

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

**Basic Financial Statements**

**June 30, 2024**





**Independent School District No. 738  
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**Independent School District No. 738  
Board of Education and Administration  
June 30, 2024**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Lori Opatz	Chairperson	December 31, 2027
Robert Knettel	Vice Chairperson	December 31, 2027
Patrick Meier	Clerk	December 31, 2025
Evelyn Martini	Treasurer	December 31, 2027
Ed Feia	Director	December 31, 2025
Nicole Burg	Director	December 31, 2027
Elissa Ebnet	Director	December 31, 2024

<u>Administration</u>	
Chris Swenson	Superintendent

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## 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, 2024, 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, 2024, 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.

### **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, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor’s Responsibilities for the Audit of the Financial Statements**

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

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

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

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

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, which follows this report letter, and Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board (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.

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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2024, 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.

*Bogenkoff, Ltd.*

St. Cloud, Minnesota  
September 6, 2024

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## 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, 2024.

### 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 \$11,387,676 (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 \$5,320,063 at June 30, 2024.
- ◆ The District's total net position increased by \$1,419,574.
- ◆ At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,601,961 an increase of \$296,921 in comparison with the prior year.
- ◆ At the end of the current fiscal year, the general fund unassigned fund balance for general uses was \$2,379,972 or 16.9% of the total general fund expenditures.
- ◆ The District's total debt decreased \$707,435 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 18 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 20 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 25 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 29 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 \$11,387,676 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)**

<b>Net Position Table 1</b>		<b>Governmental Activities</b>	
	<b>2024</b>	<b>2023</b>	<b>Increase (Decrease)</b>
<b>Assets</b>			
Current and other assets	\$ 10,466,228	\$ 10,056,411	\$ 409,817
Capital assets	29,868,297	30,103,398	(235,101)
Total assets	40,334,525	40,159,809	174,716
<b>Deferred Outflows of Resources</b>	2,241,935	3,022,250	(780,315)
<b>Liabilities</b>			
Current liabilities	2,549,526	2,502,809	46,717
Noncurrent liabilities	24,989,623	26,182,353	(1,192,730)
Total liabilities	27,539,149	28,685,162	(1,146,013)
<b>Deferred Inflows of Resources</b>	3,649,635	4,528,795	(879,160)
<b>Net Position</b>			
Net investment in capital assets	13,894,321	13,266,692	627,629
Restricted	2,813,418	2,575,926	237,492
Unrestricted	(5,320,063)	(5,874,516)	554,453
Total net position	\$ 11,387,676	\$ 9,968,102	\$ 1,419,574

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 \$5,320,063 at year end.

**Changes in Net Position**

The District's net position increased by \$1,419,574 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		
	2024	2023	Increase (Decrease)
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 627,310	\$ 815,680	\$ (188,370)
Operating grants and contributions	4,384,925	3,662,429	722,496
Capital grants and contributions	214,489	495,839	(281,350)
General revenues			
Property taxes	2,467,133	2,062,212	404,921
State aid not restricted to specific programs	9,145,687	8,903,027	242,660
Earnings on investments	302,844	180,802	122,042
Miscellaneous	70,870	208,120	(137,250)
Total revenues	<u>17,213,258</u>	<u>16,328,109</u>	<u>885,149</u>
<b>Expenses</b>	<b>2024</b>	<b>2023</b>	<b>Increase (Decrease)</b>
Administration	754,187	685,435	68,752
District support services	362,814	369,296	(6,482)
Regular instruction	6,084,265	4,726,061	1,358,204
Vocational instruction	261,376	193,330	68,046
Special education instruction	2,413,662	2,034,822	378,840
Instructional support services	708,290	410,186	298,104
Pupil support services	978,111	907,474	70,637
Sites and buildings	1,289,316	1,451,055	(161,739)
Fiscal and other fixed costs programs	89,538	81,637	7,901
Food service	981,907	886,770	95,137
Community education and services	547,414	472,827	74,587
Unallocated depreciation	835,231	708,865	126,366
Interest and other fiscal charges	487,573	507,403	(19,830)
Unallocated depreciation	<u>15,793,684</u>	<u>13,435,161</u>	<u>2,358,523</u>
Change in net position	1,419,574	2,892,948	(1,473,374)
Net position - beginning, as previously stated	<u>9,968,102</u>	<u>7,075,154</u>	<u>2,892,948</u>
Net position - ending	<u>\$ 11,387,676</u>	<u>\$ 9,968,102</u>	<u>\$ 1,419,574</u>

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Changes in Net Position (Continued)**

- ◆ Levy revenue increased due to a shift in the composition of outstanding debt payments and the increase to district property values lowering the amount of categorical state aid that would have offset local tax burden.
- ◆ New legislation effective in FY24 resulted in an increase of state aid to the district of 2.73%
- ◆ Legislation in 2023 also provided free meals for all students, representing a shift in program revenues from charges for services (paid meals from families) to operating grants and contributions (state-supported meals). Additionally, the number of qualifying meals served was up from previous fiscal years. The net result was \$178,905 change in program revenues for food service.

**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		
	2024	2023	Increase (Decrease)	2024	2023	Increase (Decrease)
Administration	\$ 754,187	\$ 685,435	\$ 68,752	\$ 754,187	\$ 685,435	\$ 68,752
District support services	362,814	369,296	(6,482)	362,814	369,296	(6,482)
Regular instruction	6,084,265	4,726,061	1,358,204	5,067,438	3,874,212	1,193,226
Vocational instruction	261,376	193,330	68,046	225,212	159,240	65,972
Special education instruction	2,413,662	2,034,822	378,840	341,708	126,973	214,735
Instructional support services	708,290	410,186	298,104	422,993	131,705	291,288
Pupil support services	978,111	907,474	70,637	922,651	758,045	164,606
Sites and buildings	1,289,316	1,451,055	(161,739)	1,046,117	934,846	111,271
Fiscal and other fixed costs programs	89,538	81,637	7,901	89,538	81,637	7,901
Food service	981,907	886,770	95,137	(96,652)	81,443	(178,095)
Community education and services	547,414	472,827	74,587	108,150	42,113	66,037
Unallocated depreciation	835,231	708,865	126,366	835,231	708,865	126,366
Interest and other fiscal charges	487,573	507,403	(19,830)	487,573	507,403	(19,830)
<b>Totals</b>	<b>\$ 15,793,684</b>	<b>\$ 13,435,161</b>	<b>\$ 2,358,523</b>	<b>\$ 10,566,960</b>	<b>\$ 8,461,213</b>	<b>\$ 2,105,747</b>

**A significant item to note:**

- ◆ In FY24, recognition of GASB 68 Accounting and Financial Reporting for Pensions represented a \$1,235,999 credit to regular instruction. The net cost three-year change to regular instruction from 2022 to 2024 is \$267,758.
- ◆ Free meals authorized by the 2023 state legislature has had a tremendous impact on the revenue component of food service, where revenue has outpaced the increase in expenses.

**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 \$5,601,961 an increase of \$296,921 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)
	2024	2023	
<b>General</b>	\$ 4,270,787	\$ 4,085,349	\$ 185,438
<b>Debt Service</b>	288,935	294,885	(5,950)

The General Fund total fund balance increased by \$185,438. The largest component of the increase is attributed to state aid and general education revenue formula increases plus an increase in interest revenue and donations. The Debt Service fund balance decreased \$5,950 during the year as the principal and interest for outstanding bonds is paid off per the debt schedule.

**General Fund Budgetary Highlights**

The District's general fund budget was amended during the year. The revenue budget was increased by \$233,969 and the expenditures budget was increased overall by \$446,341 from original to final. The final budget called for general fund expenditures of \$13,891,633 and a decrease in fund balances of \$223,064. Actual general fund balances increased by \$185,438.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The District's investment in capital assets for its governmental activities as of June 30, 2024, amounts to \$29,868,297 (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:

- ◆ Baseball field turn replacement
- ◆ Replacement baseball, Softball, and swimming scoreboards along with new swim starting blocks
- ◆ Addition of an Acra Mill in the metal shop
- ◆ Replacement of sidewalks to the south of the intermediate gym
- ◆ New lockers in the girls' High School locker room
- ◆ Elementary furniture
- ◆ Refinishing and painting of the main gym
- ◆ Various flooring replacements

**Capital Assets Net of Depreciation  
Table 4**

	Governmental Activities		
	2024	2023	Increase (Decrease)
Land	\$ 103,023	\$ 103,023	\$ -
Construction in progress	-	4,627,074	(4,627,074)
Land improvements	2,869,743	2,354,904	514,839
Buildings and improvements	24,486,631	20,761,263	3,725,368
Equipment and vehicles	2,257,523	2,177,179	80,344
Right to Use Assets*	151,377	79,955	71,422
<b>Total</b>	<b>\$ 29,868,297</b>	<b>\$ 30,103,398</b>	<b>\$ (235,101)</b>

Additional information on the District's capital assets can be found in Note 3 on page 40 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, 2024, follows:

**Long-Term Debt  
Table 5**

	Governmental Activities		
	2024	2023	Increase (Decrease)
G.O. Taxable Capital Facilities Bonds (2010)	\$ 165,000	\$ 330,000	\$ (165,000)
G.O. Facilities Maintenance Bonds (2016)	1,015,000	1,125,000	(110,000)
G.O. Alternative Facilities Bonds (2018)	-	505,000	(505,000)
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	553,802	613,982	(60,180)
Financed Purchases*	41,000	99,649	(58,649)
Capital leases*	149,174	113,075	36,099
Compensated absences payable	199,889	44,594	155,295
<b>Total</b>	<b>\$ 16,173,865</b>	<b>\$ 16,881,300</b>	<b>\$ (707,435)</b>

The District's total debt decreased \$707,435 from the prior year as the district continues to work through its debt schedule. No new debt was issued and the 2018 General Obligation bond was retired. The financed purchase of 2 buses from 2019 was completed. Additional information on the District's long-term debt can be found in Note 5 on pages 41-43 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 2025 budget. These factors included the following:

- ◆ Inflationary increases in expenditures, including wages.
- ◆ Long-term building maintenance and equipment replacement needs.
- ◆ Newly enacted legislative requirements

**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 5<sup>th</sup> Street, Holdingford, MN 56340.

## **BASIC FINANCIAL STATEMENTS**

Independent School District No. 738  
Statement of Net Position  
June 30, 2024

	Governmental Activities
<b>Assets</b>	
Cash and investments	\$ 7,112,057
Current property taxes receivable	1,342,076
Delinquent property taxes receivable	22,257
Accounts receivable	10,459
Lease receivable	383,563
Due from Department of Education	1,339,741
Due from Federal Government through Department of Education	154,002
Due from other Minnesota school districts	43,395
Inventory	5,521
Interest receivable	23,821
Prepaid items	29,336
Capital assets not being depreciated	
Land	103,023
Capital assets, net of accumulated depreciation	
Land improvements	4,188,409
Buildings and improvements	34,601,976
Equipment and vehicles	5,037,902
Right to use asset	223,881
Less accumulated depreciation	<u>(14,286,894)</u>
Total assets	<u>40,334,525</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to pensions	1,946,509
Deferred outflows of resources related to OPEB	295,426
Total deferred outflows of resources	<u>2,241,935</u>
Total assets and deferred outflows of resources	<u>\$ 42,576,460</u>
<b>Liabilities</b>	
Accounts payable	\$ 483,848
Salaries and benefits payable	846,060
Interest payable	217,171
Due to other Minnesota school districts	60,000
Due to other governmental units	25,816
Unearned revenue	46,625
Bond payable, net premium	
Payable within one year	785,000
Payable after one year	14,998,802
Financed purchases from direct borrowing	
Payable within one year	20,269
Payable after one year	20,731
Lease liability	
Payable within one year	40,131
Payable after one year	109,043
Compensated absences payable	
Payable within one year	24,606
Payable after one year	175,283
Total other post employment benefits obligation	1,399,469
Net pension liability	<u>8,286,295</u>
Total liabilities	<u>27,539,149</u>
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent year's expenditures	2,573,760
Lease receivable	383,563
Deferred inflows of resources related to OPEB	101,242
Deferred inflows of resources related to pensions	591,070
Total deferred inflows of resources	<u>3,649,635</u>
<b>Net Position</b>	
Net investment in capital assets	13,894,321
Restricted for	
Debt service	81,875
Other purposes	2,731,543
Unrestricted	<u>(5,320,063)</u>
Total net position	<u>11,387,676</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 42,576,460</u>

Independent School District No. 738  
Statement of Activities  
Year Ended June 30, 2024

Functions/Programs	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Administration	\$ 754,187	\$ -	\$ -	\$ -	\$ (754,187)
District support services	362,814	-	-	-	(362,814)
Elementary and secondary regular instruction	6,084,265	149,642	867,185	-	(5,067,438)
Vocational education instruction	261,376	7,055	29,109	-	(225,212)
Special education instruction	2,413,662	33,040	2,038,914	-	(341,708)
Instructional support services	708,290	13,680	271,617	-	(422,993)
Pupil support services	978,111	-	55,460	-	(922,651)
Sites and buildings	1,289,316	28,710	-	214,489	(1,046,117)
Fiscal and other fixed cost programs	89,538	-	-	-	(89,538)
Food service	981,907	60,495	1,018,064	-	96,652
Community education and services	547,414	334,688	104,576	-	(108,150)
Unallocated depreciation	835,231	-	-	-	(835,231)
Interest and fiscal charges on long-term debt	487,573	-	-	-	(487,573)
<b>Total governmental activities</b>	<b><u>\$ 15,793,684</u></b>	<b><u>\$ 627,310</u></b>	<b><u>\$ 4,384,925</u></b>	<b><u>\$ 214,489</u></b>	<b>(10,566,960)</b>
General revenues					
Taxes					
Property taxes, levied for general purposes					1,542,450
Property taxes, levied for community service					104,654
Property taxes, levied for debt service					820,029
State aid-formula grants					9,145,687
Other general revenues					70,407
Investment income					302,844
Gain on sale of capital assets					463
Total general revenues					<u>11,986,534</u>
Change in net position					1,419,574
Net position - beginning					<u>9,968,102</u>
Net position - ending					<u>\$ 11,387,676</u>

See notes to basic financial statements.

**Independent School District No. 738**  
**Balance Sheet - Governmental Funds**  
**June 30, 2024**

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 4,751,552	\$ 753,237	\$ 1,185,628	\$ 6,690,417
Current property taxes receivable	648,556	664,386	29,134	1,342,076
Delinquent property taxes receivable	13,113	8,517	627	22,257
Accounts receivable	10,459	-	-	10,459
Lease receivable	383,563	-	-	383,563
Due from Department of Education	1,283,052	47,793	8,896	1,339,741
Due from Federal Government through Department of Education	150,957	-	3,045	154,002
Due from other Minnesota school districts	43,395	-	-	43,395
Inventory	-	-	5,521	5,521
Prepaid items	29,336	-	-	29,336
Interest receivable	23,821	-	-	23,821
<b>Total assets</b>	<b>\$ 7,337,804</b>	<b>\$ 1,473,933</b>	<b>\$ 1,232,851</b>	<b>\$ 10,044,588</b>
<b>Liabilities</b>				
Accounts payable	\$ 453,457	\$ -	\$ 30,391	\$ 483,848
Salaries and benefits payable	794,091	-	51,969	846,060
Interest payable	698	-	-	698
Due to other Minnesota school districts	60,000	-	-	60,000
Due to other governmental units	25,816	-	-	25,816
Unearned revenue	43	-	46,582	46,625
<b>Total liabilities</b>	<b>1,334,105</b>	<b>-</b>	<b>128,942</b>	<b>1,463,047</b>
<b>Deferred Inflows of Resources</b>				
Property taxes levied for subsequent year's expenditures	1,336,236	1,176,481	61,043	2,573,760
Lease receivable	383,563	-	-	383,563
Unavailable revenue - delinquent property taxes	13,113	8,517	627	22,257
<b>Total deferred inflows of resources</b>	<b>1,732,912</b>	<b>1,184,998</b>	<b>61,670</b>	<b>2,979,580</b>
<b>Fund Balances</b>				
Nonspendable	29,336	-	5,521	34,857
Restricted	1,688,677	288,935	1,036,718	3,014,330
Assigned	172,802	-	-	172,802
Unassigned	2,379,972	-	-	2,379,972
<b>Total fund balances</b>	<b>4,270,787</b>	<b>288,935</b>	<b>1,042,239</b>	<b>5,601,961</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 7,337,804</b>	<b>\$ 1,473,933</b>	<b>\$ 1,232,851</b>	<b>\$ 10,044,588</b>

See notes to basic financial statements.

**Independent School District No. 738**  
**Reconciliation of the Balance Sheet to**  
**the Statement of Net Position - Governmental Funds**  
**June 30, 2024**

Total fund balances - governmental funds \$ 5,601,961

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	44,155,191
Less accumulated depreciation	(14,286,894)

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	(15,230,000)
Net premium on bonds payable	(553,802)
Financed purchase payable	(41,000)
Lease payable	(149,174)
Compensated absences and severance payable	(199,889)
Total OPEB liability	(1,399,469)
Net pension liability	(8,286,295)

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	1,946,509
Deferred inflows of resources related to pensions	(591,070)
Deferred outflows of resources related to OPEB	295,426
Deferred inflows of resources related to OPEB	(101,242)

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.

22,257

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.

421,640

Governmental funds do not report a liability for accrued interest on bonds and financed purchases until due and payable.

(216,473)

Total net position - governmental activities

\$ 11,387,676

**Independent School District No. 738**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2024**

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>				
Local property taxes	\$ 1,541,545	\$ 819,304	\$ 104,594	\$ 2,465,443
Other local and county revenues	708,780	23,827	394,295	1,126,902
Revenue from state sources	11,667,750	480,737	685,077	12,833,564
Revenue from federal sources	188,894	-	423,351	612,245
Sales and other conversion of assets	58,673	-	61,139	119,812
Rebate	2,334	-	-	2,334
Total revenues	<u>14,167,976</u>	<u>1,323,868</u>	<u>1,668,456</u>	<u>17,160,300</u>
<b>Expenditures</b>				
<b>Current</b>				
Administration	785,435	-	-	785,435
District support services	322,900	-	-	322,900
Elementary and secondary regular instruction	6,391,565	-	-	6,391,565
Vocational education instruction	284,243	-	-	284,243
Special education instruction	2,492,533	-	-	2,492,533
Instructional support services	530,074	-	-	530,074
Pupil support services	896,012	-	-	896,012
Sites and buildings	1,514,032	-	-	1,514,032
Fiscal and other fixed cost programs	89,538	-	-	89,538
Food service	-	-	954,565	954,565
Community education and services	-	-	555,015	555,015
<b>Capital outlay</b>				
District support services	9,503	-	-	9,503
Elementary and secondary regular instruction	167,126	-	-	167,126
Vocational education instruction	23,373	-	-	23,373
Special education instruction	348	-	-	348
Instructional support services	134,828	-	-	134,828
Pupil support services	37,695	-	-	37,695
Sites and buildings	269,443	-	-	269,443
Food service	-	-	34,149	34,149
Community education and services	-	-	7,294	7,294
<b>Debt service</b>				
Principal	100,309	780,000	-	880,309
Interest and fiscal charges	9,057	549,818	-	558,875
Total expenditures	<u>14,058,014</u>	<u>1,329,818</u>	<u>1,551,023</u>	<u>16,938,855</u>
Excess of revenues over (under) expenditures	109,962	(5,950)	117,433	221,445
<b>Other Financing Sources</b>				
Proceeds from sale of capital assets	463	-	-	463
Financed purchases issuance	75,013	-	-	75,013
Total other financing sources	<u>75,476</u>	<u>-</u>	<u>-</u>	<u>75,476</u>
Net change in fund balances	185,438	(5,950)	117,433	296,921
<b>Fund Balances</b>				
Beginning of year	<u>4,085,349</u>	<u>294,885</u>	<u>924,806</u>	<u>5,305,040</u>
End of year	<u>\$ 4,270,787</u>	<u>\$ 288,935</u>	<u>\$ 1,042,239</u>	<u>\$ 5,601,961</u>

See notes to basic financial statements.

**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, 2024**

Net change in fund balances - total governmental funds	\$ 296,921
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	1,098,935
Depreciation and amortization expense	(1,334,036)
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.	
	(155,295)
Governmental funds recognize OPEB contributions as expenditures at the time of payment in the funds, whereas the Statement of Activities factors in items related to OPEB on a full accrual perspective.	
	47,141
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.	
	567,984
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.	
	877,563
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.	
	13,868
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.	
	60,180
Proceeds from the sale of bonds and leases are recognized as other financing sources in the governmental funds increasing fund balance but are recognized as liability on the Statement of Net Position.	
	(75,013)
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.	
	19,636
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.	
	1,690
Change in net position - governmental activities	\$ 1,419,574

**Independent School District No. 738**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2024**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 1,582,261	\$ 1,573,890	\$ 1,541,545	\$ (32,345)
Other local and county revenues	323,910	323,910	708,780	384,870
Revenue from state sources	11,313,892	11,559,238	11,667,750	108,512
Revenue from federal sources	191,237	188,231	188,894	663
Sales and other conversion of assets	23,300	23,300	58,673	35,373
Rebate	-	-	2,334	2,334
Total revenues	<u>13,434,600</u>	<u>13,668,569</u>	<u>14,167,976</u>	<u>499,407</u>
<b>Expenditures</b>				
<b>Current</b>				
Administration	844,367	797,036	785,435	(11,601)
District support services	359,201	360,409	322,900	(37,509)
Elementary and secondary regular instruction	5,904,233	6,133,693	6,391,565	257,872
Vocational education instruction	270,176	263,136	284,243	21,107
Special education instruction	2,397,488	2,514,023	2,492,533	(21,490)
Instructional support services	382,395	517,472	530,074	12,602
Pupil support services	1,062,647	966,061	896,012	(70,049)
Sites and buildings	1,638,381	1,610,824	1,514,032	(96,792)
Fiscal and other fixed cost programs	57,750	90,111	89,538	(573)
<b>Capital outlay</b>				
District support services	-	-	9,503	9,503
Elementary and secondary regular instruction	93,510	126,692	167,126	40,434
Vocational education instruction	23,969	23,969	23,373	(596)
Special education instruction	39,620	34,620	348	(34,272)
Instructional support services	111,500	134,828	134,828	-
Pupil support services	-	16,251	37,695	21,444
Sites and buildings	198,481	202,444	269,443	66,999
<b>Debt service</b>				
Principal	58,649	90,989	100,309	9,320
Interest and fiscal charges	2,925	9,075	9,057	(18)
Total expenditures	<u>13,445,292</u>	<u>13,891,633</u>	<u>14,058,014</u>	<u>166,381</u>
Excess of revenues over (under) expenditures	(10,692)	(223,064)	109,962	333,026
<b>Other Financing Sources</b>				
Proceeds from sale of capital assets	-	-	463	463
Capital lease issuance	-	-	75,013	75,013
Total other financing sources	<u>-</u>	<u>-</u>	<u>75,476</u>	<u>75,476</u>
Net change in fund balances	<u>\$ (10,692)</u>	<u>\$ (223,064)</u>	185,438	<u>\$ 408,502</u>
<b>Fund Balances</b>				
Beginning of year			<u>4,085,349</u>	
End of year			<u>\$ 4,270,787</u>	

See notes to basic financial statements.

Independent School District No. 738  
Statement of Net Position - Proprietary Fund  
June 30, 2024

	Governmental Activities - Internal Service Fund
<b>Assets</b>	
Cash and cash equivalents	<u>\$ 421,640</u>
<b>Net Position</b>	
Unrestricted	<u>\$ 421,640</u>

Independent School District No. 738  
Statement of Revenues, Expenses, and Changes  
in Fund Net Position - Proprietary Fund  
Year Ended June 30, 2024

	Governmental Activities - Internal Service Fund
<b>Operating Expense</b>	
Employee benefits	\$ 295
Operating loss	(295)
<b>Nonoperating Revenue</b>	
Investment income	19,931
Change in net position	19,636
<b>Net Position</b>	
Beginning of year	402,004
End of year	\$ 421,640

Independent School District No. 738  
Statement of Cash Flows - Proprietary Fund  
Year Ended June 30, 2024

	<u>Governmental Activities - Internal Service Fund</u>
<b>Cash Flows - Operating Activities</b>	
Employee benefits paid	\$ (295)
<b>Cash Flows - Investing Activities</b>	
Interest received	<u>19,931</u>
Net change in cash and cash equivalents	19,636
<b>Cash and Cash Equivalents</b>	
Beginning of year	<u>402,004</u>
End of year	<u><u>\$ 421,640</u></u>
<b>Reconciliation of Operating Loss to</b>	
<b>Net Cash Flows - Operating Activities</b>	
Operating loss	<u>\$ (295)</u>
Net cash flows - operating activities	<u><u>\$ (295)</u></u>

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**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)**

**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.

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**

**1. 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, and MNTrust Term Series.

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

*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.

**Independent School District No. 738  
Notes to Basic Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Deposits and Investments (Continued)**

**1. District Governmental Funds (Continued)**

*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 Money Market and a certificate of deposit.

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

**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 2023, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2024. The remaining portion of the levy will be recognized when measurable and available.

**G. Inventories**

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

**Independent School District No. 738**  
**Notes to Basic Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Prepaid Items**

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

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. Right-to-Use Lease Assets/Lease Liabilities**

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

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

**Independent School District No. 738**  
**Notes to Basic Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Right-to-Use Lease Assets/Lease Liabilities (Continued)**

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

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

**L. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate 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, 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, deferred inflows of resources related to pensions, is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. The fourth item, deferred inflows of resources related to OPEB is recorded on the government-wide statements 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)**

**M. 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.

**N. 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.

**O. Pensions**

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

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

**P. 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 thirty years of uninterrupted service are entitled to severance. Severance is calculated at a base rate of \$30,000, less total accumulated employer contributions to employee's 403(b) plan.

Severance that is earned and unused as of June 30, 2024, 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)**

**Q. Fund Equity**

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor 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 nonspendable, 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 Balances - 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 Balances - 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.

**R. 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)**

**S. Use of Estimates**

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

**T. Budgetary Information**

The District follows these procedures in establishing the budgetary data reflected in the 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, and Debt Service.
4. Budgets for the General, Special Revenue, and Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**A. Deposits**

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

Custodial Credit Risk - Deposits: 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, 2024, 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, 2024, the District had the following deposits:

Checking	\$ 305,559
Certificates of deposit	<u>1,743,150</u>
Total	<u>\$ 2,048,709</u>

**Independent School District No. 738**  
**Notes to Basic Financial Statements**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

**A. Deposits (Continued)**

**2. OPEB Revocable Trust Fund Not Pooled**

As of June 30, 2024, the District's OPEB Revocable Trust Fund had the following deposits:

Certificate of deposit	<u><u>\$ 208,555</u></u>
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**B. Investments**

**1. District Governmental Funds Pooled**

As of June 30, 2024, the District's governmental funds had the following investments:

Type	Maturities	Fair Value	Ratings (S&P)
MSDLAF Liquid Class	Various	\$ 503	AAA
MSDLAF MAX Class	Various	25,100	AAA
MN Trust Investment Shares Portfolio	Various	2,264,720	AAA
MN Trust Limited Term Duration	Various	275,936	AAA
MN Trust Term Series	Various	<u>2,075,449</u>	AAA
Total		<u><u>\$ 4,641,708</u></u>	

**2. OPEB Revocable Trust Fund Not Pooled**

As of June 30, 2024, the District's OPEB Revocable Trust Fund had the following investments:

Type	Maturities	Fair Value	Ratings (S&P)
MN Trust Investment Shares Portfolio	Various	<u>\$ 213,085</u>	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.

**Independent School District No. 738  
Notes to Basic Financial Statements**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

**Custodial Credit Risk - Investments:** This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states all 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.

**C. Deposits and Investments**

The following is a summary of total deposits and investments:

District governmental funds	
Deposits	\$ 2,048,709
Investments	4,641,708
OPEB Revocable Trust Fund	
Deposits	208,555
Investments	<u>213,085</u>
 Total deposits and investments	 <u><u>\$ 7,112,057</u></u>

Deposits and investments are presented in the June 30, 2024, basic financial statements as shown on the chart below.

Statement of Net Position	
Cash and investments	<u><u>\$ 7,112,057</u></u>

**Independent School District No. 738  
Notes to Basic Financial Statements**

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2024, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 103,023	\$ -	\$ -	\$ 103,023
Construction in progress	4,627,074	262,222	4,889,296	-
Total capital assets not depreciated	<u>4,730,097</u>	<u>262,222</u>	<u>4,889,296</u>	<u>103,023</u>
Other Capital assets				
Land improvements	3,507,073	681,336	-	4,188,409
Buildings and improvements	30,121,584	4,480,392	-	34,601,976
Equipment and vehicles	4,827,265	480,748	270,111	5,037,902
Leased equipment	143,655	83,533	3,307	223,881
Total other capital assets	<u>38,599,577</u>	<u>5,726,009</u>	<u>273,418</u>	<u>44,052,168</u>
Less accumulated depreciation and amortization for				
Land improvements	1,152,169	166,497	-	1,318,666
Buildings and improvements	9,360,321	755,024	-	10,115,345
Equipment and vehicles	2,650,086	400,404	270,111	2,780,379
Right to use asset	63,700	12,111	3,307	72,504
Total accumulated depreciation and amortization	<u>13,226,276</u>	<u>1,334,036</u>	<u>273,418</u>	<u>14,286,894</u>
Total other capital assets, net	<u>25,373,301</u>	<u>4,391,973</u>	<u>-</u>	<u>29,765,274</u>
Governmental activities, capital assets, net	<u>\$ 30,103,398</u>	<u>\$ 4,654,195</u>	<u>\$ 4,889,296</u>	<u>\$ 29,868,297</u>

Depreciation and amortization expense for the year ended June 30, 2024, was charged to the following functions:

District support services	\$ 37,617
Elementary and secondary regular instruction	89,737
Vocational education instruction	2,173
Special education	2,309
Instructional support services	166,284
Pupil support services	71,812
Sites and buildings	250,840
Food service	2,356
Community education	365
Unallocated	710,543
Total depreciation expense	<u>\$ 1,334,036</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**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds						
2010A G.O. Capital Facilities Bonds	12/01/11	0.96%	\$ 2,375,000	12/15/24	\$ 165,000	\$ 165,000
2016A G.O. Facilities Maintenance Bonds, Series 2016A	10/19/16	3.00%	1,725,000	02/01/32	1,015,000	115,000
2019A G.O. School Building Bonds, Series 2019A	02/07/19	3.00%-5.00%	10,695,000	02/01/39	10,695,000	505,000
2022A G.O Facilities Maintenance Bonds, Series 2022A	02/10/22	2.20%-3.00%	3,355,000	02/01/43	3,355,000	-
Total G.O. Bonds					<u>15,230,000</u>	<u>785,000</u>
Unamortized net premium on bonds					553,802	-
Total G.O. Bonds, net of premium					15,783,802	785,000
Financed purchases from direct borrowing					41,000	20,269
Lease liability					149,174	40,131
Compensated absences and severance payable					199,889	24,606
Total all long-term liabilities					<u>\$ 16,173,865</u>	<u>\$ 870,006</u>

The long-term bond, financed purchases, and lease liabilities listed above were issued to finance acquisition and construction of capital facilities and 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
2025	\$ 785,000	\$ 518,020
2026	670,000	488,528
2027	700,000	457,428
2028	730,000	424,828
2029	765,000	390,828
2030-2034	4,010,000	1,476,890
2035-2039	4,215,000	841,390
2040-2043	3,355,000	215,289
Total	<u>\$ 15,230,000</u>	<u>\$ 4,813,201</u>

Year Ending June 30,	Financed Purchases from direct borrowing	
	Principal	Interest
2025	\$ 20,269	\$ 935
2026	20,731	473
Total	<u>\$ 41,000</u>	<u>\$ 1,408</u>

**C. Changes in Long-Term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	\$ 16,010,000	\$ -	\$ 780,000	\$ 15,230,000
Unamortized net premium on bonds	613,982	-	60,180	553,802
Financed purchases from direct borrowing	99,649	-	58,649	41,000
Lease liability	113,075	75,013	38,914	149,174
Compensated absences and severance	44,594	250,045	94,750	199,889
Total long-term liabilities	<u>\$ 16,881,300</u>	<u>\$ 325,058</u>	<u>\$ 1,032,493</u>	<u>\$ 16,173,865</u>

**Independent School District No. 738  
Notes to Basic Financial Statements**

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

**D. Financed Purchase Obligations**

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 \$163 are due for 60 months, using an annual interest rate of 2.95%. The postage machine has been capitalized and are being amortized. Finally, the District entered into a lease agreement for a Turf Tank. Annual payments of \$9,500 are due for 6 years, using an annual interest rate of 3.27%. The Turf Tank has been capitalized and is 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
2025	\$ 41,605	\$ 5,852
2026	42,398	3,876
2027	38,279	2,016
2028	14,228	867
2029	12,664	360
Total	<u>\$ 149,174</u>	<u>\$ 12,971</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	\$ 29,336	\$ -	\$ -	\$ 29,336
Inventory	-	-	5,521	5,521
Total nonspendable	<u>29,336</u>	<u>-</u>	<u>5,521</u>	<u>34,857</u>
Restricted/reserved for				
Student Activities	77,400	-	-	77,400
Operating Capital	474,676	-	-	474,676
Long -Term Facilities Maintenance	544,130	-	-	544,130
Staff Development	306,549	-	-	306,549
Playground	15,908	-	-	15,908
Safe Schools Revenue	9,280	-	-	9,280
Medical Assistance	244,970	-	-	244,970
Student Support Personnel Aid	15,764	-	-	15,764
Debt Service	-	288,935	-	288,935
Food Service	-	-	824,258	824,258
Community education	-	-	4,656	4,656
Early Childhood and Family Education	-	-	39,165	39,165
School Readiness	-	-	168,639	168,639
Total restricted	<u>1,688,677</u>	<u>288,935</u>	<u>1,036,718</u>	<u>3,014,330</u>
Assigned for				
District activity accounts	172,802	-	-	172,802
Unassigned				
	<u>2,379,972</u>	<u>-</u>	<u>-</u>	<u>2,379,972</u>
Total fund balance	<u>\$ 4,270,787</u>	<u>\$ 288,935</u>	<u>\$ 1,042,239</u>	<u>\$ 5,601,961</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 Revenue - The unspent resources available from the safe schools revenue 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/Reserved for Student Support Personnel Aid - This balance represents available resources to be used for student support personnel that are in addition to current staff levels.

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

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

Restricted/Reserved for School Readiness - This balance represents the resources available to provide for services for school readiness programs (*Minnesota 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, 2024, was \$165,574. 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 (DCP) 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 1 Benefits*

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

With these provisions:

- ◆ Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

**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 1 Benefits (Continued)*

- ◆ 3% per year early retirement reduction factor for all years under normal retirement age.
- ◆ Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

OR

*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.

**C. Contribution Rate**

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

	<u>June 30, 2022</u>		<u>June 30, 2023</u>		<u>June 30, 2024</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Basic	11.0 %	12.34 %	11.0 %	12.55 %	11.0 %	12.75 %
Coordinated	7.5	8.34	7.5	8.55	7.5	8.75

**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 (Continued)**

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

Employer contributions reported in TRA's ACFR Statement of Changes in Fiduciary Net Position	\$ 508,764
Employer contributions not related to future contribution efforts	(87)
TRA's contributions not included in allocation	<u>(643)</u>
Total employer contributions	508,034
Total non-employer contributions	<u>35,587</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u><u>\$ 543,621</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 (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
Total	<u>100 %</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 2022 valuation:

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

- ◆ The employer contribution rate will increase from 8.75% to 9.5% on July 1, 2025.
- ◆ The employee contribution rate will increase from 7.75% to 8.0% on July 1, 2025.
- ◆ The pension adjustment rate for school districts and the base budgets for Minnesota State, Perpich Center for Arts Education, and Minnesota Academies will increase to reflect the 0.75% employer contribution rate increase.

The 2024 Omnibus Pensions and Retirement Bill:

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

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

**Independent School District No. 738  
Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**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 2023 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

**F. Net Pension Liability**

On June 30, 2024, the District reported a liability of \$6,720,566 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.0814% at the end of the measurement period and 0.0810% 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	\$ 6,720,566
State's proportionate share of the net pension liability associated with the District	470,756

**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)**

For the year ended June 30, 2024, the District recognized pension expense of (\$119,622). Included in this amount, the District recognized \$66,286 as pension expense for the support provided by direct aid. On June 30, 2025, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 65,587	\$ 97,276
Net difference between projected and actual earnings on plan investments	-	13,987
Changes of assumptions	772,319	-
Changes in proportion	78,238	-
Contributions to TRA subsequent to the measurement date	478,885	-
Total	\$ 1,395,029	\$ 111,263

The \$478,885 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, 2025.

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

Year Ended June 30,	Pension Expense Amount
2025	\$ 111,517
2026	(2,919)
2027	775,166
2028	(71,924)
2029	(6,959)
Total	\$ 804,881

**Independent School District No. 738  
Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**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 in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
\$ 10,718,809	\$ 6,720,566	\$ 3,447,518

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](http://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.

**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.

**Independent School District No. 738  
Notes to Basic Financial Statements**

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

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

**B. Benefits Provided (Continued)**

**General Employees Plan Benefits**

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. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

**C. Contributions**

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

**General Employees Fund Contributions**

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2024 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, 2024, were \$188,194. The District's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

**General Employees Fund Pension Costs**

At June 30, 2024, the District reported a liability of \$1,565,729 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 \$43,054.

**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)**

General Employees Fund Pension Costs (Continued)

The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0280% at the end of the measurement period and 0.0284% for the beginning of the period.

School's proportionate share of net pension liability	\$ 1,565,729
State of Minnesota's proportionate share of the net pension liability associated with the School	<u>43,054</u>
Total	<u><u>\$ 1,608,783</u></u>

For the year ended June 30, 2024, the District recognized pension expense of \$285,196 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$193 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2024, 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	\$ 51,595	\$ 10,053
Changes in actuarial assumptions	237,100	429,153
Difference between projected and actual investments earnings	-	16,841
Change in proportion	74,591	23,760
Contributions paid to PERA subsequent to the measurement date	<u>188,194</u>	<u>-</u>
Total	<u><u>\$ 551,480</u></u>	<u><u>\$ 479,807</u></u>

**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)**

The \$188,194 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>	<u>Pension Expense</u>
2025	\$ 81,783
2026	(195,839)
2027	31,501
2028	<u>(33,966)</u>
Total	<u><u>\$ (116,521)</u></u>

**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	33.5 %	5.10 %
International stocks	16.5	5.30
Fixed income	25.0	0.75
Private markets	<u>25.0</u>	5.90
Total	<u><u>100.0 %</u></u>	

**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 total pension liability in the June 30, 2023, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 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 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023, actuarial valuation.

**F. Actuarial Methods and Assumptions**

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

**Changes in Actuarial Assumptions**

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

**Changes in Plan Provisions**

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

**G. Discount Rate**

The discount rate used to measure the total pension liability in 2023 was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Independent School District No. 738  
Notes to Basic Financial Statements**

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

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

**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 (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
District's proportionate share of the PERA net pension liability	\$ 2,769,900	\$ 1,565,729	\$ 575,252

**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](http://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.

**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, 2023, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Active employees	143
Total	154

**Independent School District No. 738  
Notes to Basic Financial Statements**

**NOTE 8 - POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**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 2024, the District contributed \$146,130 to the plan.

**E. Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of July 1, 2023, 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	6.50% as of July 1, 2023, 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-2021 Generational Improvement Scale.

The actuarial assumptions used in the July 1, 2023, valuation was based on the results of an actuarial experience study for the period July 1, 2022 through July 1, 2023.

The discount rate used to measure the total OPEB liability was 3.9% based on the 20- Year Municipal Bond Yield.

The following changes in actuarial assumptions occurred in 2023:

**Changes in Actuarial Assumptions**

- ◆ The discount rate changed from 3.80% to 3.90%.
- ◆ The inflation rate was changed from 2.00% to 2.50%.

**F. Total OPEB Liability**

The District's total OPEB liability of \$1,399,469 was measured as of July 1, 2023, and was determined by an actuarial valuation as of that date.

**Independent School District No. 738  
Notes to Basic Financial Statements**

**NOTE 8 - POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**F. Total OPEB Liability (Continued)**

Changes in the total OPEB liability are as follows:

	<u>Total OPEB Liability</u>
Balances at July 1, 2022	\$ 1,464,256
Changes for the year	
Service cost	68,343
Interest	54,685
Assumption changes	17,359
Differences between expected and actual experience	(16,394)
Benefit payments	<u>(188,780)</u>
Balances at July 1, 2023	<u><u>\$ 1,399,469</u></u>

**G. OPEB Liability Sensitivity**

The following presents the District's total OPEB liability calculated using the discount rate of 3.9% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	<u>1% Decrease in Discount Rate (2.9%)</u>	<u>Current Discount Rate (3.9%)</u>	<u>1% Increase in Discount Rate (4.8%)</u>
Total OPEB liability (asset)	\$ 1,481,834	\$ 1,399,469	\$ 1,319,939

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.

	<u>1% Decrease in Trend Rate (5.50% Decreasing to 3.0%)</u>	<u>Current Trend Rate (6.50% Decreasing to 4.0%)</u>	<u>1% Increase in Trend Rate (7.50% Decreasing to 5.0%)</u>
Total OPEB liability (asset)	\$ 1,280,056	\$ 1,399,469	\$ 1,540,481

**Independent School District No. 738  
Notes to Basic Financial Statements**

**NOTE 8 - POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

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

For the year ended June 30, 2024, the District recognized OPEB expense of \$138,842. At June 30, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Gains/Losses	\$ 40,926	\$ 14,344
Changes of assumptions	71,266	86,898
Contributions made subsequent to the measurement date	183,234	-
Total	\$ 295,426	\$ 101,242

The \$183,234 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, 2025. Remaining deferred outflows of resources will be recognized as follows:

Fiscal Year Ending June 30,	Total
2025	\$ 15,814
2026	15,811
2027	1,521
2028	(5,183)
2029	(17,258)
Thereafter	245
Total	\$ 10,950

**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, 2024.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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

	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
<b>Total OPEB Liability</b>				
Service cost	\$ 68,343	\$ 71,503	\$ 89,758	\$ 91,586
Interest	54,685	34,717	39,402	50,232
Differenced between expected and actual experience	(16,394)	-	34,454	-
Changes of assumptions	17,359	(121,658)	50,085	46,964
Benefit payments	(188,780)	(202,959)	(165,085)	(165,798)
Net change in total OPEB Liability	<u>(64,787)</u>	<u>(218,397)</u>	<u>48,614</u>	<u>22,984</u>
Beginning of year	<u>1,464,256</u>	<u>1,682,653</u>	<u>1,634,039</u>	<u>1,611,055</u>
End of year	<u>\$ 1,399,469</u>	<u>\$ 1,464,256</u>	<u>\$ 1,682,653</u>	<u>\$ 1,634,039</u>
Covered payroll	\$ 6,440,821	\$ 6,596,630	\$ 6,404,495	\$ 6,137,085
Total OPEB Liability as a percentage of covered-employee payroll	21.73%	22.20%	26.27%	26.63%

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

<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
\$ 79,766	\$ 70,180	\$ 68,136
52,349	53,752	56,620
74,338	-	-
25,668	-	-
<u>(160,637)</u>	<u>(188,644)</u>	<u>(233,315)</u>
<u>71,484</u>	<u>(64,712)</u>	<u>(108,559)</u>
<u>1,539,571</u>	<u>1,604,283</u>	<u>1,712,842</u>
<u>\$ 1,611,055</u>	<u>\$ 1,539,571</u>	<u>\$ 1,604,283</u>
\$ 5,958,335	\$ 5,752,811	\$ 5,585,253
27.04%	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 Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered 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%
2023	0.0280%	1,565,729	43,054	1,608,783	2,174,387	72.0%	83.10%

**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 Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered 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%
2023	0.0814%	6,720,566	470,756	7,191,322	5,024,632	133.8%	76.42%

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

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
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%
2024	188,194	188,194	-	2,509,253	7.50%

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

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
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%
2024	478,885	478,885	-	5,472,971	8.75%

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

**TRA Retirement Fund**

**2023 Changes**

Changes of Benefit Terms

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

- ◆ The employer contribution rate will increase from 8.75% to 9.5% on July 1, 2025.
- ◆ The employee contribution rate will increase from 7.75% to 8.0% on July 1, 2025.
- ◆ The pension adjustment rate for school districts and the base budgets for Minnesota State, Perpich Center for Arts Education, and Minnesota Academies will increase to reflect the 0.75% employer contribution rate increase.

The 2024 Omnibus Pensions and Retirement Bill:

- ◆ The Normal Retirement Age (NRA) for active and eligible deferred Tier II members will be 65 effective July 1, 2024.
- ◆ TRA's amortization date will remain the same at 2048.

**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.

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

**TRA Retirement Fund (Continued)**

**2018 Changes (Continued)**

Changes in Actuarial Assumptions (Continued)

- ◆ 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.

**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.

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

**TRA Retirement Fund (Continued)**

**2016 Changes (Continued)**

Changes in Actuarial Assumptions (Continued)

- ◆ 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.

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**

**2023 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2022 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**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.

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

**General Employees Fund (Continued)**

**2020 Changes (Continued)**

Changes in Actuarial Assumptions (Continued)

- ◆ The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

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

**2019 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

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

**General Employees Fund (Continued)**

**2017 Changes (Continued)**

Changes in Plan Provisions

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

**2016 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- ◆ There have been no changes since the prior valuation.

**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**

**2024 Changes**

Changes in Actuarial Assumptions

- ◆ The discount rate changed from 3.80% to 3.90%.
- ◆ The inflation rate changed from 2.50% to 2.00%.

**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, 2024

	Special Revenue		Total Nonmajor Funds
	Food Service	Community Service	
<b>Assets</b>			
Cash and investments	\$ 864,709	\$ 320,919	\$ 1,185,628
Current property taxes receivable	-	29,134	29,134
Delinquent property taxes receivable	-	627	627
Due from Department of Education	-	8,896	8,896
Through department of education	3,045	-	3,045
Inventory	5,521	-	5,521
	<u>\$ 873,275</u>	<u>\$ 359,576</u>	<u>\$ 1,232,851</u>
<b>Liabilities</b>			
Accounts payable	\$ 11,370	\$ 19,021	\$ 30,391
Salaries and benefits payable	-	51,969	51,969
Unearned revenue	32,126	14,456	46,582
Total liabilities	<u>43,496</u>	<u>85,446</u>	<u>128,942</u>
<b>Deferred Inflows of Resources</b>			
Property taxes levied for subsequent year's expenditures	-	61,043	61,043
Unavailable revenue - delinquent property taxes	-	627	627
Total deferred inflows of resources	<u>-</u>	<u>61,670</u>	<u>61,670</u>
<b>Fund Balances</b>			
Nonspendable	5,521	-	5,521
Restricted	824,258	212,460	1,036,718
Total fund balances	<u>829,779</u>	<u>212,460</u>	<u>1,042,239</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 873,275</u>	<u>\$ 359,576</u>	<u>\$ 1,232,851</u>

**Independent School District No. 738**  
**Combining Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances -**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2024**

	Special Revenue		Total Nonmajor Funds
	Food Service	Community Service	
<b>Revenues</b>			
Local property taxes	\$ -	\$ 104,594	\$ 104,594
Other local and county revenues	33,180	361,115	394,295
Revenue from state sources	594,713	90,364	685,077
Revenue from federal sources	423,351	-	423,351
Sales and other conversion of assets	60,495	644	61,139
Total revenues	<u>1,111,739</u>	<u>556,717</u>	<u>1,668,456</u>
<b>Expenditures</b>			
Current			
Food service	954,565	-	954,565
Community education and services	-	555,015	555,015
Capital outlay			
Food service	34,149	-	34,149
Community education and services	-	7,294	7,294
Total expenditures	<u>988,714</u>	<u>562,309</u>	<u>1,551,023</u>
Net change in fund balances	123,025	(5,592)	117,433
<b>Fund Balances</b>			
Beginning of year	<u>706,754</u>	<u>218,052</u>	<u>924,806</u>
End of year	<u>\$ 829,779</u>	<u>\$ 212,460</u>	<u>\$ 1,042,239</u>

Independent School District No. 738  
Uniform Financial Accounting and Reporting Standards  
Compliance Table  
Year Ended June 30, 2024

	Audited	UFARS	Audit-UFARS		Audited	UFARS	Audit-UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION FUND</b>			
Total revenue	\$ 14,167,976	\$ 14,167,973	\$ 3	Total revenue	\$ -	\$ -	\$ -
Total expenditures	14,058,014	14,058,011	3	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable fund balance	29,336	29,336	-	4.60 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
4.01 Student Activities	77,400	77,401	(1)	4.07 Capital Projects Levy	-	-	-
4.02 Scholarships	-	-	-	4.13 Building Projects funded by COP/LP	-	-	-
4.03 Staff Development	306,549	306,548	1	<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	-	-	-	<b>07 DEBT SERVICE FUND</b>			
4.19 Encumbrances	-	-	-	Total revenue	\$ 1,323,868	\$ 1,323,867	\$ 1
4.24 Operating Capital	474,676	474,676	-	Total expenditures	1,329,818	1,329,816	2
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	-	-	-
4.39 English Learner	-	-	-	<i>Restricted:</i>			
4.40 Teacher Development and Evaluation	-	-	-	4.64 Restricted fund balance	288,935	288,936	(1)
4.41 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
4.43 School Library Aid	-	-	-	4.63 Unassigned fund balance	-	-	-
4.48 Achievement and Integration Revenue	-	-	-				
4.49 Safe School Crime	9,280	9,280	-	<b>08 TRUST FUND</b>			
4.51 QZAB Payments	-	-	-	Total revenue	\$ -	\$ -	\$ -
4.52 OPEB Liabilities not Held in Trust	-	-	-	Total expenditures	-	-	-
4.53 Unfunded Severance and Retirement Levy	-	-	-	<i>Unassigned:</i>			
4.59 Basic Skills Extended Time	-	-	-	4.01 Student Activities	\$ -	\$ -	\$ -
4.67 Long-term Facilities Maintenance	544,130	544,131	(1)	4.02 Scholarships	-	-	-
4.71 Student Support Personnel	15,764	15,764	-	4.22 Net position	-	-	-
4.72 Medical Assistance	244,970	244,970	-				
4.76 Payments in Lieu of Taxes	-	-	-	<b>18 CUSTODIAL</b>			
<i>Restricted:</i>				Total revenue			
4.64 Restricted fund balance	15,908	15,908	-	Total expenditures			
4.75 Title VII- Impact Aid	-	-	-	<i>Restricted/Reserved</i>			
4.76 Payments of Lieu 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	172,802	172,801	1	<b>20 INTERNAL SERVICE FUND</b>			
<i>Unassigned:</i>				Total revenue	\$ -	\$ -	\$ -
4.22 Unassigned fund balance (net position)	\$ 2,379,972	\$ 2,379,971	\$ 1	Total expenditures	-	-	-
				<i>Unassigned:</i>			
				4.22 Net position	-	-	-
<b>02 FOOD SERVICES FUND</b>							
Total revenue	1,111,739	1,111,739	-	<b>25 OPEB REVOCABLE TRUST</b>			
Total expenditures	988,714	988,713	1	Total revenue	\$ 19,931	\$ 19,930	\$ 1
<i>Nonspendable:</i>				Total expenditures	295	295	-
4.60 Nonspendable fund balance	5,521	5,521	-	<i>Unassigned:</i>			
<i>Restricted/reserved:</i>				4.22 Net position	421,640	421,640	-
4.52 OPEB liabilities not held in trust	-	-	-				
<i>Restricted:</i>				<b>45 OPEB IRREVOCABLE TRUST</b>			
4.64 Restricted fund balance	824,258	824,258	-	Total revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total expenditures	-	-	-
4.63 Unassigned fund balance	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
				4.22 Net position	-	-	-
<b>04 COMMUNITY SERVICE FUND</b>							
Total revenue	556,717	556,717	-	<b>47 OPEB DEBT SERVICE</b>			
Total expenditures	562,309	562,308	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	4,656	4,656	-	4.25 Bond refundings	-	-	-
4.32 ECFE	39,165	39,164	1	4.64 Restricted fund balance	-	-	-
4.40 Teacher Development and Evaluation	-	-	-	<i>Unassigned:</i>			
4.44 School Readiness	168,639	168,641	(2)	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	-	-	-				



**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 (*Government Auditing Standards*), 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, 2024, 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 6, 2024.

**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 as items that we consider to be a material weakness, Audit Finding 2024-001.

**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. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of this Report**

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

*Bogomolov, Ltd.*

St. Cloud, Minnesota  
September 6, 2024

**Independent School District No. 738  
Schedule of Findings on Internal Control**

**Audit Finding 2024-001**

*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, 2024, 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 has access to the electronic signatures and completes the monthly bank reconciliations. The bank reconciliations are not reviewed by anyone else.
- ◆ The Business Office Payroll/Benefits Specialist 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.

*Cause:*

There are a limited number of office employees.

*Effect or Potential Effect:*

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

*Recommendation:*

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

**Independent School District No. 738  
Schedule of Findings on Internal Control**

**Audit Finding 2024-001 (Continued)**

*Views of the Responsible Officials and Planned Corrective Action:*

**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.



## 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, 2024, 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 6, 2024.

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

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

*BerganKDV, Ltd.*

St. Cloud, Minnesota  
September 6, 2024