

**Independent School District No. 738
Holdingford, Minnesota**

Basic Financial Statements

June 30, 2023



Independent School District No. 738
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**Independent School District No. 738
Board of Education and Administration
June 30, 2023**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Ed Feia	Chairperson	December 31, 2025
Lori Opatz	Vice Chairperson	December 31, 2023
Patrick Meier	Clerk	December 31, 2025
Evelyn Martini	Treasurer	December 31, 2023
Sarah Binek	Director	December 31, 2025
Elissa Ebnet	Director	December 31, 2023
Robert Knettel	Director	December 31, 2023
<u>Administration</u>		
Chris Swenson	Superintendent	
Garrity Gerber	Business Manager	

Independent Auditor's Report

To the School Board
Independent School District No. 738
Holdingford, 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. 738, Holdingford, 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. 738, 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. 738 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. 738 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.

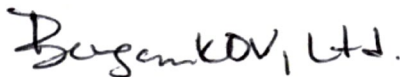
Supplementary Information

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

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental information 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 September 25, 2023, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.



St. Cloud, Minnesota
September 25, 2023

Independent School District No. 738 Management's Discussion and Analysis

As management of Independent School District No. 738 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2023.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District were higher than its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$9,968,102 (net position). This balance was less than the sum of the amounts *net investment in capital assets* and assets *restricted* for specific purposes, resulting in negative *unrestricted net position* of \$5,874,516 at June 30, 2023.
- The District's total net position increased by \$2,892,948.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,305,040 a decrease of \$2,876,381 in comparison with the prior year.
- At the end of the current fiscal year, general fund unassigned fund balance for general uses was \$2,240,613 or 16.1% of the total general fund expenditures.
- The District's total debt decreased \$936,772 in the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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 in the following table. The remainder of the overview section of the Management Discussion and Analysis highlights the structure and contents of each of the statements.

**Independent School District No. 738
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

	Government-Wide	Fund Financial Statements	
		Governmental Funds	Proprietary Fund
Scope	Entire District	The activities of the District that are not proprietary, such as special education and building maintenance, food service, and community education	Activities the District operates similar to private businesses: Internal Service Funds
Required financial statements	Statements of Net Position Statement of Activities	Balance Sheet Statement of Revenue, Expenditures, and Changes in Fund Balances	Statement of Net Position Statement of Revenue, Expenses, and Changes in Fund Net Position 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
Type of asset/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 included	All assets and liabilities, both financial, and capital, short-term and long-term
Type of inflow/outflow information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue 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 revenue and expenses during the year, regardless of when cash is received or paid

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets and deferred outflows of resources; and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Independent School District No. 738 Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements report functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include administration, district support services, regular instruction, vocational instruction, special education instruction, community education and services, instructional support services, pupil support services, sites and buildings, fiscal and other fixed cost programs, food service, interest and other fiscal charges, and unallocated depreciation.

The government-wide financial statements start on page 16 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains three individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and building construction capital projects fund which are considered to be major funds. Data from the two nonmajor special revenue funds has been combined into a single, aggregated presentation. Individual fund data for each of these nonmajor special revenue funds is provided in the form of *combining statements* elsewhere in this report.

Independent School District No. 738 Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Funds (Continued)

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 18 of this report.

Proprietary Funds

The District maintains one type of proprietary fund. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses an internal service fund to account for the OPEB Revocable Trust. Because these services predominantly benefit the governmental functions, they have been included within the *governmental activities* in the government-wide financial statements.

The basic proprietary fund financial statements start on page 24 of this report.

Notes to Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to financial statements start on page 27 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds and required supplementary information are presented immediately following the notes to the financial statements. Required supplementary information and combining fund statements start on page 64 of this report.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources were higher than liabilities and deferred inflows of resources by \$9,968,102 at the close of the most recent fiscal year.

A significant portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Independent School District No. 738
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position (Continued)

	Net Position		
	Table 1		
	Governmental Activities		
	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>
Assets			
Current and other assets	\$ 10,056,411	\$ 13,097,972	\$ (3,041,561)
Capital assets	<u>30,103,398</u>	<u>26,981,194</u>	<u>3,122,204</u>
Total assets	<u>40,159,809</u>	<u>40,079,166</u>	<u>80,643</u>
Deferred Outflows of Resources	<u>3,022,250</u>	<u>3,176,976</u>	<u>(154,726)</u>
Liabilities			
Current liabilities	2,502,809	2,936,338	(433,529)
Noncurrent liabilities	<u>26,182,353</u>	<u>23,374,481</u>	<u>2,807,872</u>
Total liabilities	<u>28,685,162</u>	<u>26,310,819</u>	<u>2,374,343</u>
Deferred Inflows of Resources	<u>4,528,795</u>	<u>9,870,169</u>	<u>(5,341,374)</u>
Net Position			
Net investment in capital assets	13,266,692	11,809,333	1,457,359
Restricted	2,575,926	2,476,790	99,136
Unrestricted	<u>(5,874,516)</u>	<u>(7,210,969)</u>	<u>1,336,453</u>
Total net position	<u>\$ 9,968,102</u>	<u>\$ 7,075,154</u>	<u>\$ 2,892,948</u>

An additional portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors. The balance of unrestricted net position was negative \$5,874,516 at year end.

Changes in Net Position

The District's net position increased by \$2,892,948 during the most recent fiscal year.

**Independent School District No. 738
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

**Changes in Net Position
Table 2**

	Governmental Activities		
	2023	2022	Increase (Decrease)
Revenues			
Program revenues			
Charges for services	\$ 815,680	\$ 507,087	\$ 308,593
Operating grants and contributions	3,662,429	3,734,760	(72,331)
Capital grants and contributions	495,839	357,371	138,468
General revenues			
Property taxes	2,062,212	2,125,995	(63,783)
State aid not restricted to specific programs	8,903,027	8,568,931	334,096
Earnings on investments	180,802	(6,207)	187,009
Miscellaneous	208,120	215,384	(7,264)
Total revenues	<u>16,328,109</u>	<u>15,503,321</u>	<u>824,788</u>
Expenses	2023	2022	Increase (Decrease)
Administration	685,435	755,971	(70,536)
District support services	369,296	368,575	721
Regular instruction	4,726,061	5,698,166	(972,105)
Vocational instruction	193,330	188,024	5,306
Special education instruction	2,034,822	2,179,489	(144,667)
Instructional support services	410,186	519,624	(109,438)
Pupil support services	907,474	841,775	65,699
Sites and buildings	1,451,055	1,219,617	231,438
Fiscal and other fixed costs programs	81,637	53,383	28,254
Food service	886,770	734,720	152,050
Community education and services	472,827	397,125	75,702
Unallocated depreciation	708,865	708,865	-
Interest and other fiscal charges	507,403	610,961	(103,558)
Unallocated depreciation	<u>13,435,161</u>	<u>14,276,295</u>	<u>(841,134)</u>
Change in net position	2,892,948	1,227,026	1,665,922
Net position - beginning, as previously stated	7,075,154	5,443,898	1,631,256
Change in accounting principle	-	404,230	(404,230)
Net position - beginning, as restated	<u>7,075,154</u>	<u>5,848,128</u>	<u>1,227,026</u>
Net position - ending	<u>\$ 9,968,102</u>	<u>\$ 7,075,154</u>	<u>\$ 2,892,948</u>

**Independent School District No. 738
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Changes in Net Position (Continued)

- Revenues increased as a result of the increase in the special education entitlement, grants related to COVID relief and income related to investments.
- Recognition of GASB 68 Accounting and Financial Reporting for Pensions represented a \$1,235,999 credit to regular instruction.

Total and Net Cost of Governmental Activities

The net cost of governmental activities is their total costs less program revenues applicable to each category. The following table presents these total and net costs.

**Total and Net Costs of Services
Table 3**

	Total Cost of Services			Net Cost of Services		
	2023	2022	Increase (Decrease)	2023	2022	Increase (Decrease)
Administration	685,435	755,971	\$ (70,536)	\$ 685,435	\$ 755,971	\$ (70,536)
District support services	369,296	368,575	721	369,296	368,575	721
Regular instruction	4,726,061	5,698,166	(972,105)	3,874,212	4,799,680	(925,468)
Vocational instruction	193,330	188,024	5,306	159,240	157,472	1,768
Special education instruction	2,034,822	2,179,489	(144,667)	126,973	555,072	(428,099)
Instructional support services	410,186	519,624	(109,438)	131,705	349,172	(217,467)
Pupil support services	907,474	841,775	65,699	758,045	784,519	(26,474)
Sites and buildings	1,451,055	1,219,617	231,438	934,846	842,622	92,224
Fiscal and other fixed costs programs	81,637	53,383	28,254	81,637	53,383	28,254
Food service	886,770	734,720	152,050	81,443	(300,452)	381,895
Community education and services	472,827	397,125	75,702	42,113	(8,763)	50,876
Unallocated depreciation	708,865	708,865	-	708,865	708,865	-
Interest and other fiscal charges	507,403	610,961	(103,558)	507,403	610,961	(103,558)
Totals	\$ 13,435,161	\$ 14,276,295	\$ (841,134)	\$ 8,461,213	\$ 9,677,077	\$ (1,215,864)

A significant item to note:

- Recognition of GASB 68 Accounting and Financial Reporting for Pensions represented a \$1,235,999 credit to regular instruction.
- Building construction activities represented a significant increase in both district support services, and sites and buildings.

**Independent School District No. 738
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,305,040 a decrease of \$2,876,381 in comparison with the prior year. The following is a summary of the District's major funds:

Major Funds	Fund Balance June 30,		Increase (Decrease)
	2023	2022	
General	\$ 4,085,349	\$ 4,367,206	\$ (281,857)
Debt Service	294,885	316,505	(21,620)
Building Construction Capital Project	-	2,582,903	(2,582,903)

The General Fund total fund balance decreased by \$281,857. This was mainly due to expenses related to construction and capital improvements. The Debt Service fund balance decreased \$21,620 during the year as the principal and interest for outstanding bonds is paid off per the debt schedule. The Building Construction capital project fund balance decreased to \$0 as HVAC construction ended and the bonds for capital improvement was closed out.

General Fund Budgetary Highlights

The District's general fund budget was amended during the year. The revenue budget was increased by \$316,572 and the expenditures budget was increased overall by \$491,191 from original to final. The final budget called for general fund expenditures of \$13,896,708 and a decrease in fund balances of \$1,063,453. Actual general fund balances decreased by \$281,857.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2023, amounts to \$30,103,398 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, equipment, and vehicles.

**Independent School District No. 738
Management's Discussion and Analysis**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

Major Capital asset events during the current fiscal year included the following:

- HVAC-related construction-in-process totaling \$2,749,314
- Refurbished parking lot amounting to \$570,939
- Replacement transformer of \$99,225
- Classroom furniture replacement and additions of \$159,377
- New theatre lighting \$153,021
- Replacement pool equipment \$95,206
- Technology, Chromebooks, and computers \$265,968

Capital Assets Net of Depreciation

Table 4

	Governmental Activities		
	2023	2022	Increase (Decrease)
Land	\$ 103,023	\$ 103,023	\$ -
Construction in progress	4,627,074	2,220,676	2,406,398
Land improvements	2,354,904	1,614,015	740,889
Buildings and improvements	20,761,263	21,056,683	(295,420)
Equipment and vehicles	2,177,179	1,843,142	334,037
Right to Use Assets*	79,955	143,655	(63,700)
	\$ 30,103,398	\$ 26,981,194	\$ 3,122,204

Additional information on the District's capital assets can be found in Note 3 on page 39 of this report.

**Independent School District No. 738
Management's Discussion and Analysis**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt

A summary of long-term debt activity for the year ended June 30, 2023, follows:

**Long-Term Debt
Table 5**

	Governmental Activities		
	2023	2022	Increase (Decrease)
G.O. Taxable Capital Facilities Bonds (2010)	\$ 330,000	\$ 490,000	\$ (160,000)
G.O. Facilities Maintenance Bonds (2016)	1,125,000	1,235,000	(110,000)
G.O. Alternative Facilities Bonds (2018)	505,000	990,000	(485,000)
G.O Building Bonds (2019)	10,695,000	10,695,000	-
G.O. Facilities Maintenance Bonds (2022)	3,355,000	3,355,000	-
Unamortized premium	613,982	688,414	(74,432)
Financed Purchases*	99,649	156,385	(56,736)
Capital leases*	113,075	144,964	(31,889)
Compensated absences payable	44,594	63,309	(18,715)
Total	<u>\$ 16,881,300</u>	<u>\$ 17,818,072</u>	<u>\$ (936,772)</u>

The District's total debt decreased \$936,772 from the prior year due to the issuance of general obligation bonds to fund indoor air quality improvement projects. Additional information on the District's long-term debt can be found in Note 5 on pages 40-42 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's appointed and elected officials considered many factors when setting the fiscal year 2024 budget. These factors included the following:

- Inflationary increases in expenditures, including wages.
- Long-term building maintenance and equipment replacement needs.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Business Manager, Garrity Gerber, Independent School District No. 738, P.O. Box 250, 900 5th Street, Holdingford, MN 56340.

BASIC FINANCIAL STATEMENTS

Independent School District No. 738
Statement of Net Position
June 30, 2023

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 6,536,000
Current property taxes receivable	1,398,154
Delinquent property taxes receivable	20,567
Accounts receivable	3,575
Lease receivable	388,393
Due from Department of Education	1,275,103
Due from Federal Government through Department of Education	339,873
Due from other Minnesota school districts	24,405
Inventory	7,007
Prepaid items	63,334
Capital assets not being depreciated	
Land	103,023
Construction in progress	4,627,074
Capital assets, net of accumulated depreciation	
Land improvements	3,507,073
Buildings and improvements	30,121,584
Equipment and vehicles	4,827,265
Right to use asset	143,655
Less accumulated depreciation	<u>(13,226,276)</u>
Total assets	<u>40,159,809</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	2,706,142
Deferred outflows of resources related to OPEB	<u>316,108</u>
Total deferred outflows of resources	<u>3,022,250</u>
 Total assets and deferred outflows of resources	 <u>\$ 43,182,059</u>
Liabilities	
Accounts payable	\$ 408,091
Salaries and benefits payable	871,203
Interest payable	230,341
Due to other Minnesota school districts	60,000
Due to other governmental units	250
Unearned revenue	34,380
Bond payable, net premium	
Payable within one year	780,000
Payable after one year	15,843,982
Financed purchases from direct borrowing	
Payable within one year	58,649
Payable after one year	41,000
Lease liability	
Payable within one year	33,139
Payable after one year	79,936
Compensated absences payable	
Payable within one year	26,756
Payable after one year	17,838
Total other post employment benefits obligation	1,464,256
Net pension liability	<u>8,735,341</u>
Total liabilities	<u>28,685,162</u>
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	2,566,483
Lease receivable	388,393
Deferred inflows of resources related to OPEB	104,278
Deferred inflows of resources related to pensions	<u>1,469,641</u>
Total deferred inflows of resources	<u>4,528,795</u>
Net Position	
Net investment in capital assets	13,266,692
Restricted for	
Debt service	75,138
Other purposes	2,500,788
Unrestricted	<u>(5,874,516)</u>
Total net position	<u>9,968,102</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 43,182,059</u>

See notes to basic financial statements.

Independent School District No. 738
Statement of Activities
Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Governmental Activities	Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions			
Governmental activities						
Administration	\$ 685,435	\$ -	\$ -	\$ -	\$ (685,435)	\$ (685,435)
District support services	369,296	-	-	-	(369,296)	(369,296)
Elementary and secondary regular instruction	4,726,061	90,813	761,036	-	(3,874,212)	(3,874,212)
Vocational education instruction	193,330	3,337	30,753	-	(159,240)	(159,240)
Special education instruction	2,034,822	57,811	1,850,038	-	(126,973)	(126,973)
Instructional support services	410,186	13,534	264,947	-	(131,705)	(131,705)
Pupil support services	907,474	-	149,429	-	(758,045)	(758,045)
Sites and buildings	1,451,055	20,370	-	495,839	(934,846)	(934,846)
Fiscal and other fixed cost programs	81,637	-	-	-	(81,637)	(81,637)
Food service	886,770	289,871	515,456	-	(81,443)	(81,443)
Community education and services	472,827	339,944	90,770	-	(42,113)	(42,113)
Unallocated depreciation	708,865	-	-	-	(708,865)	(708,865)
Interest and fiscal charges on long-term debt	507,403	-	-	-	(507,403)	(507,403)
Total governmental activities	\$ 13,435,161	\$ 815,680	\$ 3,662,429	\$ 495,839		(8,461,213)
General revenues						
Taxes						
Property taxes, levied for general purposes						1,147,375
Property taxes, levied for community service						93,700
Property taxes, levied for debt service						821,137
State aid-formula grants						8,903,027
Other general revenues						205,190
Investment income						180,802
Gain on sale of capital assets						2,930
Total general revenues						<u>11,354,161</u>
Change in net position						<u>2,892,948</u>
Net position - beginning						<u>7,075,154</u>
Net position - ending						<u>\$ 9,968,102</u>

See notes to basic financial statements.

Independent School District No. 738
Balance Sheet - Governmental Funds
June 30, 2023

	General	Debt Service	Building Construction	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 4,431,673	\$ 661,627	\$ 10,693	\$ 1,030,003	\$ 6,133,996
Current property taxes receivable	773,414	586,834	-	37,906	1,398,154
Delinquent property taxes receivable	12,208	7,792	-	567	20,567
Accounts receivable	3,575	-	-	-	3,575
Lease receivable	388,393	-	-	-	388,393
Due from Department of Education	1,218,595	47,880	-	8,628	1,275,103
Due from Federal Government through Department of Education	334,123	-	-	5,750	339,873
Due from other Minnesota school districts	24,405	-	-	-	24,405
Inventory	-	-	-	7,007	7,007
Prepaid items	63,334	-	-	-	63,334
	<u>\$ 7,249,720</u>	<u>\$ 1,304,133</u>	<u>\$ 10,693</u>	<u>\$ 1,089,861</u>	<u>\$ 9,654,407</u>
Total assets					
	<u>\$ 7,249,720</u>	<u>\$ 1,304,133</u>	<u>\$ 10,693</u>	<u>\$ 1,089,861</u>	<u>\$ 9,654,407</u>
Liabilities					
Accounts payable	\$ 385,004	\$ -	\$ 10,693	\$ 12,394	\$ 408,091
Salaries and benefits payable	829,972	-	-	41,231	871,203
Due to other Minnesota school districts	60,000	-	-	-	60,000
Due to other governmental units	250	-	-	-	250
Unearned revenue	43	-	-	34,337	34,380
Total liabilities	<u>1,275,269</u>	<u>-</u>	<u>10,693</u>	<u>87,962</u>	<u>1,373,924</u>
Deferred Inflows of Resources					
Property taxes levied for subsequent year's expenditures	1,488,501	1,001,456	-	76,526	2,566,483
Lease receivable	388,393	-	-	-	388,393
Unavailable revenue - delinquent property taxes	12,208	7,792	-	567	20,567
Total deferred inflows of resources	<u>1,889,102</u>	<u>1,009,248</u>	<u>-</u>	<u>77,093</u>	<u>2,975,443</u>
Fund Balances					
Nonspendable	63,334	-	-	7,007	70,341
Restricted	1,565,837	294,885	-	927,377	2,788,099
Assigned	215,565	-	-	-	215,565
Unassigned	2,240,613	-	-	(9,578)	2,231,035
Total fund balances	<u>4,085,349</u>	<u>294,885</u>	<u>-</u>	<u>924,806</u>	<u>5,305,040</u>
	<u>\$ 7,249,720</u>	<u>\$ 1,304,133</u>	<u>\$ 10,693</u>	<u>\$ 1,089,861</u>	<u>\$ 9,654,407</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,249,720</u>	<u>\$ 1,304,133</u>	<u>\$ 10,693</u>	<u>\$ 1,089,861</u>	<u>\$ 9,654,407</u>

**Independent School District No. 738
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2023**

Total fund balances - governmental funds	\$ 5,305,040
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	43,329,674
Less accumulated depreciation	(13,226,276)
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	(16,010,000)
Net premium on bonds payable	(613,982)
Financed purchase payable	(99,649)
Lease payable	(113,075)
Compensated absences and severance payable	(44,594)
Total OPEB liability	(1,464,256)
Net pension liability	(8,735,341)
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	2,706,142
Deferred inflows of resources related to pensions	(1,469,641)
Deferred outflows of resources related to OPEB	316,108
Deferred inflows of resources related to OPEB	(104,278)
Delinquent property taxes receivables 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.	20,567
The OPEB Revocable Trust Internal Service Fund is used by management to charge the costs of other post employment benefits. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Position.	402,004
Governmental funds do not report a liability for accrued interest on bonds and financed purchases until due and payable.	<u>(230,341)</u>
Total net position - governmental activities	<u><u>\$ 9,968,102</u></u>

Independent School District No. 738
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2023

	<u>General</u>	<u>Debt Service</u>	<u>Building Construction</u>
Revenues			
Local property taxes	\$ 1,145,892	\$ 821,253	\$ -
Other local and county revenues	539,363	12,057	36,288
Revenue from state sources	10,892,031	482,154	-
Revenue from federal sources	959,034	-	-
Sales and other conversion of assets	25,644	-	-
Total revenues	<u>13,561,964</u>	<u>1,315,464</u>	<u>36,288</u>
Expenditures			
Current			
Administration	775,602	-	-
District support services	318,224	-	-
Elementary and secondary regular instruction	5,856,126	-	-
Vocational education instruction	244,991	-	-
Special education instruction	2,279,703	-	-
Instructional support services	345,366	-	-
Pupil support services	853,383	-	-
Sites and buildings	1,477,275	-	-
Fiscal and other fixed cost programs	81,637	-	-
Food service	-	-	-
Community education and services	-	-	-
Capital outlay			
Elementary and secondary regular instruction	195,296	-	-
Vocational education instruction	5,166	-	-
Special education instruction	9,804	-	-
Instructional support services	206,021	-	-
Pupil support services	25,614	-	-
Sites and buildings	1,097,099	-	2,619,191
Food service	-	-	-
Debt service			
Principal	88,625	755,000	-
Interest and fiscal charges	11,439	582,084	-
Total expenditures	<u>13,871,371</u>	<u>1,337,084</u>	<u>2,619,191</u>
Excess of revenues over (under) expenditures	(309,407)	(21,620)	(2,582,903)
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	<u>27,550</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(281,857)	(21,620)	(2,582,903)
Fund Balances			
Beginning of year	<u>4,367,206</u>	<u>316,505</u>	<u>2,582,903</u>
End of year	<u>\$ 4,085,349</u>	<u>\$ 294,885</u>	<u>\$ -</u>

Nonmajor Funds	Total Governmental Funds
\$ 93,671	\$ 2,060,816
367,096	954,804
158,560	11,532,745
450,174	1,409,208
290,619	316,263
<u>1,360,120</u>	<u>16,273,836</u>
-	775,602
-	318,224
-	5,856,126
-	244,991
-	2,279,703
-	345,366
-	853,383
-	1,477,275
-	81,637
839,543	839,543
498,157	498,157
-	195,296
-	5,166
-	9,804
-	206,021
-	25,614
-	3,716,290
12,421	12,421
-	843,625
-	593,523
<u>1,350,121</u>	<u>19,177,767</u>
9,999	(2,903,931)
-	<u>27,550</u>
9,999	(2,876,381)
<u>914,807</u>	<u>8,181,421</u>
<u>\$ 924,806</u>	<u>\$ 5,305,040</u>

**Independent School District No. 738
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 \$ (2,876,381)

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 and amortization expense.

Capital outlays	4,291,830
Depreciation and amortization expense	(1,145,006)
Disposal of capital assets	(24,620)

Compensated absences amounts are reported as expenditures in the governmental funds when they are paid. They are expensed, as incurred in the Statement of Activities.

18,715

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

70,967

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

1,616,952

Principal payments on long-term bonds and leases are recognized as expenditures in the governmental funds but have no effect on the net position in the Statement of Activities.

843,625

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.

11,687

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

74,433

The OPEB revocable trust internal service fund is used by management to charge the costs of other post employment benefits. The increase in net position is reported within the governmental activities column in the Statement of Activities.

9,350

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.

1,396

Change in net position - governmental activities

\$ 2,892,948

Independent School District No. 738
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 1,234,252	\$ 1,174,369	\$ 1,145,892	\$ (28,477)
Other local and county revenues	291,891	324,660	539,363	214,703
Revenue from state sources	10,244,350	10,590,392	10,892,031	301,639
Revenue from federal sources	722,890	720,534	959,034	238,500
Sales and other conversion of assets	23,300	23,300	25,644	2,344
Total revenues	<u>12,516,683</u>	<u>12,833,255</u>	<u>13,561,964</u>	<u>728,709</u>
Expenditures				
Current				
Administration	833,065	790,350	775,602	(14,748)
District support services	297,609	340,111	318,224	(21,887)
Elementary and secondary regular instruction	5,972,814	5,734,513	5,856,126	121,613
Vocational education instruction	250,357	258,425	244,991	(13,434)
Special education instruction	1,994,535	2,272,053	2,279,703	7,650
Instructional support services	389,459	325,035	345,366	20,331
Pupil support services	897,357	890,858	853,383	(37,475)
Sites and buildings	1,907,641	1,918,114	1,477,275	(440,839)
Fiscal and other fixed cost programs	90,000	55,000	81,637	26,637
Capital outlay				
Elementary and secondary regular instruction	92,216	199,585	195,296	(4,289)
Vocational education instruction	4,015	4,015	5,166	1,151
Special education instruction	-	33,205	9,804	(23,401)
Instructional support services	148,290	198,075	206,021	7,946
Pupil support services	-	-	25,614	25,614
Sites and buildings	462,790	777,466	1,097,099	319,633
Debt service				
Principal	59,076	88,552	88,625	73
Interest and fiscal charges	6,293	11,351	11,439	88
Total expenditures	<u>13,405,517</u>	<u>13,896,708</u>	<u>13,871,371</u>	<u>(25,337)</u>
Excess of revenues over (under) expenditures	(888,834)	(1,063,453)	(309,407)	754,046
Other Financing Sources				
Proceeds from sale of capital assets	-	-	27,550	27,550
Net change in fund balances	<u>\$ (888,834)</u>	<u>\$ (1,063,453)</u>	(281,857)	<u>\$ 781,596</u>
Fund Balances				
Beginning of year			<u>4,367,206</u>	
End of year			<u>\$ 4,085,349</u>	

Independent School District No. 738
Statement of Net Position - Proprietary Fund
June 30, 2023

	<u>Governmental Activities - Internal Service Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 402,004</u>
Net position	
Unrestricted	<u>\$ 402,004</u>

Independent School District No. 738
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Fund
Year Ended June 30, 2023

	<u>Governmental Activities - Internal Service Fund</u>
Operating Expense	
Employee benefits	<u>\$ 250</u>
Operating loss	(250)
Nonoperating Revenue	
Investment income	<u>9,600</u>
Change in net position	9,350
Net Position	
Beginning of year	<u>392,654</u>
End of year	<u><u>\$ 402,004</u></u>

Independent School District No. 738
Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2023

	<u>Governmental Activities - Internal Service Fund</u>
Cash Flows - Operating Activities	
Employee benefits paid	\$ (250)
Cash Flows - Investing Activities	
Interest received	<u>9,600</u>
Net change in cash and cash equivalents	9,350
Cash and Cash Equivalents	
Beginning of year	<u>392,654</u>
End of year	<u><u>\$ 402,004</u></u>
Reconciliation of Operating Loss to Net Cash Flows - Operating Activities	
Operating loss	<u>\$ (250)</u>
Net cash flows - operating activities	<u><u>\$ (250)</u></u>

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

The 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 basic 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.

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

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

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available.

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

1. Revenue Recognition

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

2. Recording of Expenditures

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

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

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.

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures (Continued)

Description of Funds: (Continued)

Major Funds: (Continued)

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.

Building Construction Fund – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

Nonmajor Funds:

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures.

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, and other similar services.

Proprietary Fund:

OPEB Revocable Trust Internal Service Fund – This fund is used to account for a revocable trust fund, the purpose of which is to fund postemployment benefits (other than pension benefits) accrued by the employees of the District to be paid as they come due. The fund accounts for these assets held in trust.

D. Deposits and Investments

District Governmental Funds

Cash and investments at June 30, 2023, were comprised of deposits, shares in the Minnesota School District Liquid Asset Fund (MSDLAF) and shares in Minnesota Trust (MNTrust) Investment Shares Portfolio, MNTrust Limited Term Duration, MNTrust Term Series, and MNTrust Government Agencies.

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

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

District Governmental Funds (Continued)

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

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.

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.

In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF Liquid Class or MNTrust Investment Shares Portfolio. 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. Withdrawals from the MNTrust Limited Term Duration are available on the third Wednesday of each month upon at least two weeks advance notice. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the series for any charges, losses, and other costs attributable to early redemption.

Other Post Employment Benefits Deposits and Investments

These funds represent deposits and investments administered by the District's OPEB Fund Investment Managers. As of June 30, 2023, they were comprised of MNTrust Investment Shares Portfolio, a certificate of deposit, and MNTrust Government Agencies.

Construction Bond Fund Deposits and Investments

These funds represent deposits and investments related to the G.O. School Building Bonds, Series 2022 LTFM Bonds. As of June 30, 2023, they were comprised of MNTrust Investment Shares Portfolio.

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments.

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 unavailable 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. Inventory

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.

H. Prepaid Items

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

I. Property Taxes

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

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

J. Capital Assets

Capital assets are recorded in the government-wide basic 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 five years. 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 its acquisition value at the date of donation.

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and improvements and 3 to 20 years for equipment and vehicles.

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

K. Deferred Outflows/Inflows of Resources

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

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs during the current period. The face amount of debt issued, premium, and discount are reported as other financing sources (uses), and principal payments are reported as expenditures when paid. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Compensated Absences

The District permits some employees to accumulate varying amounts of vacation pay as determined by their contract. All vacation is accrued in the government-wide financial statements and is included in compensated absences payable.

N. 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.

O. Severance

District employees are entitled to sick leave at various rates. Employees are not compensated for unused sick leave upon termination of employment, however, unused sick leave does enter into the calculation of an employee's severance pay upon termination as described below.

Teachers who leave employment after reaching 55 years of age and have ten years of uninterrupted service are entitled to severance. Severance is calculated at a base rate of \$18,000, less total accumulated employer contributions to employee's 403(b) plan.

Severance that is earned and unused as of June 30, 2023, is shown as a compensated absence liability in the Statement of Net Position.

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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 the constraints on the specific purpose for which amounts in these funds can be spent. If resources from more than one fund balance classification could be spent, the school will follow the approved District plan for each of the areas. If there is no plan, the District will strive to spend resources from fund balance classifications in the following order: restricted, committed, assigned, and unassigned.

- 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 items that are inherently unspendable, such as, but not limited to, inventory, prepaid items, long-term receivables, nonfinancial assets held for resale, or the permanent principal of endowment funds.
- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.
- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board (highest level of decision making authority) through resolution.
- Assigned Fund Balance – These are amounts that are constrained by the District's intent to be used for specific purposes but do not meet the criteria of restricted or committed. The School Board may assign balances. The School Board also delegates the power to assign fund balances to the Business Manager.
- Unassigned Fund Balance – This is the amount that is the residual in the General Fund not reported in any other classification. The unassigned amount in the General Fund is technically available for expenditure for any purpose. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.
- Minimum Fund Balance Policy – The District will strive to maintain a minimum unassigned General Fund balance of 15% of annual budgeted General Fund expenditures.

Q. 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 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.

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Use of Estimates

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

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 School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, and Building Construction Funds.
4. Budgets for the General, Special Revenue, Debt Service, and Building Construction 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 a deposit, 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 that requires the District's deposits to be collateralized as required by *Minnesota Statutes* § 118.03 for an amount exceeding FDIC, SAIF, BIF, FCUA, or other federal deposit coverage. As of June 30, 2023, the District's bank balance was not exposed to custodial credit risk because it was fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

1. District Governmental Funds Pooled

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

Checking	\$ 434,785
Certificates of deposit	<u>957,600</u>
Total	<u><u>\$ 1,392,385</u></u>

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits (Continued)

2. OPEB Revocable Trust Fund Not Pooled

As of June 30, 2023, the District's OPEB Revocable Trust Fund had the following deposits:

Certificate of deposit	<u><u>\$ 199,448</u></u>
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B. Investments

1. District Governmental Funds Pooled

As of June 30, 2023, the District's governmental funds had the following investments:

Type	Maturities	Fair Value	Ratings (S&P)
MSDLAF Liquid Class	Various	\$ 477	AAA
MSDLAF MAX Class	Various	23,804	AAA
MN Trust Investment Shares Portfolio	Various	2,934,005	AAA
MN Trust Limited Term Duration	Various	262,313	AAA
MN Trust Term Series	Various	1,019,959	AAA
MN Trust Government Agencies	1/15/2023	501,052	AA+
Total		\$ 4,741,610	

2. OPEB Revocable Trust Fund Not Pooled

As of June 30, 2022, the District's OPEB Revocable Trust Fund had the following investments:

Type	Maturities	Fair Value	Ratings (S&P)
MN Trust Investment Shares Portfolio	Various	\$ 5,565	AAA
MN Trust Government Agencies	10/31/2023	196,991	AA+
Total		\$ 202,556	

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

3. Construction Bond Fund Not Pooled

As of June 30, 2023, the District's Construction Bond Fund had the following investments:

<u>Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Ratings (S&P)</u>
MN Trust Investment Shares Portfolio	Various	\$ 1	AAA

Credit Risk: This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District's investment policy refers to *Minnesota Statutes* §§ 118A.01 through 118A.06. Statutes limit investments based on type. Ratings are indicated in the charts above.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy indicates the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The District's investment policy places no specific limits on the amount the District may invest in any one issuer. The District's pooled investment in MN Trust Government Agencies, Treasury Bill (10.6%), is greater than 5% of total pooled investments. The District's not pooled OPEB investment in MN Trust Government Agencies, US Treasury (97.1%), is greater than 5% of total not pooled OPEB investments.

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 states all investment securities purchased shall be held in third party safekeeping by an institution designated as custodial agent.

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

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

- \$698,043 of investments are valued using a matrix pricing model (Level 2 inputs)

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments

The following is a summary of total deposits and investments:

District governmental funds	
Deposits	\$ 1,392,385
Investments	4,741,610
OPEB Revocable Trust Fund	
Deposits	199,448
Investments	202,556
Construction Bond Fund	
Investments	<u>1</u>
	<u>\$ 6,536,000</u>

Deposits and investments are presented in the June 30, 2023, basic financial statements as shown on the chart below.

Statement of Net Position	
Cash and investments	<u>\$ 6,536,000</u>

Independent School District No. 738
Notes to Basic Financial Statements

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	\$ 103,023	\$ -	\$ -	\$ 103,023
Construction in progress	2,220,676	3,428,056	1,021,658	4,627,074
Total capital assets not depreciated	<u>2,323,699</u>	<u>3,428,056</u>	<u>1,021,658</u>	<u>4,730,097</u>
Other Capital assets				
Land improvements	2,638,436	868,637	-	3,507,073
Buildings and improvements	29,782,218	339,366	-	30,121,584
Equipment and vehicles	4,180,611	677,429	30,775	4,827,265
Leased equipment	143,655	-	-	143,655
Total other capital assets	<u>36,744,920</u>	<u>1,885,432</u>	<u>30,775</u>	<u>38,599,577</u>
Less accumulated depreciation and amortization for				
Land improvements	1,024,421	127,748	-	1,152,169
Buildings and improvements	8,725,535	634,786	-	9,360,321
Equipment and vehicles	2,308,130	348,111	6,155	2,650,086
Right to use asset	29,339	34,361	-	63,700
Total accumulated depreciation and amortization	<u>12,087,425</u>	<u>1,145,006</u>	<u>6,155</u>	<u>13,226,276</u>
Total other capital assets, net	<u>24,657,495</u>	<u>740,426</u>	<u>24,620</u>	<u>25,373,301</u>
Governmental activities, capital assets, net	<u>\$ 26,981,194</u>	<u>\$ 4,168,482</u>	<u>\$ 1,046,278</u>	<u>\$ 30,103,398</u>

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

District Support Services	\$ 38,518
Elementary and secondary regular instruction	119,897
Vocational education instruction	1,111
Instructional support services	109,440
Pupil support services	72,844
Sites and buildings	79,381
Food service	14,950
Unallocated	<u>708,865</u>
Total depreciation expense	<u>\$ 1,145,006</u>

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 4 – LEASE RECEIVABLE

The District entered into a lease agreement for a cell phone tower on March 1, 2017. The term of the lease is 30 years, with an option to terminate the agreement based on specific arrangements. Payments consisting of principal and interest of \$1,000, and increasing at 15% each five years, are paid monthly to the District. The District entered into a lease agreement for a bandwidth range that FCC allocated to the District on July 1, 2007. The term of the lease is 40 years, with an option to terminate the agreement based on specific arrangements. Payments consisting of principal and interest of \$525, and increasing incrementally each five years, are paid monthly to the District.

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-term liabilities						
G.O. bonds						
2010A G.O. Capital Facilities Bonds	12/01/11	0.96%	\$ 2,375,000	12/15/24	\$ 330,000	\$ 165,000
2016A G.O. Facilities Maintenance Bonds, Series 2016A	10/19/16	3.00%	1,725,000	02/01/32	1,125,000	110,000
2018A G.O. Alternative Facilities Refunding Bonds, Series 2018A	11/06/18	5.00%	2,060,000	02/01/24	505,000	505,000
2019A G.O. School Building Bonds, Series 2019A	02/07/19	3.00%-5.00%	10,695,000	02/01/39	10,695,000	-
2022A G.O. Facilities Maintenance Bonds, Series 2022A	02/10/22	2.20%-3.00%	3,355,000	02/01/43	<u>3,355,000</u>	<u>-</u>
Total G.O. Bonds					<u>16,010,000</u>	<u>780,000</u>
Unamortized net premium on bonds					<u>613,982</u>	<u>-</u>
Total G.O. Bonds, net of premium					<u>16,623,982</u>	<u>780,000</u>
Financed purchases from direct borrowing					99,649	58,649
Lease liability					113,075	33,139
Compensated absences and severance payable					<u>44,594</u>	<u>26,756</u>
Total all long-term liabilities					<u>\$ 16,881,301</u>	<u>\$ 898,544</u>

The long-term bond, financed purchases, and lease liabilities listed above were issued to finance acquisition and construction of capital facilities, to refinance (refund) previous bond issues. The Debt Service Fund is responsible for the payment of bond principal and interest. The General Fund liquidates the remaining long-term liabilities.

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds and Financed Purchases

Minimum annual principal and interest payments required to retire bond liabilities and financed purchases:

Year Ending June 30,	G.O. Bonds	
	Principal	Interest
2024	\$ 780,000	\$ 548,154
2025	785,000	518,020
2026	670,000	488,528
2027	700,000	457,428
2028	730,000	424,828
2029-2033	4,010,000	1,623,290
2034-2038	4,080,000	973,165
2039-2043	4,255,000	327,942
Total	<u>\$ 16,010,000</u>	<u>\$ 5,361,355</u>

Year Ending June 30,	Financed Purchases from direct borrowing	
	Principal	Interest
2024	\$ 58,649	\$ 2,925
2025	20,269	935
2026	20,731	473
Total	<u>\$ 99,649</u>	<u>\$ 4,333</u>

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	\$ 16,765,000	\$ -	\$ 755,000	\$ 16,010,000
Unamortized net premium on bonds	688,415	-	74,433	613,982
Financed purchases from direct borrowing	156,385	-	56,736	99,649
Lease liability	144,964	-	31,889	113,075
Compensated absences and severance	63,309	81,138	99,853	44,594
Total long-term liabilities	<u>\$ 17,818,073</u>	<u>\$ 81,138</u>	<u>\$ 1,017,911</u>	<u>\$ 16,881,300</u>

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

D. Financed Purchase Obligations

On February 27, 2019, the District entered into a finance purchase agreement for the acquisition of two buses. The finance purchase obligation and corresponding equipment totaled \$184,640. The financed purchase agreement included annual principal and interest payments of \$40,370, for July 15, 2019 through July 15, 2023.

On July 15, 2021, the District entered into a finance purchase agreement for the acquisition of a bus. The finance purchase obligation and corresponding equipment totaled \$101,207. The finance purchase agreement included annual principal and interest payments of \$21,204, for July 15, 2021 through July 15, 2025.

E. Lease Liability

The District entered into lease agreements for copier machines with various start date and payment amounts. These agreements are 60 month agreements using an annual rate of 4.56%. The copier leases have been capitalized and are being amortized. The District also entered into a lease agreement for postage machine. Monthly payments are \$161 are due for 60 months, using an annual interest rate of 4.56%. The postage machine has been capitalized and are being amortized. Minimum annual principal and interest payments required to retire the lease liability are as follows:

Year Ending June 30,	Lease liabilities	
	Principal	Interest
2024	\$ 33,139	\$ 4,824
2025	29,630	3,201
2026	28,964	1,728
2027	21,342	504
Total	<u>\$ 113,075</u>	<u>\$ 10,257</u>

NOTE 6 – FUND BALANCES/NET POSITION

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

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances

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

	General Fund	Debt Service	Nonmajor Funds	Total
Nonspendable for				
Prepaid items	\$ 63,334	\$ -	\$ -	\$ 63,334
Inventory	-	-	7,007	7,007
Total nonspendable	<u>63,334</u>	<u>-</u>	<u>7,007</u>	<u>70,341</u>
Restricted/reserved for				
Student Activities	71,466	-	-	71,466
Operating Capital	454,496	-	-	454,496
Long Term Facilities				
Maintenance	485,072	-	-	485,072
Staff Development	300,615	-	-	300,615
Playground	16,355	-	-	16,355
Safe Schools levy	21,023	-	-	21,023
Medical Assistance	216,810	-	-	216,810
Debt Service	-	294,885	-	294,885
Food Service	-	-	699,747	699,747
Early Childhood and				
Family Education	-	-	30,564	30,564
School Readiness	-	-	197,066	197,066
Total restricted	<u>1,565,837</u>	<u>294,885</u>	<u>927,377</u>	<u>2,788,099</u>
Assigned for				
District activity accounts	<u>215,565</u>	<u>-</u>	<u>-</u>	<u>215,565</u>
Unassigned	<u>2,240,613</u>	<u>-</u>	<u>(9,578)</u>	<u>2,231,035</u>
Total fund balance	<u><u>\$ 4,085,349</u></u>	<u><u>\$ 294,885</u></u>	<u><u>\$ 924,806</u></u>	<u><u>\$ 5,305,040</u></u>

Nonspendable for Prepaid Items – This balance represents the portion of fund balance that is not available as amounts have already been spent on prepaid items.

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

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.

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

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 Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Code 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (*Minnesota Statutes* § 122A.61, subdivision 1).

Restricted/Reserved for Playground – This balance represents unspent donations received for future playground improvements.

Restricted/Reserved for Safe Schools Levy – The unspent resources available from the safe schools levy must be restricted in this account for future use.

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 Debt Service – This balance represents the resources available for the payment of bond principal, interest, and related costs.

Restricted for Food Service – This balance represents the accumulation of the activity to provide the food service program.

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

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

Assigned for District Activity Accounts – This balance represents resources that have been assigned for district activities under board control.

B. Net Position

Net Position restricted for other purposes on the Statement of Net Position is comprised of the total positive restricted fund balances of the General, Food Service, and Community Service funds adjusted to full accrual.

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2022, was (\$948,278). 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 the 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.

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

Tier I Benefits

Tier 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

Independent School District No. 738
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier I Benefits (Continued)

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.

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.

Independent School District No. 738
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

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:

	<u>June 30, 2021</u>		<u>June 30, 2022</u>		<u>June 30, 2023</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
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%

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
Add employer contributions not related to future contribution efforts	(2,178)
Deduct TRA's contributions not included in allocation	<u>(572)</u>
Total employer contributions	479,929
Total non-employer contributions	<u>35,590</u>
Total contributions reported in Schedule of Employer and Non-Employer Allocations	<u><u>\$ 515,519</u></u>

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

Independent School District No. 738
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the 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.

Independent School District No. 738
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

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

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).

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 7 – 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 \$6,486,052 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 0.0810% at the end of the measurement period and 0.0803% 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	\$ 6,486,052
State's proportionate share of the net pension liability associated with the District	481,058

For the year ended June 30, 2023, the District recognized pension expense of (\$1,304,286). Included in this amount, the District recognized \$66,147 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	\$ 93,806	\$ 56,259
Net difference between projected and actual earnings on plan investments	198,544	-
Changes of assumptions	1,030,054	1,336,994
Changes in proportion	72,278	46,576
Contributions to TRA subsequent to the measurement date	429,606	-
Total	\$ 1,824,288	\$ 1,439,829

Independent School District No. 738
Notes to Basic Financial Statements

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

The \$429,606 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 reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>	<u>Pension Expense Amount</u>
2024	\$ (1,183,399)
2025	193,123
2026	78,682
2027	856,769
2028	<u>9,678</u>
Total	<u><u>\$ (45,147)</u></u>

G. Pension Liability Sensitivity

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

District proportionate share of NPL		
1% decrease Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% increase Discount Rate (8.0%)
\$ 10,224,907	\$ 6,486,052	\$ 3,421,356

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.

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 7 – 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 plan administered by PERA. PERA's defined benefit pension plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plan is tax qualified plan 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.

Independent School District No. 738
Notes to Basic Financial Statements

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

Public Employees' Retirement Association

B. Benefits Provided (Continued)

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 \$163,079. The District's contributions were equal to the required contributions as set by state statute.

C. Pension Costs

General Employees Fund Pension Costs

At June 30, 2023, the District reported a liability of \$2,249,289 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 \$65,869. 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 0.0284% at the end of the measurement period and 0.0261% for the beginning of the period.

School's proportionate share of net pension liability	\$ 2,249,289
State of Minnesota's proportionate share of the net pension liability associated with the School	65,869
	65,869
Total	\$ 2,315,158

For the year ended June 30, 2023, the District recognized pension expense of \$356,008 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$9,842 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.

Independent School District No. 738
Notes to Basic Financial Statements

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

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	\$ 18,788	\$ 21,953
Changes in actuarial assumptions	469,074	7,859
Difference between projected and actual investments earnings	96,611	-
Change in proportion	134,302	-
Contributions paid to PERA subsequent to the measurement date	163,079	-
Total	\$ 881,854	\$ 29,812

The \$163,079 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	\$ 255,778
2025	253,696
2026	(23,926)
2027	203,415
Total	\$ 688,963

Independent School District No. 738
Notes to Basic Financial Statements

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

Public Employees' Retirement Association (Continued)

E. Long-Term Expected Return on Investment

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	35.5 %	5.10 %
International stocks	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Cash	0.0	0.00
	<u>100.0 %</u>	

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.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020, actuarial valuation.

Independent School District No. 738
Notes to Basic Financial Statements

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

Public Employees' Retirement Association (Continued)

F. Actuarial Methods and Assumptions

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 have been no changes 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.

H. Pension Liability Sensitivity

The table below 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 the PERA net pension liability	\$ 3,552,870	\$ 2,249,289	\$ 1,180,152

I. Pension Plan Fiduciary Net Position

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District's defined benefit OPEB plan provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. 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. No assets are accumulated in a trust.

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

B. Benefits Paid

Teachers hired before July 1, 2011, who apply for early retirement shall remain eligible to receive certain health insurance benefits toward single medical insurance to the earlier of five years or Medicare eligibility. One retired principal is receiving full single coverage of a Medicare Supplement Plan, benefits to continue for nine years. The General Fund, Food Service Fund and Community Service Fund typically liquidate the Liability related to OPEB.

C. Members

As of July 1, 2021, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Active employees	161
	173
Total	173

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2023, the District contributed \$186,031 to the plan.

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2021, using the Entry Age, Level Percentage of Pay accrual method and the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Salary increases	Rates vary by service and contract group
Inflation	2.50%
Healthcare cost trend increases	6.25% in 2022, decreasing gradually to an ultimate rate of 5.0% over six years and then to 4.0% over the next 48 years.
Mortality Assumption	Pub-2010 Public Retirement Plans Headcount - Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale.

The actuarial assumptions used in the July 1, 2021, valuation was based on the results of an actuarial experience study for the period July 1, 2020 through July 1, 2021.

The discount rate used to measure the total OPEB liability was 3.8% based on the 20- Year Municipal Bond Yield.

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2023:

Changes in Actuarial Assumptions

- The discount rate changed from 2.10% to 3.80%.

F. Total OPEB Liability

The District's total OPEB liability of \$1,464,256 was measured as of July 1, 2022, and was determined by an actuarial valuation as of that date.

Changes in the total OPEB liability are as follows:

	<u>Total OPEB Liability</u>
Balances at July 1, 2021	\$ 1,682,653
Changes for the year	
Service cost	71,503
Interest	34,717
Assumption changes	(121,658)
Benefit payments	<u>(202,959)</u>
Balances at July 1, 2022	<u><u>\$ 1,464,256</u></u>

G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.8% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	<u>1% Decrease Discount Rate (2.8%)</u>	<u>Current Discount Rate (3.8%)</u>	<u>1% Increase Discount Rate (4.8%)</u>
Total OPEB liability (asset)	\$ 1,547,649	\$ 1,464,256	\$ 1,383,789

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. OPEB Liability Sensitivity (Continued)

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 (5.25% decreasing to 3.0%)	current (6.25% decreasing to 4.0%)	1% increase (7.25% decreasing to 5.0%)
Total OPEB liability (asset)	\$ 1,337,340	\$ 1,464,256	\$ 1,614,500

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 \$121,914. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Losses	\$ 56,468	\$ -
Changes of assumptions	73,609	104,278
Contributions made subsequent to the measurement date	186,031	-
Total	\$ 316,108	\$ 104,278

Independent School District No. 738
Notes to Basic Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

The \$186,031 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024. Remaining deferred outflows of resources will be recognized as follows:

Fiscal Year Ending June 30,	Total
2024	\$ 15,694
2025	15,694
2026	15,691
2027	1,401
2028	(5,303)
Thereafter	<u>(17,378)</u>
Total	<u><u>\$ 25,799</u></u>

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2023.

NOTE 10 – COMMITMENTS

	Contract Amount	Expensed as of June 30, 2023	Total Commitment
Liberty Electric (HVAC)	\$ 394,048	\$ 389,048	\$ 5,000
McDowall	2,019,630	1,952,447	67,183
Liberty Electric (Ag)	76,300	69,064	7,236
SentraSota	<u>315,382</u>	<u>314,203</u>	<u>1,179</u>
Total	<u><u>\$ 2,805,360</u></u>	<u><u>\$ 2,724,762</u></u>	<u><u>\$ 80,598</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 738
Schedule of Changes in Total OPEB Liability
and Related Ratios

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Total OPEB Liability				
Service cost	\$ 71,503	\$ 89,758	\$ 91,586	\$ 79,766
Interest	34,717	39,402	50,232	52,349
Differenced between expected and actual experience	-	34,454	-	74,338
Changes of assumptions	(121,658)	50,085	46,964	25,668
Benefit payments	<u>(202,959)</u>	<u>(165,085)</u>	<u>(165,798)</u>	<u>(160,637)</u>
Net change in total OPEB Liability	<u>(218,397)</u>	<u>48,614</u>	<u>22,984</u>	<u>71,484</u>
Beginning of year	<u>1,682,653</u>	<u>1,634,039</u>	<u>1,611,055</u>	<u>1,539,571</u>
End of year	<u>\$ 1,464,256</u>	<u>\$ 1,682,653</u>	<u>\$ 1,634,039</u>	<u>\$ 1,611,055</u>
Covered payroll	\$ 6,596,630	\$ 6,404,495	\$ 6,137,085	\$ 5,958,335
Total OPEB Liability as a percentage of covered-employee	22.20%	26.27%	26.63%	27.04%

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

<u>June 30, 2019</u>	<u>June 30, 2018</u>
\$ 70,180	\$ 68,136
53,752	56,620
-	-
-	-
<u>(188,644)</u>	<u>(233,315)</u>
<u>(64,712)</u>	<u>(108,559)</u>
<u>1,604,283</u>	<u>1,712,842</u>
<u>\$ 1,539,571</u>	<u>\$ 1,604,283</u>
\$ 5,752,811	\$ 5,585,253
26.76%	28.72%

Independent School District No. 738
Schedule of District's and Non-Employer Proportionate Share
(if Applicable) of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0257%	\$ 1,207,257	\$ -	\$ -	\$ 1,347,917	89.6%	78.75%
2015	0.0243%	1,259,352	-	-	1,407,347	89.5%	78.19%
2016	0.0244%	1,981,159	25,855	2,007,014	1,513,347	130.9%	68.91%
2017	0.0249%	1,589,600	19,992	1,609,592	1,604,413	99.1%	75.90%
2018	0.0247%	1,370,255	44,929	1,415,184	1,659,987	82.5%	79.53%
2019	0.0237%	1,310,320	40,665	1,350,985	1,677,147	78.1%	80.23%
2020	0.0244%	1,462,892	45,016	1,507,908	1,739,547	84.1%	79.06%
2021	0.0261%	1,114,587	34,041	1,148,628	1,875,747	59.4%	87.00%
2022	0.0284%	2,249,289	65,869	2,315,158	2,124,987	105.8%	76.67%

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 Funds

For Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0870%	\$ 4,008,897	\$ 281,959	\$ 4,290,856	\$ 3,973,286	100.9%	81.50%
2015	0.0824%	5,097,255	625,179	5,722,434	4,183,840	121.8%	76.77%
2016	0.0801%	19,105,761	1,916,851	21,022,612	4,165,867	458.6%	44.88%
2017	0.0803%	16,029,337	1,550,167	17,579,504	4,323,427	370.8%	51.57%
2018	0.0789%	4,955,659	465,530	5,421,189	4,359,800	113.7%	78.07%
2019	0.0795%	5,067,347	448,261	5,515,608	4,512,620	112.3%	78.21%
2020	0.0798%	5,895,731	494,151	6,389,882	4,637,601	127.1%	75.48%
2021	0.0803%	3,514,168	296,475	3,810,643	4,805,400	73.1%	86.63%
2022	0.0810%	6,486,052	481,058	6,967,110	5,007,470	129.5%	76.17%

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

**Independent School District No. 738
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2014	\$ 97,724	\$ 97,724	\$ -	\$ 1,347,917	7.25%
2015	105,551	105,551	-	1,407,347	7.50%
2016	113,501	113,501	-	1,513,347	7.50%
2017	120,331	120,331	-	1,604,413	7.50%
2018	124,499	124,499	-	1,659,987	7.50%
2019	125,786	125,786	-	1,677,147	7.50%
2020	130,466	130,466	-	1,739,547	7.50%
2021	140,681	140,681	-	1,875,747	7.50%
2022	159,374	159,374	-	2,124,987	7.50%
2023	163,079	163,079	-	2,174,387	7.50%

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

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2014	\$ 278,130	\$ 278,130	\$ -	\$ 3,973,286	7.00%
2015	313,788	313,788	-	4,183,840	7.50%
2016	312,440	312,440	-	4,165,867	7.50%
2017	324,257	324,257	-	4,323,427	7.50%
2018	326,985	326,985	-	4,359,800	7.50%
2019	347,923	347,923	-	4,512,620	7.71%
2020	367,298	367,298	-	4,637,601	7.92%
2021	390,679	390,679	-	4,805,400	8.13%
2022	417,623	417,623	-	5,007,470	8.34%
2023	429,606	429,606	-	5,024,632	8.55%

Independent School District No. 738
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 0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 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.

Independent School District No. 738
Notes to the Required Supplementary Information

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.

2015 Changes

Changes of Benefit Terms

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

Independent School District No. 738
Notes to the Required Supplementary Information

TRA Retirement Fund (Continued)

2015 Changes (Continued)

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. 738
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 changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

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

Independent School District No. 738
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.

Independent School District No. 738
Notes to the Required Supplementary Information

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

- 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.

Changes in Plan Provisions

- 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.

Independent School District No. 738
Notes to the Required Supplementary Information

Other Post Employment Benefits

2023 Changes

Changes in Actuarial Assumptions

- The discount rate changed from 2.10% to 3.80%.

2022 Changes

Changes in Actuarial Assumptions

- The health care rates, mortality tables, and withdrawal rates were updated.
- The salary increase rates for non-teachers was updated.
- The inflation rate changed from 2.50% to 2.00%.
- The discount rate changed from 2.40% to 2.10%.

2021 Changes

Changes in Actuarial Assumptions

- The discount rate changed from 3.1% to 2.4%.

2020 Changes

Changes in Actuarial Assumptions

- The medical increase rates, mortality tables, salary scale and retiree election percentage assumption for Teachers were updated. The discount rate changed from 3.4% to 3.1%.

SUPPLEMENTARY INFORMATION

Independent School District No. 738
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2023

	<u>Special Revenue</u>		Total Nonmajor Funds
	<u>Food Service</u>	<u>Community Service</u>	
Assets			
Cash and investments	\$ 732,745	\$ 297,258	\$ 1,030,003
Current property taxes receivable	-	37,906	37,906
Delinquent property taxes receivable	-	567	567
Due from Department of Education	-	8,628	8,628
Through department of education	-	5,750	5,750
Inventory	7,007	-	7,007
	<u>7,007</u>	<u>-</u>	<u>7,007</u>
Total assets	<u>\$ 739,752</u>	<u>\$ 350,109</u>	<u>\$ 1,089,861</u>
Liabilities			
Accounts payable	\$ 3,338	\$ 9,056	\$ 12,394
Salaries and benefits payable	-	41,231	41,231
Unearned revenue	29,660	4,677	34,337
Total liabilities	<u>32,998</u>	<u>54,964</u>	<u>87,962</u>
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	76,526	76,526
Unavailable revenue - delinquent property taxes	-	567	567
Total deferred inflows of resources	<u>-</u>	<u>77,093</u>	<u>77,093</u>
Fund Balances			
Nonspendable	7,007	-	7,007
Restricted	699,747	227,630	927,377
Unassigned	-	(9,578)	(9,578)
Total fund balances	<u>706,754</u>	<u>218,052</u>	<u>924,806</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 739,752</u>	 <u>\$ 350,109</u>	 <u>\$ 1,089,861</u>

Independent School District No. 738
Combining Statement of Revenues,
Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2023

	Special Revenue		Total Nonmajor Funds
	Food Service	Community Service	
Revenues			
Local property taxes	\$ -	\$ 93,671	\$ 93,671
Other local and county revenues	18,249	348,847	367,096
Revenue from state sources	70,977	87,583	158,560
Revenue from federal sources	444,424	5,750	450,174
Sales and other conversion of assets	289,871	748	290,619
Total revenues	<u>823,521</u>	<u>536,599</u>	<u>1,360,120</u>
Expenditures			
Current			
Food service	839,543	-	839,543
Community education and services	-	498,157	498,157
Capital outlay			
Food service	12,421	-	12,421
Total expenditures	<u>851,964</u>	<u>498,157</u>	<u>1,350,121</u>
Net change in fund balances	(28,443)	38,442	9,999
Fund Balances			
Beginning of year	<u>735,197</u>	<u>179,610</u>	<u>914,807</u>
End of year	<u>\$ 706,754</u>	<u>\$ 218,052</u>	<u>\$ 924,806</u>

Independent School District No. 738
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2023

	Audited	UFARS	Audit-UFARS		Audited	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total revenue	\$ 13,561,964	\$ 13,561,965	\$ (1)	Total revenue	\$ 36,288	\$ 36,286	\$ 2
Total expenditures	13,871,371	13,871,367	4	Total expenditures	2,619,191	2,619,191	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable fund balance	63,334	63,334	-	4.60 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
4.01 Student Activities	71,466	71,466	-	4.07 Capital Projects Levy	-	-	-
4.02 Scholarships	-	-	-	4.13 Building Projects funded by COP/LP	-	-	-
4.03 Staff Development	300,615	300,615	-	<i>Restricted:</i>			
4.07 Capital Projects Levy	-	-	-	4.64 Restricted fund balance	-	-	-
4.08 Cooperative Programs	-	-	-	4.67 Long-Term Facilities Maintenance	-	-	-
4.09 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
4.13 Building Projects Funded by COP/LP	-	-	-	4.63 Unassigned fund balance	-	-	-
4.14 Operating Debt	-	-	-				
4.16 Levy Reduction	-	-	-	07 DEBT SERVICE FUND			
4.19 Encumbrances	-	-	-	Total revenue	\$ 1,315,464	\$ 1,315,464	\$ -
4.24 Operating Capital	454,496	454,496	-	Total expenditures	1,337,084	1,337,085	(1)
4.26 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
4.27 Disabled Accessibility	-	-	-	4.60 Nonspendable fund balance	-	-	-
4.28 Learning and Development	-	-	-	<i>Restricted/reserved:</i>			
4.34 Area Learning Center	-	-	-	4.25 Bond refundings	-	-	-
4.35 Contracted Alternative Programs	-	-	-	4.33 Maximum effort loan aid	-	-	-
4.36 State Approved Alternative Program	-	-	-	4.51 QZAB payments	-	-	-
4.38 Gifted and Talented	-	-	-	4.67 LTFM	-	-	-
				<i>Restricted:</i>			
4.40 Teacher Development and Evaluation	-	-	-	4.64 Restricted fund balance	294,885	294,886	(1)
4.41 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
4.48 Achievement and Integration Revenue	-	-	-	4.63 Unassigned fund balance	-	-	-
4.49 Safe School Crime	21,023	21,023	-				
4.51 QZAB Payments	-	-	-	08 TRUST FUND			
4.52 OPEB Liabilities not Held in Trust	-	-	-	Total revenue	\$ -	\$ -	\$ -
4.53 Unfunded Severance and Retirement Levy	-	-	-	Total expenditures	-	-	-
4.59 Basic Skills Extended Time	-	-	-	<i>Unassigned:</i>			
4.67 Long-term Facilities Maintenance	485,072	485,072	-	4.01 Student Activities	\$ -	\$ -	-
4.72 Medical Assistance	216,810	216,810	-	4.02 Scholarships	-	-	-
4.72 Title VII - Impact Aid	-	-	-	4.22 Net position	-	-	-
4.76 Payments in Lieu of Taxes	-	-	-				
<i>Restricted:</i>				18 CUSTODIAL			
4.72 Medical Assistance	\$ -	\$ -	-	Total revenue			
4.64 Restricted fund balance	16,355	16,355	-	Total expenditures			
4.75 Title VII - Impact Aid	-	-	-	<i>Restricted/Reserved</i>			
4.76 Payments of Liue of Taxes	-	-	-	4.01 Student Activities	\$ -	\$ -	\$ -
<i>Committed:</i>				4.02 Scholarships	-	-	-
4.18 Committed for separation	-	-	-	4.48 Achievement and Integration	-	-	-
4.61 Committed	-	-	-	4.64 Restricted	-	-	-
<i>Assigned:</i>							
4.62 Assigned fund balance	215,565	215,564	1	20 INTERNAL SERVICE FUND			
<i>Unassigned:</i>				Total revenue	\$ -	\$ -	\$ -
4.22 Unassigned fund balance (net position)	\$ 2,240,613	\$ 2,240,615	\$ (2)	Total expenditures	-	-	-
				<i>Unassigned:</i>			
				4.22 Net position	-	-	-
02 FOOD SERVICES FUND							
Total revenue	823,521	823,519	2	25 OPEB REVOCABLE TRUST			
Total expenditures	851,964	851,963	1	Total revenue	\$ 9,600	\$ 9,600	\$ -
<i>Nonspendable:</i>				Total expenditures	250	250	-
4.60 Nonspendable fund balance	7,007	7,007	-	<i>Unassigned:</i>			
<i>Restricted/reserved:</i>				4.22 Net position	402,004	402,004	-
4.52 OPEB liabilities not held in trust	-	-	-				
<i>Restricted:</i>				45 OPEB IRREVOCABLE TRUST			
4.64 Restricted fund balance	699,747	699,746	1	Total revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total expenditures	-	-	-
4.63 Unassigned fund balance	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
				4.22 Net position	-	-	-
04 COMMUNITY SERVICE FUND							
Total revenue	536,599	536,596	3	47 OPEB DEBT SERVICE			
Total expenditures	498,157	498,156	1	Total revenue	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				Total expenditures	-	-	-
4.60 Nonspendable fund balance	-	-	-	<i>Nonspendable:</i>			
<i>Restricted/reserved:</i>				4.60 Nonspendable fund balance	-	-	-
4.26 \$25 Taconite	-	-	-	<i>Restricted:</i>			
4.31 Community Education	(9,578)	(9,577)	(1)	4.25 Bond refundings	-	-	-
4.32 ECCE	30,564	30,564	-	4.64 Restricted fund balance	-	-	-
4.40 Teacher Development and Evaluation	-	-	-	<i>Unassigned:</i>			
4.44 School Readiness	197,066	197,066	-	4.63 Unassigned fund balance	-	-	-
4.47 Adult Basic Education	-	-	-				
4.52 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
4.64 Restricted fund balance	-	-	-				
<i>Unassigned:</i>							
4.63 Unassigned fund balance	-	-	-				

Independent School District No. 738
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Grant Name	Federal Assistance Listing Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Commodities Programs	10.555	\$ 65,346
School Breakfast	10.553	82,022
National School Lunch	10.555	290,359
Total Child Nutrition Cluster		<u>437,727</u>
Food Farm to School Grant	10.575	6,697
Total U.S. Department of Agriculture		<u>444,424</u>
U.S. Department of Treasury		
Through Minnesota Department of Education		
COVID-19 - American Rescue Plan Summer Academic Enrichment and Mental Health	21.027	19,585
COVID-19 - Pandemic Enrollment Loss	21.027	5,751
Total State Fiscal Recovery funds		<u>25,336</u>
U.S. Department of Health and Human Services		
Through Minnesota Department of Education		
COVID-19 - Minnesota COVID-19 Testing Program	93.323	139,659
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	41,941
Title II, Part A - Improving Teacher Quality	84.367	23,694
COVID 19 - Elementary and Secondary School Education Relief (ESSER) II Fund	84.425D	237,528
COVID-19 - American Rescue Plan - Elementary and Secondary Schools Emergency Relief Fund	84.425U	285,966
COVID-19 - Learning Recovery - Lost Instructional Time	84.425U	19,847
COVID 19 - Expanded Summer Learning - ESSER	84.425D	30,338
Total Education Stabilization Fund		<u>573,679</u>
Through Benton-Stearns Education District		
Special Education Cluster		
Special Education	84.027	121,291
Disabled Early Education	84.173	7,591
Mandatory Coordinated Intervening Services	84.027	24,636
COVID-19 - ARP Individuals with Disabilities Education Act - Preschool Grants for Children with Disabilities	84.027X	1,031
COVID-19 - ARP Individuals with Disabilities Education Act - Coordinated Early Intervention Services	84.027X	234
Total Special Education Cluster		<u>154,783</u>
Through Wright Technical Center		
Carl Perkins	84.048A	5,063
Total U.S. Department of Education		<u>799,160</u>
Total Federal Expenditures		<u>\$ 1,408,579</u>

See notes to schedule of expenditures of federal awards.

Independent School District No. 738
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.

**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. 738
Holdingford, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 738, Holdingford, 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 September 25, 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and questioned costs in accordance with the Uniform Guidance that we consider to be a material weakness, Audit Finding 2023-001.

Report on Compliance and Other Matters

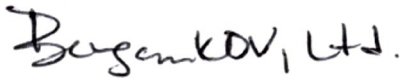
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

District's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the District's response(s) to the findings identified in our audit and described in the accompanying. The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no response.

Purpose of this Report

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



St. Cloud, Minnesota
September 25, 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. 738
Holdingford, MN

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Independent School District No. 738, Holdingford, MN's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2023. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

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

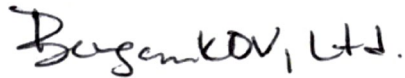
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. 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.



St. Cloud, Minnesota
September 25, 2023

**Independent School District No. 738
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? Yes, Audit Finding 2023-01
 • Significant deficiency(ies) identified? None reported

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: 84.425
 Name of Federal Program or Cluster: Education Stabilization Funds

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low risk auditee? No

**Independent School District No. 738
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 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. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Business Manager prepares all journal entries without anyone reviewing them.
- The Business Manager processes received invoices for payment, has access to the electronic signatures, and completes the monthly bank reconciliations. The bank reconciliations are not reviewed by anyone else.
- The Business Office Assistant processes payroll and prints related checks or direct deposit notices.
- The Business Manager adds and disposes assets, calculates depreciation, and maintains the master listing of capital assets.
- The District does not require purchase orders or approval beyond the Board for disbursements for food service and maintenance work.

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

Context:

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

Effect or Potential Effect:

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

Cause:

There are a limited number of office employees.

**Independent School District No. 738
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2023-001 (Continued)

Recommendation:

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

Responsible Official's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District reviews and makes improvements to its internal controls on an ongoing basis and attempts to maximize the segregation of duties in all areas within the limits of the staff available.
3. Official Responsible for Ensuring CAP
Chris Swenson, Superintendent, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None

Minnesota Legal Compliance

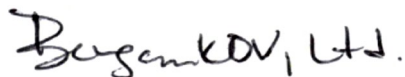
Independent Auditor's Report

To the School Board
Independent School District No. 738
Holdingford, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 738, Holdingford, 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 September 25, 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.



St. Cloud, Minnesota
September 25, 2023