service Funds.
4. Budgets for the General, Special Revenue, and Debt Service governmental funds as well as the Internal Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

## NOTE 2 – DEPOSITS AND INVESTMENTS

### A. Deposits

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

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy which requires deposits in excess of federal deposit coverage to be collateralized as required by *Minnesota Statutes* § 118A03.

As of June 30, 2023, 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, 2023, the District had the following deposits:

| | |
|---|---|
| Checking accounts | $ (1,034,791) |
| Certificate of deposit | 3,150 |
| Total | $ (1,031,641) |

## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

### B. Investments

As of June 30, 2023, the District had the following investments:

| Investments | Amount | Maturity Less than 1 Year | Maturity 1 to 3 Years | Rating |
|---|---|---|---|---|
| Pooled | | | | |
| MSDLAF | $ 1,296,936 | $ 1,296,936 | $ - | AAAm |
| MSDMAX | 8,150,606 | 8,150,606 | - | AAAm |
| Total pooled | $ 9,447,542 | $ 9,447,542 | $ - | |
| Nonpooled | | | | |
| Self Health Insurance | | | | |
| Brokered Money Market | $ 279,931 | $ 279,931 | $ - | N/A |
| Brokered Certificates of Deposit | 3,733,432 | 3,023,769 | 709,663 | N/A |
| Total self health insurance | $ 4,013,363 | $ 3,303,700 | $ 709,663 | |
| Bond proceeds | | | | |
| MSDLAF | $ 3,155,676 | $ 3,155,676 | $ - | AAAm |
| MSDLAF Term | 9,417,856 | 9,417,856 | - | AAAm |
| Total bond proceeds | $ 12,573,532 | $ 12,573,532 | $ - | |
| OPEB Trust Investments | | | | |
| Money Market Mutual Fund | $ 25,673 | $ 25,673 | $ - | N/A |
| Mutual Funds - Fixed Income | 6,272,650 | 6,272,650 | - | N/A |
| Mutual Funds - Equity | 6,671,870 | 6,671,870 | - | N/A |
| Total OPEB trust investments | $ 12,970,193 | $ 12,970,193 | $ - | |

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The investments shall be managed in a manner to obtain a market rate of return through various economic and budgetary cycles while preserving and protecting capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

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 outlines allowable investments. The District's investment policy limits investments to those specified in the above statutes. As of June 30, 2023, the District's investments were rated by Standard & Poor's (S & P) or Moody's as noted in the table on the previous page.

## 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 places no limit on the amount that may be invested with any one issuer or depository. The District's policy states the District shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy requires that all investment securities purchased by the school district shall be held in third-party safekeeping by an institution designated as custodial agent.

The District has the following recurring fair value measurements as of June 30, 2023:

- $3,733,432 of Self Health Insurance investments are valued using a matrix pricing model (Level 2 inputs)
- $12,970,193 of OPEB Trust investments are valued using a quoted market price (Level 1 inputs)

### C. Summary of Deposits and Investments

Following is a summary of deposits and investments as of June 30, 2023:

| | |
|---|---|
| Deposits (Note 2.A) | $ (1,031,641) |
| Investments - pooled (Note 2.B) | 9,447,542 |
| Investments- non-pooled (Note 2.B) | 29,557,088 |
| Total deposits and investments | $ 37,972,989 |

Deposits and investments are presented in the June 30, 2023, basic financial statements as follows:

| | |
|---|---|
| Statement of Net Position | |
| Cash and investments | $ 37,908,190 |
| Statement of Fiduciary Net Position | |
| Cash and investments | 64,799 |
| Total cash and investments | $ 37,972,989 |

## NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | $ 2,667,225 | $ - | $ 29,305 | $ 2,637,920 |
| Construction in progress | 915,940 | 6,912,957 | 39,784 | 7,789,113 |
| Total capital assets not being depreciated | 3,583,165 | 6,912,957 | 69,089 | 10,427,033 |
| Other capital assets | | | | |
| Land improvements | 5,530,432 | 311,203 | 5,485 | 5,836,150 |
| Buildings | 174,534,312 | 281,280 | 5,000,840 | 169,814,752 |
| Equipment | 16,834,373 | 271,729 | 1,030,030 | 16,076,072 |
| Leased building | 910,702 | 696,738 | 248,472 | 1,358,968 |
| Total other capital assets at historical cost | 197,809,819 | 1,560,950 | 6,284,827 | 193,085,942 |
| Less accumulated depreciation for | | | | |
| Land improvements | 3,155,699 | 214,501 | 3,702 | 3,366,498 |
| Buildings | 47,266,171 | 3,686,052 | 3,381,156 | 47,571,067 |
| Equipment | 9,725,651 | 1,292,098 | 992,551 | 10,025,198 |
| Less accumulated amortization for | | | | |
| Leased building | 346,571 | 405,581 | 248,472 | 503,680 |
| Total accumulated depreciation /amortization | 60,494,092 | 5,598,232 | 4,625,881 | 61,466,443 |
| Total other capital assets, net | 137,315,727 | (4,037,282) | 1,658,946 | 131,619,499 |
| Governmental activities, capital assets, net | $ 140,898,892 | $ 2,875,675 | $ 1,728,035 | $ 142,046,532 |

## NOTE 3 – CAPITAL ASSETS

Depreciation and amortization expense for the year ended June 30, 2023, was charged to the following governmental functions:

| | |
|---|---|
| Administration | $ 3,167 |
| District support services | 2,589 |
| Elementary and secondary regular instruction | 204,483 |
| Vocational education instruction | 8,922 |
| Special education instruction | 20,777 |
| Instructional support services | 168,415 |
| Pupil support services | 731,329 |
| Sites and buildings | 121,032 |
| Food service | 60,940 |
| Community education and services | 22,119 |
| Unallocated depreciation | 4,254,459 |
| Total depreciation and amortization expense | $ 5,598,232 |

## NOTE 4 – LONG-TERM DEBT

### A. Components of Long-Term Debt

| | Issue Date | Interest Rates | Original Issue | Final Maturity | Principal Outstanding | Due Within One year |
|---|---|---|---|---|---|---|
| Long-term debt | | | | | | |
| G.O. bonds | | | | | | |
| G.O. OPEB Refunding Bonds, Series 2016A | 12/29/16 | 2.0%-2.8% | $ 30,805,000 | 02/01/25 | $ 9,050,000 | $ 4,465,000 |
| G.O. School Building Bonds, Series 2018A | 06/28/18 | 3.5%-5.0% | 65,440,000 | 02/01/38 | 65,440,000 | - |
| G.O. Facilities Maintenance Bonds Series 2019A | 06/27/19 | 3.0%-5.0% | 4,380,000 | 02/01/34 | 3,470,000 | 255,000 |
| G.O. Facilities Maintenance Bonds Bonds Series 2022A | 01/24/22 | 2.0%-4.0% | 13,260,000 | 02/01/40 | 13,220,000 | 85,000 |
| G.O. School Building Bonds, Series 2022B | 08/11/22 | 2.0%-4.0% | 3,470,000 | 02/01/30 | 3,470,000 | - |
| Total G.O. bonds | | | | | 94,650,000 | 4,805,000 |
| Unamortized bond premium | | | | | 4,625,996 | - |
| Lease liability | | | | | 876,068 | 267,285 |
| Compensated absences payable | | | | | 475,480 | 142,644 |
| Severance payable | | | | | 78,069 | - |
| Total long term-debt | | | | | $ 100,705,613 | $ 5,214,929 |

## NOTE 4 – LONG-TERM DEBT (CONTINUED)

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

### B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt:

| Year Ending June 30, | G.O. Bonds Principal | G.O. Bonds Interest | G.O. Bonds Total |
|---|---|---|---|
| 2024 | $ 4,805,000 | $ 3,628,122 | $ 8,433,122 |
| 2025 | 4,970,000 | 3,428,105 | 8,398,105 |
| 2026 | 4,300,000 | 3,281,675 | 7,581,675 |
| 2027 | 4,505,000 | 3,070,075 | 7,575,075 |
| 2028 | 4,740,000 | 2,846,825 | 7,586,825 |
| 2029-2033 | 27,180,000 | 10,822,625 | 38,002,625 |
| 2034-2038 | 32,255,000 | 5,151,375 | 37,406,375 |
| 2039-2040 | 11,895,000 | 3,931,100 | 15,826,100 |
| Total | $ 94,650,000 | $ 36,159,902 | $ 130,809,902 |

| Year Ending June 30, | Lease Liability Principal | Lease Liability Interest | Lease Liability Total |
|---|---|---|---|
| 2024 | $ 267,285 | $ 31,480 | $ 298,765 |
| 2025 | 184,659 | 21,318 | 205,977 |
| 2026 | 192,927 | 13,690 | 206,617 |
| 2027 | 206,704 | 5,722 | 212,426 |
| 2028 | 12,002 | 998 | 13,000 |
| 2029 | 12,491 | 509 | 13,000 |
| Total | $ 876,068 | $ 73,717 | $ 949,785 |

## NOTE 4 – LONG-TERM DEBT (CONTINUED)

### C. Changes in Long-Term Debt

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Long-term debt | | | | |
| G.O. Bonds | $ 95,805,000 | $ 3,470,000 | $ 4,625,000 | $ 94,650,000 |
| Unamortized bond premium | 4,925,359 | 35,938 | 335,301 | 4,625,996 |
| Financed purchase agreement | 117,450 | - | 117,450 | - |
| Lease liability | 578,888 | 686,043 | 388,863 | 876,068 |
| Compensated absences payable | 447,962 | 521,384 | 493,866 | 475,480 |
| Severance payable | 89,768 | - | 11,699 | 78,069 |
| Total long-term debt | $101,964,427 | $ 4,713,365 | $ 5,972,179 | $100,705,613 |

## NOTE 5 – FUND BALANCES AND NET POSITION

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

## NOTE 5 – FUND BALANCES AND NET POSITION (CONTINUED)

### A. Fund Equity

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

| | General Fund | Building Construction | Debt Service | Postemployment Benefit Debt Service | Nonmajor Funds | Total |
|---|---|---|---|---|---|---|
| Nonspendable | | | | | | |
| Prepaid items | $ 23,797 | $ - | $ - | $ - | $ - | $ 23,797 |
| Inventory | - | - | - | - | 85,582 | 85,582 |
| Total nonspendable | 23,797 | - | - | - | 85,582 | 109,379 |
| Restricted/reserved | | | | | | |
| Student Activities | 179,279 | - | - | - | - | 179,279 |
| Operating Capital | 391,393 | - | - | - | - | 391,393 |
| Area Learning Center | 427,720 | - | - | - | - | 427,720 |
| Gifted and Talented | 13,361 | - | - | - | - | 13,361 |
| Basic Skills Programs | 51,124 | - | - | - | - | 51,124 |
| Achievement and Integration | 83,350 | - | - | - | - | 83,350 |
| Long-Term Facilities Maintenance | 1,260,106 | 7,386,214 | - | - | - | 8,646,320 |
| Medical Assistance | 667,788 | - | - | - | - | 667,788 |
| Payments in Lieu of Taxes | 14,452 | - | - | - | - | 14,452 |
| Debt service | - | - | 1,110,727 | 1,477,103 | - | 2,587,830 |
| Food service | - | - | - | - | 760,440 | 760,440 |
| Community education | - | - | - | - | 585,131 | 585,131 |
| Early Childhood and Family Education | - | - | - | - | 7,915 | 7,915 |
| School Readiness | - | - | - | - | 18,109 | 18,109 |
| Community service | - | - | - | - | 101,822 | 101,822 |
| Total restricted/reserved | 3,088,573 | 7,386,214 | 1,110,727 | 1,477,103 | 1,473,417 | 14,536,034 |
| Assigned | | | | | | |
| Grants and gifts | 108,977 | - | - | - | - | 108,977 |
| Transportation | 796,912 | - | - | - | - | 796,912 |
| Total assigned | 905,889 | - | - | - | - | 905,889 |
| Unassigned | | | | | | |
| General purposes | 2,596,765 | - | - | - | - | 2,596,765 |
| Total fund balance | $ 6,615,024 | $ 7,386,214 | $ 1,110,727 | $ 1,477,103 | $ 1,558,999 | $ 18,148,067 |

Negative restricted/reserved amounts are reported as unassigned fund balance in accordance with GASB Statement No. 54.

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

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

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

## NOTE 5 – FUND BALANCES AND NET POSITION (CONTINUED)

### A. Fund Equity (Continued)

Restricted/Reserved for Area Learning Center – This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to the sum of 1) at least 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to *Minnesota Statutes* § 126C.10, subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved area learning center, plus (2) the amount of basic skills revenue generated by pupils attending the area learning center. The amount restricted may only be spent on program costs associated with the area learning center.

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

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

Restricted/Reserved for Achievement and Integration – The unspent resources available from the Achievement and Integration program must be restricted in this account for use within the fiscal year.

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

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

Restricted for Payments in Lieu of Taxes (PILT) – This balance represents resources available from PILT.

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

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

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.

## NOTE 5 – FUND BALANCES AND NET POSITION (CONTINUED)

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

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

Assigned Fund Balances – These balances represent amounts set aside by management for purposes as listed in the previous table.

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

## NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2023, was ($4,079,492). The components of pension expense are noted in the following plan summaries.

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

**Teachers' Retirement Association**

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

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

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

## NOTE 6 – 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 1 Benefits*

| Tier 1 | 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).

*Tier II Benefits*

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. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under *Minnesota Statute*. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

## NOTE 6 – 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. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2021, June 30, 2022, and June 30, 2023, were:

| | June 30, 2021 | | June 30, 2022 | | June 30, 2023 | |
|---|---|---|---|---|---|---|
| | Employee | Employer | Employee | Employer | Employee | Employer |
| Basic | 11.0% | 12.13% | 11.0% | 12.34% | 11.0% | 12.55% |
| Coordinated | 7.5% | 8.13% | 7.5% | 8.34% | 7.5% | 8.55% |

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

### Teachers' Retirement Association (Continued)

### C. Contribution Rate (Continued)

The following is a reconciliation of employer contributions in TRA's fiscal year 2022 ACFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations. Amounts are reported in thousands.

| | |
|---|---|
| Employer contributions reported in TRA's ACFR Statement of Changes in Fiduciary Net Position | $ 482,679 |
| Employer contributions not related to future contribution efforts | (2,178) |
| TRA's contributions not included in allocation | (572) |
| Total employer contributions | 479,929 |
| Total non-employer contributions | 35,590 |
| Total contributions reported in *Schedule of Employer and Non-Employer Allocations* | $ 515,519 |

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

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

### Teachers' Retirement Association (Continued)

### D. Actuarial Assumptions

The total pension liability in the June 30, 2022, 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** | |
| Valuation date | July 1, 2022 |
| Measurement date | June 30, 2022 |
| Experience study | June 28, 2019 (demographic and economic assumptions) |
| Actuarial cost method | Entry Age Normal |
| Actuarial assumptions | |
| Investment rate of return | 7.00% |
| Price inflation | 2.50% |
| Wage growth rate | 2.85% before July 1, 2028, and 3.25% after June 30, 2028. |
| Projected salary increase | 2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% after June 30, 2028. |
| Cost of living adjustment | 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually. |
| **Mortality Assumptions** | |
| Pre-retirement | RP 2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP 2015 scale. |
| Post-retirement | RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale. |
| Post-disability | RP 2014 disabled retiree mortality table, without adjustment. |

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

### Teachers' Retirement Association (Continued)

### D. Actuarial Assumptions (Continued)

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

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

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

Changes in actuarial assumptions since the 2021 valuation:

- None

### 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 2022 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

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

### Teachers' Retirement Association (Continued)

### F. Net Pension Liability

On June 30, 2023, the District reported a liability of $32,262,101 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.4029% at the end of the measurement period and 0.4062% for the beginning of the year.

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

| | |
|---|---|
| District's proportionate share of net pension liability | $ 32,262,101 |
| State's proportionate share of the net pension liability associated with the District | 2,392,533 |

For the year ended June 30, 2023, the District recognized pension expense of ($5,504,465). Included in this amount, the District recognized ($328,981) as pension expense for the support provided by direct aid.

On June 30, 2023, the District had deferred resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 472,793 | $ 285,088 |
| Net difference between projected and actual earnings on plan investments | 804,935 | - |
| Changes of actuarial assumptions | 5,210,565 | 6,812,062 |
| Changes in proportion | 635,472 | 120,348 |
| Contributions to TRA subsequent to the measurement date | 2,069,696 | - |
| Total | $ 9,193,461 | $ 7,217,498 |

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

### Teachers' Retirement Association (Continued)

### F. Net Pension Liability (Continued)

The $2,069,696 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts of deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

| Year Ended June 30, | Pension Expense Amount |
|---|---|
| 2024 | $ (5,447,935) |
| 2025 | 845,921 |
| 2026 | 278,770 |
| 2027 | 4,230,832 |
| 2028 | (1,321) |
| Total | $ (93,733) |

### 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.

| | 1% Decrease in Discount Rate (6.0%) | Current Discount Rate (7.0%) | 1% Increase in Discount Rate (8.0%) |
|---|---|---|---|
| District's proportionate share of NPL | $ 50,859,445 | $ 32,262,101 | $ 17,018,077 |

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

### 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.

## NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (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 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

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

### 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.

General Employees Plan Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% 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%. 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. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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

### Public Employees' Retirement Association (Continued)

### C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2023 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, 2023, were $662,000. 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, 2023, the District reported a liability of $9,860,441 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 $288,966.

The net pension liability was measured as of June 30, 2022, 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, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.1245% at the end of the measurement period and 0.1257% for the beginning of the period.

| | |
|---|---|
| School's proportionate share of net pension liability | $ 9,860,441 |
| State of Minnesota's proportionate share of the net pension liability associated with the School | 288,966 |
| Total | $ 10,149,407 |

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

### Public Employees' Retirement Association (Continued)

### D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

For the year ended June 30, 2023, the District recognized pension expense of $1,424,973 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $43,178 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, 2023, 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 | $ 82,362 | $ 107,734 |
| Changes in actuarial assumptions | 2,283,746 | 40,493 |
| Difference between projected and actual investments earnings | 83,199 | - |
| Change in proportion | 152,096 | 96,084 |
| Contributions paid to PERA subsequent to the measurement date | 662,000 | - |
| Total | $ 3,263,403 | $ 244,311 |

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

### Public Employees' Retirement Association (Continued)

### D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

The $662,000 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, 2024. 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 |
|---|---|
| 2024 | $ 950,293 |
| 2025 | 891,595 |
| 2026 | (376,524) |
| 2027 | 891,728 |
| Total | $ 2,357,092 |

### E. Long-Term Expected Return on Investment

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

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

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

### Public Employees' Retirement Association (Continued)

### F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5% was deemed to be within that range of reasonableness for financial reporting purposes.

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

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

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

The following changes in actuarial assumptions and plan provisions occurred in 2022:

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.

### G. Discount Rate

The discount rate used to measure the total pension liability in 2022 was 6.5%. 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.

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

**Public Employees' Retirement Association (Continued)**

**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 (5.5%) | Current Discount Rate (6.5%) | 1% Increase in Discount Rate (7.5%) |
|---|---|---|---|
| District's proportionate share of NPL | $ 15,575,083 | $ 9,860,441 | $ 5,173,553 |

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

## NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN

**A. Plan Description**
The District provides a single-employer defined benefit health care plan which provides medical coverage to eligible retirees and their dependents. The District is self-insured for medical coverage. 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. The Plan does not issue a publicly available financial report.

**B. Benefits Paid**
The District provides retiree health insurance to certain retired employees as established by contracts with bargaining units or other employment contracts. These contracts state the years, age and retiring dates needed to qualify for these postemployment benefits. The contracts also establish the amount the District will contribute towards the purchase of health insurance. The District recognized expenditures on a pay-as-you-go basis. The General Fund, Food Service Fund, and Community Service Fund typically liquidate the liability related to post employment health benefits.

**C. Contributions**
Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District. The required contributions are based on projected pay-as-you-go financing requirements. For the year ended June 30, 2023, the District contributed $5,666,038 to the plan.

## NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

### D. Members

As of the June 30, 2021, valuation date, the following were covered by the benefit terms:

| | |
|---|---|
| Active employees electing medical coverage | 478 |
| Active employees waiving medical coverage | 179 |
| Retirees electing medical coverage | 419 |
| Total | 1,076 |

### E. Actuarial Assumptions

The total post employment health care plan (OPEB) liability was determined by an actuarial valuation as of June 30, 2021, 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 | |
|---|---|
| Discount rate | 3.69% |
| Salary increases | Service graded table that varies by contract and service group |
| Inflation | 2.25% |
| Healthcare cost trend increases | 6.7% for 2022, gradually decreasing over several decades to an ultimate rate of 3.7% in 2075 and later years |
| Mortality assumption - teachers | RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments |
| Mortality assumption - non-teachers | Pub-2010 general mortality tables with projected mortality improvements based on scale MP-2020, and other adjustments |

Changes in actuarial assumptions

- The discount rate was changed from 1.92% to 3.69% based on the updated 20-year AA municipal bond rates.

### F. Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2022, and was determined by an actuarial valuation as of June 30, 2021.

## NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

### F. Total OPEB Liability (Continued)

Changes in the total OPEB liability are as follows:

| | Total OPEB Liability |
|---|---|
| Balances at July 1, 2022 | $ 163,373,708 |
| Changes for the year | |
| Service cost | 2,268,617 |
| Interest | 3,125,939 |
| Differences between expected and actual economic experience | 257,464 |
| Changes in assumptions | (35,560,450) |
| Employer contributions | (5,666,038) |
| Net changes | (35,574,468) |
| Balances at June 30, 2023 | $ 127,799,240 |

### G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.69% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

| | 1% Decrease in Discount Rate (2.69%) | Current Discount Rate (3.69%) | 1% Increase in Discount Rate (4.69%) |
|---|---|---|---|
| Total OPEB Liability | $ 146,288,406 | $ 127,799,240 | $ 112,633,552 |

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

| | 1% Decrease (5.7% Decreasing to 2.7%) | Current (6.7% Decreasing to 3.7%) | 1% Increase (7.7% Decreasing to 4.7%) |
|---|---|---|---|
| Total OPEB Liability | $ 111,039,397 | $ 127,799,240 | $ 148,492,582 |

## NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

For the year ended June 30, 2023, the District recognized OPEB expense of $2,784,385. As of June 30, 2023, the District reported deferred outflows of resources related to OPEB from the following source:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual liability | $ 12,284,140 | $ 2,775,519 |
| Changes of assumptions | 13,273,600 | 33,990,140 |
| Contributions made subsequent to the measurement date | 5,636,081 | - |
| Total | $ 31,193,821 | $ 36,765,659 |

The $5,636,081 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in OPEB expense as follows:

| Year Ended June 30, | Total |
|---|---|
| 2024 | $ (2,610,171) |
| 2025 | (1,206,511) |
| 2026 | (372,425) |
| 2027 | 23,803 |
| 2028 | (1,867,656) |
| Thereafter | (5,174,959) |
| Total | $(11,207,919) |

## NOTE 8 – INTERFUND BALANCES

### A. Interfund Balances

As of June 30, 2023, the Post Employment Benefits Revocable Trust Fund had an interfund payable due to the General Fund in the amount of $4,493,086 to cover the cash deficit in the Post Employment Benefits Revocable Trust Fund at year-end. As of June 30, 2023, the Health Insurance Fund had an interfund payable due to the General Fund in the amount of $1,067,243 to cover the cash deficit in the Health Insurance Fund at year-end.

## 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, 2023.

An Internal Service Fund accounts for the District's health self-insurance program. The District self-insures health benefits provided to retirees and active employees. The District purchases health insurance stop-loss reinsurance (plan) that protects against individual claims in excess of $300,000, with no lifetime maximum, and against aggregate annual claims in excess of an amount determined by formula. The plan is administered by a third-party administrator. The plan liabilities for claims incurred but not reported are estimated based on subsequent claims activity.

Changes in the Fund's claims liability amounts for the past three years for the health plan were as follows:

| Year Ended | Beginning of Year | Claims Incurred | Claims Paid | End of Year |
|---|---|---|---|---|
| June 30, 2023 | $ 582,488 | $14,969,649 | $(14,849,790) | $ 702,347 |
| June 30, 2022 | 1,005,469 | 13,553,273 | (13,976,254) | 582,488 |
| June 30, 2021 | 1,065,031 | 14,056,286 | (14,115,848) | 1,005,469 |

## NOTE 10 – SUBSEQUENT EVENTS

On October 18, 2023, the District issued G.O. Facilities Maintenance and Tax Abatement Bonds, Series 2023A in the amount of $2,460,000 to finance health and safety projects included in the District's 10-year facility plan and to finance construction and improvements to parking lots.

On October 18, 2023, the District issued Certificates of Participation, Series 2023B in the amount of $1,580,000 to finance a building addition to the Bigfork School.

## NOTE 11 – COMMITMENTS

At June 30, 2023, the District had commitments related to various construction contracts of approximately $9.4 million.

# REQUIRED SUPPLEMENTARY INFORMATION

**Independent School District No. 318**
**Schedule of Changes in Total OPEB Liability**
**and Related Ratios**

| | June 30, 2023 | June 30, 2022 | June 30, 2021 | June 30, 2020 |
|---|---|---|---|---|
| Total OPEB Liability | | | | |
| Service cost | $ 2,268,617 | $ 2,434,104 | $ 1,869,536 | $ 2,088,191 |
| Interest | 3,125,939 | 3,442,673 | 3,917,567 | 4,527,425 |
| Changes of assumptions | (35,560,450) | 4,966,255 | 13,587,233 | 4,471,411 |
| Differenced between expected and actual experience | 257,464 | 16,782,433 | 2,187 | (6,451,703) |
| Employer contributions | (5,666,038) | (4,669,804) | (4,501,669) | (4,141,846) |
| Net change in total OPEB liability | (35,574,468) | 22,955,661 | 14,874,854 | 493,478 |
| Beginning of year | 163,373,708 | 140,418,047 | 125,543,193 | 125,049,715 |
| End of year | $ 127,799,240 | $ 163,373,708 | $ 140,418,047 | $ 125,543,193 |
| Covered-employee payroll | $ 35,541,386 | $ 32,725,100 | $ 29,033,034 | $ 31,721,000 |
| Total OPEB liability as a percentage of covered-employee payroll | 359.6% | 499.2% | 483.6% | 395.8% |

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

| June 30, 2019 | June 30, 2018 |
|---|---|
| $ 2,039,175 | $ 2,355,184 |
| 4,482,108 | 4,020,675 |
| (3,344,599) | (13,771,004) |
| - | - |
| (3,979,422) | (4,183,169) |
| (802,738) | (11,578,314) |
| 125,852,453 | 137,430,767 |
| $ 125,049,715 | $ 125,852,453 |
| $ 31,316,240 | $ 27,651,000 |
| 399.3% | 455.1% |

## Independent School District No. 318
## Schedule of District's and Non-Employer Proportionate Share (if Applicable) of Net Pension Liability
## Last Ten Years General Employees Retirement Fund

| For Plan's Fiscal Year Ended June 30, | District's Proportion of the Net Pension Liability (Asset) | District's Proportionate Share of the Net Pension Liability (Asset) | District's Proportionate Share of State of Minnesota's Proportionate 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-Employee Payroll | District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|---|---|
| 2022 | 0.1245% | $ 9,860,441 | $ 288,966 | $ 10,149,407 | $ 9,325,227 | 105.7% | 76.7% |
| 2021 | 0.1275% | 5,444,821 | 166,282 | 5,611,103 | 9,198,537 | 59.2% | 87.0% |
| 2020 | 0.1257% | 7,536,289 | 232,435 | 7,768,724 | 8,963,540 | 84.1% | 79.1% |
| 2019 | 0.1186% | 6,557,128 | 203,024 | 6,760,152 | 7,675,611 | 85.4% | 80.2% |
| 2018 | 0.1201% | 6,662,656 | 218,477 | 6,881,133 | 8,064,059 | 82.6% | 79.5% |
| 2017 | 0.1216% | 7,762,864 | 97,637 | 7,860,501 | 7,830,659 | 99.1% | 75.9% |
| 2016 | 0.1205% | 9,784,002 | 127,810 | 9,911,812 | 7,477,040 | 130.9% | 68.9% |
| 2015 | 0.1228% | 6,364,133 | - | 6,364,133 | 7,213,933 | 88.2% | 78.2% |
| 2014 | 0.1319% | 6,196,001 | - | 6,196,001 | 6,926,346 | 89.5% | 78.7% |

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

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

| For Plan's Fiscal Year Ended June 30, | District's Proportion of the Net Pension Liability (Asset) | District's Proportionate Share of the Net Pension Liability (Asset) | District's Proportionate Share of State of Minnesota's Proportionate 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-Employee Payroll | District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|---|---|
| 2022 | 0.4029% | $ 32,262,101 | $ 2,392,533 | $ 34,654,634 | $ 24,904,568 | 129.5% | 76.2% |
| 2021 | 0.4062% | 17,776,527 | 1,499,392 | 19,275,919 | 24,305,966 | 73.1% | 86.6% |
| 2020 | 0.4039% | 29,840,673 | 2,500,461 | 32,341,134 | 23,473,382 | 127.1% | 75.5% |
| 2019 | 0.4039% | 25,744,671 | 2,278,098 | 28,022,769 | 19,518,797 | 131.9% | 78.2% |
| 2018 | 0.4020% | 25,248,206 | 2,371,875 | 27,620,081 | 22,209,188 | 113.7% | 78.1% |
| 2017 | 0.3875% | 77,352,029 | 7,478,105 | 84,830,134 | 20,858,755 | 370.8% | 51.6% |
| 2016 | 0.3739% | 89,184,071 | 8,951,105 | 98,135,176 | 19,450,667 | 458.5% | 44.9% |
| 2015 | 0.3506% | 21,688,077 | 2,660,220 | 24,348,297 | 17,796,307 | 121.9% | 76.8% |
| 2014 | 0.3679% | 16,952,567 | 1,192,647 | 18,145,214 | 16,794,301 | 100.9% | 81.5% |

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

**Independent School District No. 318**
**Schedule of District Contributions**
**General Employees Retirement Fund**
**Last Ten Years**

| Fiscal Year Ending June 30, | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | District's Covered-Employee Payroll | Contributions as a Percentage of Covered-Employee Payroll |
|---|---|---|---|---|---|
| 2023 | $ 662,000 | $ 662,000 | $ - | $ 8,826,667 | 7.50% |
| 2022 | 699,392 | 699,392 | - | 9,325,227 | 7.50% |
| 2021 | 688,568 | 688,568 | - | 9,198,537 | 7.50% |
| 2020 | 672,309 | 672,309 | - | 8,963,540 | 7.50% |
| 2019 | 575,673 | 575,673 | - | 7,675,611 | 7.50% |
| 2018 | 604,805 | 604,805 | - | 8,064,059 | 7.50% |
| 2017 | 587,688 | 587,688 | - | 7,830,659 | 7.50% |
| 2016 | 560,767 | 560,767 | - | 7,477,040 | 7.50% |
| 2015 | 532,425 | 532,425 | - | 7,213,933 | 7.38% |

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

**Schedule of District Contributions**
**TRA Retirement Fund**
**Last Ten Years**

| Fiscal Year Ending June 30, | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | District's Covered-Employee Payroll | Contributions as a Percentage of Covered-Employee Payroll |
|---|---|---|---|---|---|
| 2023 | $ 2,065,696 | $ 2,065,696 | $ - | $ 24,160,187 | 8.55% |
| 2022 | 2,077,041 | 2,077,041 | - | 24,904,568 | 8.34% |
| 2021 | 1,976,075 | 1,976,075 | - | 24,305,966 | 8.13% |
| 2020 | 1,859,095 | 1,859,095 | - | 23,473,382 | 7.92% |
| 2019 | 1,504,900 | 1,504,900 | - | 19,518,797 | 7.71% |
| 2018 | 1,665,683 | 1,665,683 | - | 22,209,188 | 7.50% |
| 2017 | 1,564,407 | 1,564,407 | - | 20,858,755 | 7.50% |
| 2016 | 1,458,800 | 1,458,800 | - | 19,450,667 | 7.50% |
| 2015 | 1,334,723 | 1,334,723 | - | 17,796,307 | 7.50% |

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

## Independent School District No. 318
## Notes to the Required Supplementary Information

### TRA Retirement Fund

**2022 Changes**
Changes in Actuarial Assumptions
- None

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

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

**2019 Changes**
Changes in Actuarial Assumptions
- None

**2018 Changes**
Changes in Actuarial Assumptions
- The discount rate was increased to 7.5% from 5.12%.
- 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 zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

## TRA Retirement Fund (Continued)

### 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%.
- 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.

**TRA Retirement Fund (Continued)**

**2015 Changes**

Changes of Benefit Terms

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

Changes in Actuarial Assumptions

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

**Independent School District No. 318**
**Notes to the Required Supplementary Information**

## General Employees Fund

### 2022 Changes
Changes in Actuarial Assumptions
- The mortality improvement scale was changed from scale MP-2020 to scale MP-2021.

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

### 2021 Changes
Changes in Actuarial Assumptions
- The investment return and single discount rates were changed from 7.5% to 6.5% for financial reporting purposes.
- The mortality improvement scale was changed from scale MP-2019 to scale MP-2020.

Changes in Plan Provisions
- There have been no changes since the prior valuation.

### 2020 Changes
Changes in Actuarial Assumptions
- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changes as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retires electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

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

**Independent School District No. 318**
**Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**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 changes prospectively, requiring $16 million due per year through 2031.

**2018 Changes**
Changes in Actuarial Assumptions
- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- 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. 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.

**General Employees Fund (Continued)**

**2016 Changes**
Changes in Actuarial Assumptions
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation was decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Plan Provisions
- There have been no changes since the prior valuation.

**2015 Changes**
Changes in Actuarial Assumptions
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

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

## Independent School District No. 318
## Notes to the Required Supplementary Information

**Post Employment Health Care Plan**
There are no assets accumulated in a trust that meet criteria of GASB Statement No. 75, paragraph 4, to pay related benefits.

**2023 Changes**
Changes in Actuarial Assumptions

- The discount rate was changed from 1.92% to 3.69% based on the updated 20-year municipal bond rates.

**2022 Changes**
Changes in Actuarial Assumptions

- The discount rate was changed from 2.45% to 1.92% based on the updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita costs were updated to reflect recent experience.
- Withdrawal, retirement, mortality, disability, and salary increase rates were updated from the rates used in the most recent TRA and GERF valuations.
- The inflation assumption was changed from 2.5% to 2.25% based on an updated historical analysis of inflation rates and forward-looking market expectations.

**SUPPLEMENTARY INFORMATION**

**Independent School District No. 318**
**Combining Balance Sheet -**
**Nonmajor Governmental Funds**
**June 30, 2023**

| | Special Revenue Funds | | |
|---|---|---|---|
| | Food Service | Community Service | Total Nonmajor Funds |
| **Assets** | | | |
| Cash and investments | $ 727,439 | $ 762,309 | $ 1,489,748 |
| Accounts receivable | 15,210 | 76,974 | 92,184 |
| Due from Department of Education | - | 53,619 | 53,619 |
| Due from federal government through department of education | 30,034 | 132,158 | 162,192 |
| Inventory | 85,582 | - | 85,582 |
| Total assets | $ 858,265 | $ 1,025,060 | $ 1,883,325 |
| **Liabilities** | | | |
| Accounts and contracts payable | $ 12,243 | $ 40,056 | 52,299 |
| Due to other Minnesota school districts | - | 272,027 | 272,027 |
| Total liabilities | 12,243 | 312,083 | 324,326 |
| **Fund Balances** | | | |
| Nonspendable | 85,582 | - | 85,582 |
| Restricted | 760,440 | 712,977 | 1,473,417 |
| Total fund balances | 846,022 | 712,977 | 1,558,999 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 858,265 | $ 1,025,060 | $ 1,883,325 |

**Independent School District No. 318**
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -**
**Nonmajor Governmental Funds**
**Year Ended June 30, 2023**

| | Special Revenue Funds | | |
|---|---|---|---|
| | Food Service | Community Service | Total Nonmajor Funds |
| **Revenues** | | | |
| Local property taxes | $ - | $ 332,491 | $ 332,491 |
| Other local and county revenues | 34,003 | 327,841 | 361,844 |
| Revenue from state sources | 92,565 | 471,934 | 564,499 |
| Revenue from federal sources | 1,625,574 | 242,640 | 1,868,214 |
| Sales and other conversion of assets | 612,100 | - | 612,100 |
| Total revenues | 2,364,242 | 1,374,906 | 3,739,148 |
| **Expenditures** | | | |
| Current | | | |
| Food service | 2,351,087 | - | 2,351,087 |
| Community education and services | - | 1,218,152 | 1,218,152 |
| Capital outlay | | | |
| Food service | 3,171 | - | 3,171 |
| Total expenditures | 2,354,258 | 1,218,152 | 3,572,410 |
| Net change in fund balances | 9,984 | 156,754 | 166,738 |
| **Fund Balances** | | | |
| Beginning of year | 836,038 | 556,223 | 1,392,261 |
| End of year | $ 846,022 | $ 712,977 | $ 1,558,999 |

**Independent School District No. 318**
**Combining Schedule of Net Position - Internal Service Funds**
**June 30, 2023**

| | Postemployment Benefits Revocable Trust | Health Insurance Fund | Total Internal Service Funds |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Investments | $ 12,970,193 | $ 4,013,363 | $ 16,983,556 |
| **Liabilities** | | | |
| Accounts payable | $ - | $ 1,798 | $ 1,798 |
| Claims payable | - | 702,347 | 702,347 |
| Due to other funds | 4,493,086 | 1,067,243 | 5,560,329 |
| Total liabilities | 4,493,086 | 1,771,388 | 6,264,474 |
| **Net Position** | | | |
| Unrestricted | 8,477,107 | 2,241,975 | 10,719,082 |
| Total liabilities and net position | $ 12,970,193 | $ 4,013,363 | $ 16,983,556 |

**Independent School District No. 318**
**Combining Schedule of Revenues, Expenses, and Changes**
**in Fund Net Position - Internal Service Funds**
**Year Ended June 30, 2023**

| | Postemployment Benefits Revocable Trust | Health Insurance Fund | Total Internal Service Funds |
|---|---|---|---|
| **Operating Revenue** | | | |
| Contributions from the District and employees | $ - | $ 16,329,018 | $ 16,329,018 |
| Contributions from employees and retirees | 658,736 | - | 658,736 |
| Total operating revenues | 658,736 | 16,329,018 | 16,987,754 |
| **Operating Expenses** | | | |
| Healthcare benefits and claims | 4,935,821 | 14,969,649 | 19,905,470 |
| Administrative costs | 115,427 | 330,700 | 446,127 |
| Total operating expenses | 5,051,248 | 15,300,349 | 20,351,597 |
| Operating income (loss) | (4,392,512) | 1,028,669 | (3,363,843) |
| **Nonoperating Revenue** | | | |
| Investment income, net of fees | 783,638 | 51,276 | 834,914 |
| Change in net position | (3,608,874) | 1,079,945 | (2,528,929) |
| **Net Position** | | | |
| Beginning of year | 12,085,981 | 1,162,030 | 13,248,011 |
| End of year | $ 8,477,107 | $ 2,241,975 | $ 10,719,082 |

**Independent School District No. 318**
**Combining Schedule of Cash Flows - Internal Service Funds**
**Year Ended June 30, 2023**

| | Postemployment Benefits Revocable Trust | Health Insurance Fund | Total Internal Service Funds |
|---|---|---|---|
| **Cash Flows - Operating Activities** | | | |
| Contributions from the District and employees | $ - | $ 16,329,018 | $ 16,329,018 |
| Receipts from retirees and employees | 658,736 | - | 658,736 |
| Payments for healthcare premiums | (4,935,821) | (14,869,582) | (19,805,403) |
| Payments for administrative costs | (115,427) | (330,700) | (446,127) |
| Net cash flows - operating activities | (4,392,512) | 1,128,736 | (3,263,776) |
| **Cash Flows - Noncapital Financing Activities** | | | |
| Amounts repaid to other funds | (1,362,511) | (2,195,979) | (3,558,490) |
| Amounts borrowed from other funds | 4,493,086 | 1,067,243 | 5,560,329 |
| Net cash flows - noncapital financing activities | 3,130,575 | (1,128,736) | 2,001,839 |
| **Cash Flows - Investing Activities** | | | |
| Proceeds from sales and maturities of investments | 4,605,034 | 7,246,984 | 11,852,018 |
| Purchase of investments | (4,126,735) | (7,298,260) | (11,424,995) |
| Interest received | 813,679 | 70,652 | 884,331 |
| Trustee fees paid | (30,041) | (19,376) | (49,417) |
| Net cash flows - investing activities | 1,261,937 | - | 1,261,937 |
| **Net Change in Cash and Cash Equivalents** | - | - | - |
| **Cash and Cash Equivalents** | | | |
| Beginning of year | - | - | - |
| End of year | $ - | $ - | $ - |
| **Reconciliation of Operating Income (Loss) to Net Cash Flows-Operating Activities** | | | |
| Operating income (loss) | $ (4,392,512) | $ 1,028,669 | $ (3,363,843) |
| Adjustments to reconcile operating income (loss) to net cash flows - operating activities | | | |
| Change in accounts payable | - | (19,792) | (19,792) |
| Change in claims payable | - | 119,859 | 119,859 |
| Total adjustments | - | 100,067 | 100,067 |
| Net cash flows - operating activities | $ (4,392,512) | $ 1,128,736 | $ (3,263,776) |

**Independent School District No. 318**
**Uniform Financial Accounting and Reporting Standards**
**Compliance Table**
**Year Ended June 30, 2023**

| | Audit | UFARS | Audit-UFARS |
|---|---|---|---|
| **01 GENERAL FUND** | | | |
| Total revenue | $ 59,636,683 | $ 59,636,680 | $ 3 |
| Total expenditures | 58,058,223 | 58,058,220 | 3 |
| *Nonspendable:* | | | |
| 4.60 Nonspendable fund balance | 23,797 | 23,797 | - |
| *Restricted/reserved:* | | | |
| 4.01 Student Activities | 179,279 | 179,280 | (1) |
| 4.02 Scholarships | - | - | - |
| 4.03 Staff Development | - | 1 | (1) |
| 4.07 Capital Projects Levy | - | - | - |
| 4.09 Alternative Facility Program | - | - | - |
| 4.13 Building Projects Funded by COP/LP | - | - | - |
| 4.14 Operating Debt | - | - | - |
| 4.16 Levy Reduction | - | - | - |
| 4.17 Taconite Building Maintenance | - | - | - |
| 4.24 Operating Capital | 391,393 | 391,393 | - |
| 4.26 $25 Taconite | - | - | - |
| 4.27 Disabled Accessibility | - | - | - |
| 4.28 Learning and Development | - | - | - |
| 4.34 Area Learning Center | 427,720 | 427,720 | - |
| 4.35 Contracted Alternative Programs | - | - | - |
| 4.36 State Approved Alternative Program | - | - | - |
| 4.38 Gifted and Talented | 13,361 | 13,361 | - |
| 4.40 Teacher Development and Evaluation | - | - | - |
| 4.41 Basic Skills Programs | 51,124 | 51,124 | - |
| 4.48 Achievement and Integration | 83,350 | 83,350 | - |
| 4.49 Safe School Crime Levy | - | - | - |
| 4.51 QZAB Payments | - | - | - |
| 4.52 OPEB Liabilities not Held in Trust | - | - | - |
| 4.53 Unfunded Severance and Retirement Levy | - | - | - |
| 4.59 Basic Skills Extended Time | - | - | - |
| 4.67 Long-Term Facilities Maintenance | 1,260,106 | 1,260,105 | 1 |
| 4.72 Medical Assistance | 667,788 | 667,788 | - |
| *Restricted:* | | | |
| 4.64 Restricted fund balance | - | - | - |
| 4.75 Title VII - Impact Aid | - | - | - |
| 4.76 Payments in Lieu of Taxes | 14,452 | 14,452 | - |
| *Committed:* | | | |
| 4.18 Committed for separation/ retirement benefits | - | - | - |
| 4.61 Committed for separation/ | - | - | - |
| *Assigned:* | | | |
| 4.62 Assigned fund balance | 905,889 | 905,889 | - |
| *Unassigned:* | | | |
| 4.22 Unassigned fund balance | 2,596,765 | 2,596,763 | 2 |
| **02 FOOD SERVICE FUND** | | | |
| Total revenue | $ 2,364,242 | $ 2,364,241 | $ 1 |
| Total expenditures | 2,354,258 | 2,354,258 | - |
| *Nonspendable:* | | | |
| 4.60 Nonspendable fund balance | 85,582 | 85,582 | - |
| *Restricted/reserved:* | | | |
| 4.52 OPEB liabilities not held in trust | - | - | - |
| *Restricted:* | | | |
| 4.64 Restricted fund balance | 760,440 | 760,439 | 1 |
| *Unassigned:* | | | |
| 4.63 Unassigned fund balance | - | - | - |
| **04 COMMUNITY SERVICE FUND** | | | |
| Total revenue | $ 1,374,906 | $ 1,374,907 | $ (1) |
| Total expenditures | 1,218,152 | 1,218,153 | (1) |
| *Nonspendable:* | | | |
| 4.60 Nonspendable fund balance | - | - | - |
| *Restricted/reserved:* | | | |
| 4.26 $25 Taconite | - | - | - |
| 4.31 Community Education | 585,131 | 585,131 | - |
| 4.32 ECFE | 7,915 | 7,915 | - |
| 4.40 Teacher Development and Evaluation | - | - | - |
| 4.44 School Readiness | 18,109 | 18,109 | - |
| 4.47 Adult Basic Education | - | - | - |
| 4.52 OPEB Liabilities not Held in Trust | - | - | - |
| *Restricted:* | | | |
| 4.64 Restricted fund balance | 101,822 | 101,821 | 1 |
| *Unassigned:* | | | |
| 4.63 Unassigned fund balance | - | - | - |

| | Audit | UFARS | Audit-UFARS |
|---|---|---|---|
| **06 BUILDING CONSTRUCTION FUND** | | | |
| Total revenue | $ 668,339 | $ 668,339 | $ - |
| Total expenditures | 7,275,698 | 7,275,698 | - |
| *Nonspendable:* | | | |
| 4.60 Nonspendable fund balance | - | - | - |
| *Restricted/reserved:* | | | |
| 4.07 Capital Projects Levy | - | - | - |
| 4.13 Building Projects Funded by COP/LP | - | - | - |
| 4.67 LTFM | 7,023,844 | 7,023,844 | - |
| *Restricted:* | | | |
| 4.64 Restricted fund balance | 362,370 | 362,369 | 1 |
| *Unassigned:* | | | |
| 4.63 Unassigned fund balance | - | - | - |
| **07 DEBT SERVICE FUND** | | | |
| Total revenue | $ 3,776,278 | $ 3,776,279 | $ (1) |
| Total expenditures | 3,486,999 | 3,486,999 | - |
| *Nonspendable:* | | | |
| 4.60 Nonspendable fund balance | - | - | - |
| *Restricted/reserved:* | | | |
| 4.25 Bond refunding | - | - | - |
| 4.33 Maximum effort loan aid | | | |
| 4.51 QZAB payments | - | - | - |
| 4.67 LTFM | 52,339 | 52,339 | - |
| *Restricted:* | | | |
| 4.64 Restricted fund balance | 1,058,388 | 1,058,389 | (1) |
| *Unassigned:* | | | |
| 4.63 Unassigned fund balance | - | - | - |
| **08 TRUST FUND** | | | |
| Total revenue | $ - | $ - | $ - |
| Total expenditures | - | - | - |
| *Unassigned:* | | | |
| 4.01 Student Activities | - | - | - |
| 4.02 Scholarships | - | - | - |
| 4.22 Net Assets | - | - | - |
| **18 CUSTODIAL FUND** | | | |
| Total revenue | $ 39,977 | 39,978 | (1) |
| Total expenditures | 31,525 | 31,525 | - |
| *Unassigned:* | | | |
| 4.01 Student Activities | 1,641 | 1,641 | - |
| 4.02 Scholarships | 33,308 | 33,308 | - |
| 4.22 Achievement & Integration | - | - | - |
| 4.64 Restricted | - | - | - |
| **20 INTERNAL SERVICE FUND** | | | |
| Total revenue | $ 16,399,670 | $ 16,399,670 | $ - |
| Total expenditures | 15,319,725 | 15,319,725 | - |
| *Unassigned:* | | | |
| 4.22 Net position | 2,241,975 | 2,241,975 | - |
| **25 OPEB REVOCABLE TRUST** | | | |
| Total revenue | $ 1,472,415 | $ 1,472,416 | $ (1) |
| Total expenditures | 5,081,289 | 5,081,289 | - |
| *Unassigned:* | | | |
| 4.22 Net position | 8,477,107 | 8,477,107 | - |
| **45 OPEB IRREVOCABLE TRUST** | | | |
| Total revenue | $ - | $ - | $ - |
| Total expenditures | - | - | - |
| *Unassigned:* | | | |
| 4.22 Net position | - | - | - |
| **47 OPEB DEBT SERVICE** | | | |
| Total revenue | $ 4,914,104 | $ 4,914,105 | $ (1) |
| Total expenditures | 4,695,677 | 4,695,678 | (1) |
| *Nonspendable:* | | | |
| 4.60 Nonspendable fund balance | - | - | - |
| *Restricted:* | | | |
| 4.64 Restricted fund balance | 1,477,103 | 1,477,102 | 1 |
| *Unassigned:* | | | |
| 4.63 Unassigned fund balance | - | - | - |

**Independent School District No. 318**
**Schedule of Expenditures of Federal Awards**
**Year Ended June 30, 2023**

| Federal Agency/Pass Through Agency/Program Title | Federal Assistance Listing Number | Expenditures |
|---|---|---|
| **U.S. Department of Agriculture** | | |
| Through Minnesota Department of Education | | |
| Child Nutrition Cluster | | |
| School Breakfast Program | 10.553 | $ 241,098 |
| COVID-19 - Supply Chain Assistance Funds | 10.555C | 107,362 |
| Commodities Program (noncash) | 10.555 | 168,013 |
| Commodities Program | 10.555 | 2,368 |
| National School Lunch Program | 10.555 | 978,365 |
| Summer Food Service Program | 10.559 | 75,909 |
| Total Child Nutrition Cluster | | 1,573,115 |
| Child and Adult Care Food Program | 10.558 | 54,505 |
| COVID-19 - Pandemic EBT Administrative Costs | 10.649C | 3,135 |
| Through Itasca County | | |
| Schools and Roads - Grants to States | 10.665 | 107,650 |
| Total U.S. Department of Agriculture | | 1,738,405 |
| **U.S. Department of Transportation** | | |
| Through Minnesota Department of Transportation | | |
| Highway Planning and Construction Program and Cluster total | 20.205 | 45,810 |
| **U.S. Department of Education** | | |
| Direct from Federal Government | | |
| Indian Education | 84.060 | 125,382 |
| Through Minnesota Department of Education | | |
| Title I Program | | |
| Title I, Part A | 84.010 | 671,585 |
| Title I, Part D | 84.010A | 88,134 |
| Total Title I program | | 759,719 |
| Special Education Cluster | | |
| Special Education | 84.027 | 948,246 |
| Disabled Early Education | 84.173 | 31,915 |
| COVID-19 - IDEA/ARP of 2021 | 84.173X | 34,492 |
| Total Special Education Cluster | | 1,014,653 |
| Special Education - Grants for Infants and Toddlers | 84.181 | 27,774 |
| Twenty-First Century Community Learning Centers | 84.287 | 197,547 |
| Title II, Part A - Supporting Effective Instruction State Grants | 84.367 | 107,054 |
| Student Support and Achievement Enrichment Program | 84.424 | 56,208 |
| Education Stabilization Fund | | |
| COVID-19 - Elementary and Secondary School Education Relief Fund | 84.425D | 1,870,001 |
| COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief | 84.425U | 785,762 |
| COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief - Homeless Children and Youth | 84.425W | 8,860 |
| Total Education Stabilization Fund | | 2,664,623 |
| Through Independent School District No. 6070-50 | | |
| Carl Perkins | 84.048A | 24,708 |
| Total U.S. Department of Education | | 4,977,668 |
| **U.S. Department of Health and Human Services** | | |
| Through Minnesota Department of Education | | |
| Drug-Free Communities Support Program Grants | 93.276 | 129,976 |
| COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases | 93.323 | 207,448 |
| Total U.S. Department of Health and Human Services | | 337,424 |
| Total Federal Expenditures | | $ 7,099,307 |

See notes to schedule of expenditures of federal awards.

**Independent School District No. 318**
**Notes to the Schedule of Expenditures of Federal Awards**

## NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes of net assets, or cash flows of the District.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## NOTE 3 – PASS-THROUGH GRANT NUMBERS

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

## NOTE 4 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

## NOTE 5 – INDIRECT COST RATE

The District did not elect to use the 10 percent de minimis indirect cost rate, as allowed under the Uniform Guidance.

(THIS PAGE LEFT BLANK INTENTIONALLY)

# 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. 318
Grand Rapids, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 318, Grand Rapids, Minnesota, as of and for the year ending June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 2, 2023.

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

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

Our consideration of internal control was for the limited purpose described in the 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 deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance as audit findings 2023-001 and 2023-002 that we consider to be significant deficiencies.

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

**District's Responses to the Findings**
*Government Auditing Standards* requires the auditor to perform limited procedures on the District's responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the responses.

**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.

St. Cloud, Minnesota
November 2, 2023

**Report on Compliance for each Major Federal Program
and Report on Internal Control over Compliance Required by
the Uniform Guidance**

**Independent Auditor's Report**

To the School Board
Independent School District No. 318
Grand Rapids, Minnesota

## Report on Compliance for Each Major Federal Program

### Opinion on Each Major Federal Program

We have audited the compliance of Independent School District No. 318, Grand Rapids, Minnesota with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2023. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the District complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

### Basis for Opinion on Each Major Federal Program

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

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

### Responsibilities of Management for Compliance

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

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

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

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

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

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

**Report on Internal Control over Compliance**

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

**Report on Internal Control over Compliance (Continued)**
Our consideration of internal control over compliance was for the limited purpose described in Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

BerganKDV, Ltd.

St. Cloud, Minnesota
November 2, 2023

**Independent School District No. 318**
**Schedule of Findings and Questioned Costs**
**in Accordance with the Uniform Guidance**

## SECTION I – SUMMARY OF AUDITOR'S RESULTS

### Financial Statements

| | |
|---|---|
| Type of auditor's report issued: | We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP). |
| Internal control over financial reporting: | |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified? | Yes, Audit Findings 2023-001 and 2023-002 |
| Noncompliance material to financial statements noted? | No |

### Federal Awards

| | |
|---|---|
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Internal control over major programs: | |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified? | None reported |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516? | No |

### Identification of Major Programs

| | |
|---|---|
| Assistance Listing No.: | 93.323 |
| Name of Federal Program or Cluster: | Epidemiology and Laboratory Capacity for Infectious Diseases |
| Assistance Listing No.: | 84.425D, 84.425U, 84.425W |
| Name of Federal Program or Cluster: | Education Stabilization Fund |
| Assistance Listing No.: | 84.010 |
| Name of Federal Program or Cluster: | Title I |
| Dollar threshold used to extinguish between type A and type B programs: | $750,000 |
| Auditee qualified as low risk auditee? | Yes |

**Independent School District No. 318**
**Schedule of Findings and Questioned Costs**
**in Accordance with the Uniform Guidance**

## SECTION II – FINANCIAL STATEMENT FINDINGS

### Audit Finding 2023-001

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

*Condition:*
During the year ended June 30, 2023, the District had a lack of segregation of accounting duties due to a limited number of office employees. This condition increases the risk that errors could occur which would not be prevented or detected and corrected in a timely manner.

The Business Manager has full access to the general ledger as well as reconciles state aids and property tax revenues.

*Questioned Costs:*
None

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

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

*Cause:*
The Business Manager has full access to the general ledger to complete job duties.

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

**Independent School District No. 318**
**Schedule of Findings and Questioned Costs**
**in Accordance with the Uniform Guidance**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**Audit Finding 2023-001 (Continued)**

*Responsible Official's Response:*

**CORRECTIVE ACTION PLAN (CAP):**

1. <u>Explanation of Disagreement with Audit Finding</u>
   The District does not disagree with the audit finding.

2. <u>Actions Planned in Response to Finding</u>
   The District officials are aware of the access that the Business Manager possesses. Mitigating procedures are in place to when journal entries are made by the business manager. This position is unable to run accounts payable or payroll checks. This individual is unable to make withdrawals from bank accounts and does not make any deposits of cash or check.

3. <u>Official Responsible for Ensuring CAP</u>
   The Business Manager, Kara Lundin and Superintendent, Matt Grose.

4. <u>Planned Completion Date for CAP</u>
   The plan is complete. The business manager is unable to withdrawal cash and investments or issue checks, accounts, or payroll checks.

5. <u>Plan to Monitor Completion of CAP</u>
   The Business Manager will monitor compliance with the corrective action plan and report to the Superintendent, Matt Grose, and the School Board. In addition, monthly reporting is done so any anomalies can be noted timely by the Board and the Finance Committee.

**Independent School District No. 318**
**Schedule of Findings and Questioned Costs**
**in Accordance with the Uniform Guidance**

## SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

### Audit Finding 2023-002

*Criteria:*
The District is responsible for ensuring all bank accounts are reconciled to the general ledger monthly.

*Condition:*
Since January 2023, the District's bank reconciliation procedures have not properly reconciled cash per the bank statement to the amount of cash recorded in the general ledger.

*Questioned Costs:*
None

*Context:*
This finding impacts cash balances across all Funds.

*Effect or Potential Effect:*
Without performing accurate reconciliations, transaction errors may go undetected, and the District's general ledger may not accurately reflect all transactions.

*Cause:*
The District has complex accounts.

*Recommendation:*
The District should investigate reconciling differences and make adjustments to its bank reconciliation process to ensure reconciliations are completed accurately.

**Independent School District No. 318**
**Schedule of Findings and Questioned Costs**
**in Accordance with the Uniform Guidance**

## SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

**Audit Finding 2023-002 (Continued)**

*Responsible Official's Response:*

**CORRECTIVE ACTION PLAN (CAP):**

1. <u>Explanation of Disagreement with Audit Finding</u>
   The District does not disagree with the audit finding.

2. <u>Actions Planned in Response to Finding</u>
   The District officials are aware of the challenges the change from SMART Software to Skyward has created. Since this change, cash has been very difficult to balance. The District Accountant continues to work with programmers at Skyward to improve the reconciliation process.

3. <u>Official Responsible for Ensuring CAP</u>
   The Business Manager, Kara Lundin and Accountant, Linda Mortenson.

4. <u>Planned Completion Date for CAP</u>
   The planned completion date is January 15, 2024. This will provide the Accountant with one full year of bank reconciliations in Skyward.

5. <u>Plan to Monitor Completion of CAP</u>
   The Business Manager will monitor compliance with the corrective action plan and report to the Superintendent, Matt Grose, and the School Board.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

## SECTION IV – PRIOR YEAR FEDERAL AWARD FINDING

None

## Minnesota Legal Compliance

## Independent Auditor's Report

To the School Board
Independent School District No. 318
Grand Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 318, Grand Rapids, Minnesota, as of and for the year ended June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District 's basic financial statements, and have issued our report thereon dated November 2, 2023.

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 and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

BerganKDV, Ltd.

St. Cloud, Minnesota
November 2, 2023