Independent School District No. 726
Becker, Minnesota

Basic Financial Statements

June 30, 2023

Independent School District No. 726
Table of Contents

Independent School District No. 726
Table of Contents

Independent School District No. 726
Board of Education and Administration
June 30, 2023

Board of Education	Position	Term Expires
Aaron Jurek	Chair	December 31, 2026
Connie Robinson	Vice-Chair	December 31, 2024
Ryan Hubbard	Treasurer	December 31, 2024
Pete Weismann	Clerk	December 31, 2026
Troy Berning	Director	December 31, 2024
Corey Stanger	Director	December 31, 2026

Administration	
Jeremy Schmidt	Superintendent
Kevin Januszewski	Director of Business Services

Independent Auditor's Report

To the School Board
Independent School District No. 726
Becker, Minnesota

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 726, Becker, Minnesota, as of and for the year ended June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements 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. 726, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

The management of Independent School District No. 726 is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management′s Discussion and Analysis, which follows this report letter, and Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the 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 supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV, Ltd.

St. Cloud, Minnesota
November 20, 2023

Independent School District No. 726
Management's Discussion and Analysis

This section of Independent School District 726, Becker Public Schools' (the "District"), annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2023. Please read it in conjunction with the District's financial statements, which immediately follows this section.

Financial Highlights

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

- Enrollment for the District increased 9 students compared to fiscal year 2022. Projections indicate the District should experience steady enrollment or enrollment growth over the next several years.

- The unassigned fund balance of the General Fund ended at $3,075,915 on June 30, 2023, as compared to an equivalent balance of $3,560,627 at June 30, 2022. This is a decrease of $484,712. Funds assigned for future use by student groups increased by $53,981 and non-spendable fund balance increased by $283,560. All of these categories represent funds available for use in future fiscal years and are included in the calculation of unrestricted fund balance; the total change in unrestricted fund balance was a decrease of $147,171.

- General Fund revenues were over budget by $285,929 (.8%) while expenditures were over budget by $264,392 (.7%). The largest difference in expenditures over the budget was the result of more expenditures due to utilities higher than expected.

- Governmental net position increased by 644% compared to June 30, 2022. Page 23 illustrates the reconciliation between the change in fund balance and the change in net position for the District, indicating a $7,937,540 increase in net position for the current year.

Overview of the Financial Statements

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

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

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

Overview of the Financial Statements (Continued)

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

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

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

The District has two kinds of funds:

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

Overview of the Financial Statements (Continued)

Fund Financial Statements (Continued)

- Proprietary Fund – The Self-Funding Health and Dental Insurance Internal Service fund is used to account for health and dental insurance for District employees.

Financial Analysis of the District as a Whole

The District's combined net position was $6,704,054 on June 30, 2022. This was an increase of 644% from the prior year (see Table A-1).

Table A-1
Net Position

	Governmental Activities		Percentage
	2023	2022	Change
Assets			
Current and other assets	$ 50,477,197	$ 63,052,829	-19.9%
Capital and noncurrent assets	68,455,590	49,978,863	37.0%
Total assets	118,932,787	113,031,692	5.2%
Total Deferred Outflows of Resources	9,262,267	9,802,725	-5.5%
Liabilities			
Current liabilities	13,795,851	7,788,219	77.1%
Long-term liabilities	90,036,422	81,991,409	9.8%
Total liabilities	103,832,273	89,779,628	15.7%
Total Deferred Inflows of Resources	17,658,727	34,288,275	-48.5%
Net Position			
Net investment in capital assets	30,068,575	27,142,303	10.8%
Restricted	3,595,144	2,185,768	64.5%
Unrestricted	(26,959,665)	(30,561,557)	11.8%
Total net position	$ 6,704,054	$ (1,233,486)	643.5%

Financial Analysis of the District as a Whole (Continued)

The change in the District's financial position is the product of many factors. Governmental activity changed total net position of the District by $7,937,540 from June 30, 2022 to June 30, 2023. Current assets decreased by approximately $13 million. This is largely the result of spending for the building projects approved by voters in November of 2021. The District's net investment in capital assets increased mostly as a result of paying bonds obligations related to the acquisition of assets. Unrestricted net position, increased by $3.6 million as the result of paying down of OPEB liabilities.

Table A-2

Change in Net Position

	Governmental Activities for the Fiscal Year Ended June 30, 2023	Governmental Activities for the Fiscal Year Ended June 30, 2022	Total % Change
Revenues			
Program revenues			
Charges for services	$ 4,422,124	$ 2,092,891	111.30%
Operating grants and contributions	8,774,056	10,057,808	-12.80%
Capital grants and contributions	704,156	765,927	-8.10%
General revenues			
Property taxes	11,315,334	10,957,020	3.30%
Unrestricted state aid	21,268,718	20,488,230	3.80%
Investment earnings	1,074,436	(394,516)	-372.30%
Other	119,746	57,543	108.10%
Total revenues	47,678,570	44,024,903	8.30%
Expenses			
Administration	1,539,786	1,626,462	-5.30%
District support services	801,963	608,475	31.80%
Regular instruction	15,127,780	17,149,606	-11.80%
Vocational education instruction	152,500	59,680	155.50%
Special education instruction	6,154,047	6,079,088	1.20%
Instructional support services	2,432,693	2,674,261	-9.00%
Pupil support services	3,255,088	2,866,704	13.50%
Sites and buildings	3,732,664	3,202,271	16.60%
Fiscal and other fixed cost programs	160,661	134,039	19.90%
Food service	2,105,256	2,031,074	3.70%
Community service	1,718,859	1,570,014	9.50%
Unallocated depreciation	1,975,182	1,976,514	-0.10%
Interest and fiscal charges on long-term	584,551	1,245,961	-53.10%
Total expenses	39,741,030	41,224,149	-3.60%
Increase in Net Position	7,937,540	2,800,754	
Beginning net position	(1,233,486)	(4,034,240)	
Ending net position	$ 6,704,054	$ (1,233,486)	643.50%

Financial Analysis of the District as a Whole (Continued)
The District's total revenues were $47,678,570 for the year ended June 30, 2023. Property taxes and unrestricted state formula aid accounted for 68% of total revenue for the year. Operating grants attributed for $8.8 million of revenues district-wide; these include state and federal aids that are set aside for specific programs, such as special education, federal title programs, and aids for community education programs as well as those required to be spent for specific purposes.

The total cost of all programs and services including interest and fiscal charges was $39,741,030. Total revenues exceeded expenses, increasing net position by $7,937,540 from the prior year. Page 23 illustrates the reconciliation between the change in fund balance and the change in net position for the District.

The cost of all governmental activities this year was $39,741,030.

- Some of the cost was paid by the users of the District's programs $4,422,124
- The federal and state governments subsidized certain programs with grants and contributions $9,479,212.
- Most of the District's costs, however, were paid for by District taxpayers and the taxpayers of our state. Remaining governmental activities were paid for with $11,315,334 in property taxes, with the balance from state aid based on the education aid formula and with investment earnings and other general revenues.

All governmental funds include not only funds received for the general operation of the District, which are used for classroom instruction, but also includes resources from the entrepreneurial-type funds of food service and community education, and from resources for debt service transactions. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received in food service or community education or for debt service to enhance classroom instruction resources. The District cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction.

Governmental Activities

Total costs of services decreased by approximately 3.6% across all programs. The decrease is due to having less students.

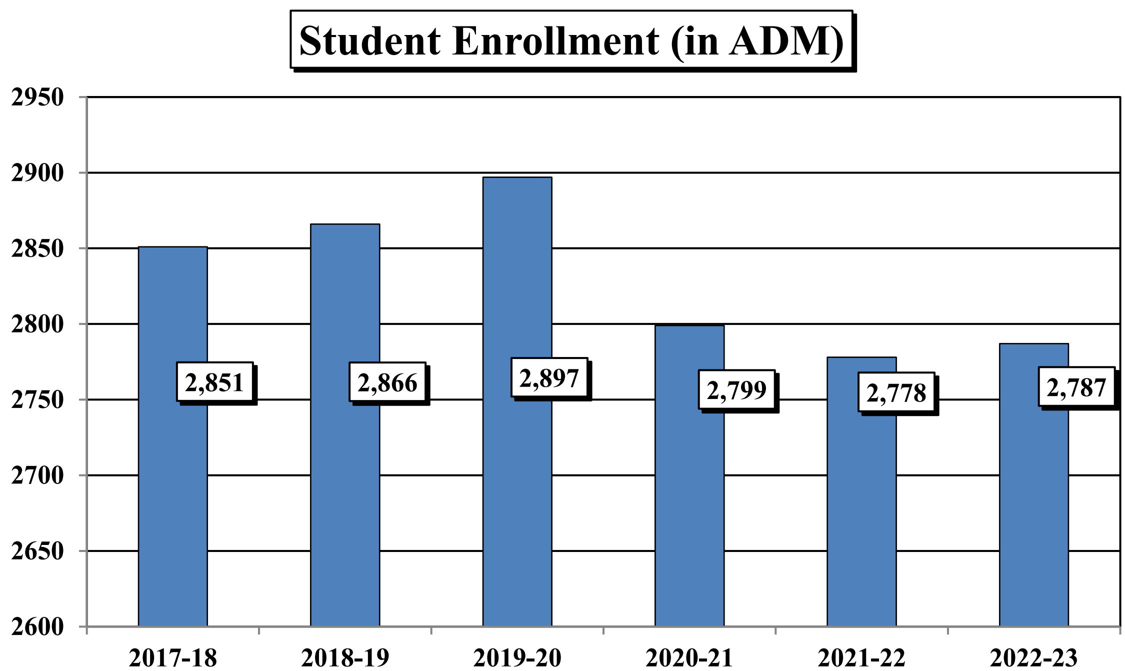
Table A-3
Program Expenses and Net Cost of Services

	Total Cost of Services		Percent	Net Cost of Services		Percent
	2022	2021	Change	2022	2021	Change
Administration	$ 1,626,462	$ 1,797,896	-9.5%	$ 1,626,462	$ 1,776,442	-8.4%
District support services	608,475	598,663	1.6%	608,475	591,153	2.9%
Regular instruction	17,187,494	18,255,297	-5.8%	14,418,365	15,440,399	-6.6%
Vocational education instruction	59,680	42,070	41.9%	52,837	37,970	39.2%
Special education instruction	6,041,200	7,099,708	-14.9%	1,903,546	2,431,922	-21.7%
Instructional support services	2,674,261	2,717,007	-1.6%	2,087,843	2,237,304	-6.7%
Pupil support services	2,866,704	2,830,922	1.3%	2,405,638	2,642,081	-8.9%
Sites and buildings	3,202,271	3,567,174	-10.2%	2,398,568	2,500,475	-4.1%
Fiscal and other fixed cost programs	134,039	135,243	-0.9%	134,039	135,243	-0.9%
Food service	2,031,074	1,635,920	24.2%	(744,464)	(442,933)	68.1%
Community education and services	1,570,014	1,451,931	8.1%	193,739	311,847	-37.9%
Unallocated depreciation	1,976,514	1,979,377	-0.1%	1,976,514	1,979,377	-0.1%
Interest and fiscal charges on long-term debt	1,245,961	667,685	86.6%	1,245,961	667,685	86.6%
Total governmental activities	$ 41,224,149	$ 42,778,893	-3.6%	$ 28,307,523	$ 30,308,965	-6.6%

Enrollment

Enrollment is a critical factor in determining District revenue with approximately 90% of General Fund revenue being determined by enrollment. The following chart shows the number of students has decreased by approximately 64 average daily membership (ADM) since 2017-2018; this is an average of 0% growth per year, the district saw a increase of 9 ADM from 2021-22. It is anticipated the District should experience 1% growth over the next several years. Of the 2,787 ADM for 2022-2023, approximately 380 are the result of net open enrollment gain for the District.

Table A-4
Six-Year Enrollment Trend ADM



General Fund

The General Fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12, including pupil transportation activities and capital outlay projects.

The majority of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local School Board having no meaningful authority to determine the level of resources. This includes Special Education Aid that is based primarily upon a cost reimbursement model. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

General Fund (Continued)

The following schedule presents a summary of General Fund revenues:

Table A-5
General Fund Revenues

Source	Year Ended June 30, 2023	Year Ended June 30, 2022	Change Increase/ (Decrease)	Change Percent
Local sources				
Property taxes	$ 7,401,568	$ 7,435,971	$ (34,403)	-0.50%
Earnings on investments	193,063	4,903	188,160	3837.70%
Other	1,310,790	1,340,982	(30,192)	-2.30%
State sources	27,355,161	26,635,884	719,277	2.70%
Federal sources	1,194,358	1,323,071	(128,713)	-9.70%
Total General Fund revenue	$ 37,454,940	$ 36,740,811	$ 714,129	1.90%

Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state authorized revenue, including operating levy referendum and the property tax shift, also involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year-to-year without any net change on total revenue.

For fiscal year 2023, local property taxes decreased by $34,403, or .5%, in the General Fund.

Other revenues include fees, donations, fundraising, and other payments collected. These are revenues used to offset the costs of certain programs, typically extracurricular in nature.

Of the $719,277 increase in revenue from state sources. State aid for special education accounted for this increase as the result of an increase in the special education aid entitlement, along with an increase in general education aid.

General Fund (Continued)

The following schedule presents a summary of General Fund expenditures:

Table A-6
General Fund Expenditures

	Year Ended		Change	
Source	June 30, 2023	June 30, 2022	Increase/ (Decrease)	Percent
Salaries	$ 21,130,321	$ 20,579,315	$ 551,006	2.70%
Employee benefits	9,586,142	8,814,750	771,392	8.80%
Purchased services	2,789,994	2,030,245	759,749	37.40%
Supplies and materials	2,133,988	2,258,799	(124,811)	-5.50%
Capital expenditures	2,222,493	2,144,853	77,640	3.60%
Other expenditures	41,382	156,668	(115,286)	-73.60%
Total expenditures	$ 37,904,320	$ 35,984,630	$ 1,919,690	5.30%

Total General Fund expenditures increased by 5.3% from the previous year. Salaries and benefits increased as a result of contract settlements and hiring additional staffing. Supplies and materials decreased by $124,811 due to spending for COVID-19 supplies (cleaning, protective supplies) in prior year that the district didn’t have in current year.

Unassigned fund balance is an important aspect of the District's overall financial health. The unassigned fund balance of $3,075,915 at June 30, 2023, represents 8.1% of annual expenditures. Fund balance retention of the District's minimum 8.0% Fund Balance Policy is a priority of the District in order to avoid reductions in programming and to reduce short-term borrowing costs in the future.

General Fund Budgetary Highlights

Following approval of the budget prior to the beginning of the fiscal year, the District revises the annual operating budget near year-end. These budget amendments fall into two general categories:

- Implementing budgets for specially funded projects, which include both federal and state grants and reinstating unexpended funds being carried over.
- Legislation passes subsequent to budget adoption, changes necessitated by collective bargaining agreements, and changes in appropriations for significant unbudgeted costs or unbudgeted cost savings.

Debt Service Fund

The Debt Service Fund revenues exceeded expenditures and other financing resources by $106,292, resulting in a fund balance of $719,478 as of June 30, 2023.

Building Construction Capital Project Fund

The building construction fund expenditures exceeded revenues and other financing resources by $19,120,747, resulting in a fund balance of $21,707,154 as of June 30, 2023.

Other Nonmajor Funds

In the Food Service Fund, expenditures exceeded revenues by $171,687, resulting in a fund balance of $1,107,355 as of June 30, 2023. In the Community Service Fund, expenditures exceeded revenues and a transfer from general fund by $85,881, resulting in a fund balance of $160,103 as of June 30, 2023.

Capital Asset and Debt Administration

Capital Assets

By the end of 2023, the District had invested $117.7 million in a broad range of capital assets, including land, school buildings, athletic facilities, computer, and audiovisual equipment and administrative offices (see Table A-7). More detailed information about capital assets can be found in Note 3 to the financial statements. Total depreciation expense for the year was $2.7 million.

Table A-7
Capital Assets

Asset Category	2023	2022	Percent Change
Land	$ 639,386	$ 639,386	0.00%
Construction in progress	22,452,304	2,474,914	807.20%
Land improvements	8,896,844	8,417,992	5.70%
Buildings and improvements	74,567,771	74,485,144	0.10%
Equipment	11,208,881	10,591,034	5.80%
Less: accumulated depreciation	(49,309,596)	(46,629,607)	5.70%
Total	$ 68,455,590	$ 49,978,863	36.90%

Capital Asset and Debt Administration (Continued)

Long-Term Liabilities

At year-end, the District had $59,910,149 in G.O. bonds, net of related premiums and discount, the result of voter-approved construction bonds, certificates of participation and note from direct borrowing issued, as shown in Note 4 to the financial statements. The District had an estimated $352,299 in severance payable as of June 30, 2023, a decrease of $80,635 from June 30, 2022. The District also recorded a net pension liability in the amount of $27.1 million, compared to $14.3 million as of June 30, 2022.

Table A-8
Long-Term Liabilities

Category	2023	2022	Percent Change
General obligation bonds	$ 59,178,484	$ 62,400,771	-5.20%
Net bond premium and discount	731,665	976,538	-25.10%
Financed purchase agreements	263,201	404,479	-34.90%
Other postemployment benefits payable	5,626,291	6,702,349	-16.10%
Net pension liability	27,103,734	14,326,081	89.20%
Severance benefits payable	352,299	432,934	-18.60%
Compensated absences payable	197,180	206,820	-4.70%
Total	$ 93,452,854	$ 85,449,972	9.40%
Long-term liabilities			
Due within one year	$ 3,416,432	$ 3,458,563	
Due in more than one year	90,036,422	81,991,409	
Total	$ 93,452,854	$ 85,449,972	

Factors Bearing on the District's Future

With the exception of the voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

District voters approved $525 per pupil in a November 2019 operating referendum in order to prevent significant budget reductions and to restore unassigned fund balance to the 8% level outlined in district policy.

The District will need to closely monitor these variables in the years ahead to strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District 726, 12000 Hancock Street, Becker, Minnesota 55308.

BASIC FINANCIAL STATEMENTS

Independent School District No. 726
Statement of Net Position
June 30, 2023

	Governmental Activities
Assets	
Cash and investments	$ 40,210,743
Cash with fiscal agent	90
Current property taxes receivable	5,818,919
Delinquent property taxes receivable	39,401
Accounts receivable	186,332
Interest receivable	80,752
Due from Department of Education	2,679,833
Due from Federal Government through Department of Education	187,853
Due from other governmental units	407,311
Inventory	31,165
Prepaid items	834,798
Capital assets not being depreciated	
Land	639,386
Construction in progress	22,452,304
Capital assets, net of accumulated depreciation	
Land improvements	8,896,844
Buildings	74,567,771
Machinery and equipment	11,208,881
Less accumulated depreciation	(49,309,596)
Total assets	118,932,787
Deferred Outflows of Resources	
Deferred outflows of resources related to other post employment benefits (OPEB)	645,351
Deferred outflows of resources related to pensions	8,616,916
Total deferred outflows of resources	9,262,267
Total assets and deferred outflows of resources	$ 128,195,054
Liabilities	
Accounts and contracts payable	$ 6,939,223
Salaries and benefits payable	2,999,270
Interest payable	293,720
Unearned revenue	147,206
Bonds and certificates of participation payable, net of premiums	
Payable within one year	3,172,887
Payable after one year	56,658,081
Note from direct borrowing payable	
Payable within one year	39,101
Payable after one year	40,080
Financed purchase agreements payable	
Payable within one year	119,919
Payable after one year	143,282
Compensated absences payable	
Payable within one year	49,295
Payable after one year	147,885
Severance payable	
Payable within one year	35,230
Payable after one year	317,069
Total OPEB liability	5,626,291
Net pension liability	27,103,734
Total liabilities	103,832,273
Deferred Inflows of Resources	
Deferred outflows of resources related to OPEB	1,331,454
Deferred inflows of resources related to pensions	5,123,751
Property taxes levied for subsequent year's expenditures	11,203,522
	17,658,727
Net Position	
Net investment in capital assets	30,068,575
Restricted for	
Debt service	468,772
Community service	272,570
Other purposes	2,853,802
Unrestricted	(26,959,665)
Total net position	6,704,054
Total liabilities, deferred inflows of resources, and net position	$ 128,195,054

Independent School District No. 726
Statement of Activities
Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 1,535,786	$ -	$ -	$ -	$ (1,535,786)
District support services	805,963	-	-	-	(805,963)
Elementary and secondary regular instruction	15,127,780	444,470	2,318,646	-	(12,364,664)
Vocational education instruction	152,500	-	6,844	-	(145,656)
Special education instruction	6,154,047	127,153	4,360,604	-	(1,666,290)
Instructional support services	2,432,693	-	154,903	-	(2,277,790)
Pupil support services	3,255,088	6,617	571,543	-	(2,676,928)
Sites and buildings	3,732,664	1,773,625	2,000	704,156	(1,252,883)
Fiscal and other fixed cost programs	160,661	-	-	-	(160,661)
Food service	2,105,256	876,327	1,126,022	-	(102,907)
Community education and services	1,718,859	1,193,932	233,494	-	(291,433)
Unallocated depreciation	1,975,182	-	-	-	(1,975,182)
Interest and fiscal charges on long-term debt	584,551	-	-	-	(584,551)
Total governmental activities	$ 39,741,030	$ 4,422,124	$ 8,774,056	$ 704,156	(25,840,694)

General revenues	
Taxes	
Property taxes, levied for general purposes	7,386,579
Property taxes, levied for community service	218,444
Property taxes, levied for debt service	3,710,311
State aid-formula grants	21,268,718
Other general revenues	60,313
Investment income	1,074,436
Gain on sale of capital assets	59,433
Total general revenues	33,778,234
Change in net position	7,937,540
Net position - beginning	(1,233,486)
Net position - ending	$ 6,704,054

See notes to basic financial statements.

Independent School District No. 726
Balance Sheet - Governmental Funds
June 30, 2023

	General	Debt Service	Building Construction Capital Project	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	$ 8,621,177	$ 2,635,544	$ 27,003,340	$ 1,645,789	$ 39,905,850
Cash with fiscal agent	90	-	-	-	90
Current property taxes receivable	3,820,390	1,892,573	-	105,956	5,818,919
Delinquent property taxes receivable	25,926	12,712	-	763	39,401
Accounts receivable	143,795	-	-	40,931	184,726
Interest receivable	-	-	80,752	-	80,752
Due from Department of Education	2,641,232	14,458	-	24,143	2,679,833
Due from Federal Government through Department of Education	180,978	-	-	6,875	187,853
Due from other governmental units	401,464	-	-	5,847	407,311
Inventory	-	-	-	31,165	31,165
Prepaid items	820,266	-	-	14,532	834,798
Total assets	$ 16,655,318	$ 4,555,287	$ 27,084,092	$ 1,876,001	$ 50,170,698
Liabilities					
Accounts and contracts payable	$ 628,724	$ 2,150	$ 5,376,938	$ 240,049	$ 6,247,861
Salaries and benefits payable	2,918,297	-	-	80,973	2,999,270
Unearned revenue	80,230	-	-	66,976	147,206
Total liabilities	3,627,251	2,150	5,376,938	387,998	9,394,337
Deferred Inflows of Resources					
Property taxes levied for subsequent year's expenditures	7,162,793	3,820,947	-	219,782	11,203,522
Unavailable revenue - delinquent property taxes	25,926	12,712	-	763	39,401
Total deferred inflows of resources	7,188,719	3,833,659	-	220,545	11,242,923
Fund Balances					
Nonspendable	820,266	-	-	45,697	865,963
Restricted	1,746,447	719,478	21,707,154	1,333,465	25,506,544
Assigned	196,720	-	-	-	196,720
Unassigned	3,075,915	-	-	(111,704)	2,964,211
Total fund balances	5,839,348	719,478	21,707,154	1,267,458	29,533,438
Total liabilities, deferred inflows of resources, and fund balances	$ 16,655,318	$ 4,555,287	$ 27,084,092	$ 1,876,001	$ 50,170,698

Independent School District No. 726
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2023

Total fund balances - governmental funds	$ 29,533,438
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	117,765,186
Less accumulated depreciation	(49,309,596)
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:	
Bonds and certificates of participation payable	(59,099,303)
Premiums on bonds payable	(731,665)
Note from direct borrowing payable	(79,181)
Finanaced purchase agreements payable	(263,201)
Compensated absences payable	(197,180)
Severance payable	(352,299)
Total OPEB liability	(5,626,291)
Net pension liability	(27,103,734)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	8,616,916
Deferred inflows of resources related to pensions	(5,123,751)
Deferred outflows of resources are created as a result of various differences related to postemployment benefits that are not recognized in the governmental funds.	
Deferred outflows of resources related to OPEB	645,351
Deferred inflows of resources related to OPEB	(1,331,454)
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.	39,401
The heath and dental self insured benefit plan internal service fund is used by management to charge the costs of the self-insured health and dental plans. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.	(384,863)
Governmental funds do not report a liability for accrued interest on bonds, certificates of particpation, note, and financed purchases until due and payable.	(293,720)
Total net position - governmental activities	$ 6,704,054

See notes to basic financial statements.

Independent School District No. 726
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2023

	General	Debt Service	Building Construction Capital Project	Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	$ 7,401,568	$ 3,717,957	$ -	$ 218,917	$ 11,338,442
Other local and county revenues	1,461,604	60,121	766,126	1,251,445	3,539,296
Revenue from state sources	27,355,161	143,821	-	385,035	27,884,017
Revenue from federal sources	1,194,358	-	-	976,332	2,170,690
Sales and other conversion of assets	42,249	-	-	876,327	918,576
Total revenues	37,454,940	3,921,899	766,126	3,708,056	45,851,021
Expenditures					
Current					
Administration	1,784,603	-	-	-	1,784,603
District support services	678,898	-	-	-	678,898
Elementary and secondary regular instruction	17,993,640	-	-	-	17,993,640
Vocational education instruction	152,119	-	-	-	152,119
Special education instruction	6,708,181	-	-	-	6,708,181
Instructional support services	1,934,284	-	-	-	1,934,284
Pupil support services	2,907,426	-	-	-	2,907,426
Sites and buildings	3,384,843	-	47,705	-	3,432,548
Fiscal and other fixed cost programs	160,661	-	-	-	160,661
Food service	-	-	-	2,043,428	2,043,428
Community education and services	-	-	-	1,757,800	1,757,800
Capital outlay					
District support services	89,031	-	-	-	89,031
Elementary and secondary regular instruction	78,497	-	-	-	78,497
Vocational education instruction	1,694	-	-	-	1,694
Special education instruction	751	-	-	-	751
Instructional support services	495,975	-	-	-	495,975
Pupil support services	385,341	-	-	-	385,341
Sites and buildings	715,762	-	19,839,168	-	20,554,930
Food service	-	-	-	174,396	174,396
Debt service					
Principal	354,815	3,039,141	-	-	3,393,956
Interest and fiscal charges	77,799	776,466	-	-	854,265
Total expenditures	37,904,320	3,815,607	19,886,873	3,975,624	65,582,424
Excess of revenues over (under) expenditures	(449,380)	106,292	(19,120,747)	(267,568)	(19,731,403)
Other financing sources (uses)					
Proceeds from sale of capital assets	61,933	-	-	-	61,933
Insurance recovery	1,665,040	-	-	-	1,665,040
Transfers in	-	-	-	10,000	10,000
Transfers out	(10,000)	-	-	-	(10,000)
Total other financing sources (uses)	1,716,973	-	-	10,000	1,726,973
Net change in fund balances	1,267,593	106,292	(19,120,747)	(257,568)	(18,004,430)
Fund Balances					
Beginning of year	4,571,755	613,186	40,827,901	1,525,026	47,537,868
End of year	$ 5,839,348	$ 719,478	$ 21,707,154	$ 1,267,458	$ 29,533,438

Independent School District No. 726
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances to
the Statement of Activities - Governmental Funds
Year Ended June 30, 2023

Net change in fund balances - total governmental funds	$ (18,004,430)
Amounts reported for governmental activities in the Statement of Activities are different because: different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	21,189,771
Depreciation expense	(2,710,544)
Disposal of capital assets	(2,500)
OPEB, severance and compensated absences payable are not reported as expenditures in the governmental funds because funds because they do not require the use of current financial resources; instead, they are expensed in the Statement of Activities.	318,665
Principal payments on long-term debt and leases are recognized as expenditures in the governmental funds but have no effect on the net position in the Statement of Activities.	3,363,565
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.	55,232
Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	244,873
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.	4,821,031
The dental and health self insured benefit plan internal service fund is used by management to charge the costs of the self-insured health and dental plans. The increase in net position is reported within the governmental activities column in the Statement of Activities.	(1,315,015)
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.	(23,108)
Change in net position - governmental activities	$ 7,937,540

Independent School District No. 726
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 7,467,601	$ 7,467,601	$ 7,401,568	$ (66,033)
Other local and county revenues	745,424	955,424	1,461,604	506,180
Revenue from state sources	28,277,204	27,489,872	27,355,161	(134,711)
Revenue from federal sources	621,717	1,213,764	1,194,358	(19,406)
Sales and other conversion of assets	42,350	42,350	42,249	(101)
Total revenues	37,154,296	37,169,011	37,454,940	285,929
Expenditures				
Current				
Administration	1,708,085	1,708,085	1,784,603	76,518
District support services	793,882	793,882	678,898	(114,984)
Elementary and secondary regular instruction	18,289,285	18,119,584	17,993,640	(125,944)
Vocational education instruction	43,000	43,000	152,119	109,119
Special education instruction	6,737,524	6,737,524	6,708,181	(29,343)
Instructional support services	1,862,564	1,866,192	1,934,284	68,092
Pupil support services	2,587,082	2,976,859	2,907,426	(69,433)
Sites and buildings	3,089,694	3,089,694	3,384,843	295,149
Fiscal and other fixed cost programs	125,000	125,000	160,661	35,661
Capital outlay				
Administration	2,000	2,000	-	(2,000)
District support services	30,000	70,000	89,031	19,031
Elementary and secondary regular instruction	103,000	103,000	78,497	(24,503)
Vocational education instruction	3,900	3,900	1,694	(2,206)
Special education instruction	6,000	6,000	751	(5,249)
Instructional support services	455,187	505,187	495,975	(9,212)
Pupil support services	150,000	286,065	385,341	99,276
Sites and buildings	803,335	803,335	715,762	(87,573)
Debt service				
Principal	324,423	324,423	354,815	30,392
Interest and fiscal charges	76,198	76,198	77,799	1,601
Total expenditures	37,190,159	37,639,928	37,904,320	264,392
Excess of revenues over (under) expenditures	(35,863)	(470,917)	(449,380)	21,537
Other financing sources (uses)				
Proceeds from sale of capital assets	50,000	60,000	61,933	1,933
Insurance recovery	-	-	1,665,040	1,665,040
Transfers out	-	-	(10,000)	(10,000)
Total other financing sources (uses)	50,000	60,000	1,716,973	1,656,973
Net change in fund balances	$ 14,137	$ (410,917)	1,267,593	$ 1,678,510
Fund Balances				
Beginning of year			4,571,755	
End of year			$ 5,839,348	

Independent School District No. 726
Statement of Net Position - Proprietary Fund
June 30, 2023

	Governmental Activities - Internal Service Fund
Assets	
Cash	$ 304,893
Accounts receivable	1,606
Total assets	$ 306,499
Liabilities	
Medical and dental withholding payable	$ 691,362
Net Position	
Unrestricted	(384,863)
Total liabilities and net position	$ 306,499

Independent School District No. 726
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Fund
Year Ended June 30, 2023

	Governmental Activities - Internal Service Fund
Operating Revenue	
Charges for services	$ 6,500,842
Operating Expense	
Employee benefits	7,684,023
Professional services	21,645
Supplies	1,270
Employee salaries	108,919
Total operating expenses	7,815,857
Operating loss	(1,315,015)
Net Position	
Beginning of year	930,152
End of year	$ (384,863)

Independent School District No. 726
Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2023

	Governmental Activities - Internal Service Fund
Cash Flows - Operating Activities	
Receipts from employee contributions	$ 6,507,564
Employee claims and fees paid	(7,458,270)
Cash collected from employees	
Net cash flows - operating activities	(950,706)
Net Change In Cash And Cash Equivalents	(950,706)
Cash and Cash Equivalents	
Beginning of year	1,255,599
End of year	$ 304,893
Reconciliation of Operating Income to Net Cash Flows - Operating Activities	
Operating losss	$ (1,315,015)
Change in liabilities:	
Accounts receivable	6,722
Accounts payable	357,587
Net adjustments	364,309
Net cash flows - operating activities	$ (950,706)

(THIS PAGE LEFT BLANK INTENTIONALLY)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

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

B. Basic Financial Statement Information

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

Separate fund financial statements are provided for governmental funds and the proprietary fund. 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 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 interest and principal expenditures in the Debt Service Fund, compensated absences, and claims and judgments, which are recognized when payment is due.

   The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned.

The proprietary fund distinguishes 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 are employee and District contributions. Operating expenses for proprietary funds include claims paid and administrative expenses. All revenues and expenses not meeting this 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.

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.

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

Nonmajor Funds:

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

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education, and other similar services.

Proprietary Fund:

Self-Funding Health and Dental Insurance Internal Service Fund – This fund is used to account for health and dental insurance for District employees.

D. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

Cash and investments at June 30, 2023, were comprised of deposits, shares in the Minnesota School District Liquid Asset Fund (MSDLAF) liquid class and MAX class, shares in MNTrust including Investment Shares, Term Series, and Limited Term Duration Series, and U.S. Treasury Notes. In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust shares are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF 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 prior to the maturity 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.

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

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

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

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

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

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of 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 their acquisition cost.

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 5 to 20 years for machinery and equipment.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources

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

L. Long-Term Obligations

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences

District employees earn vacation days based upon the number of completed years of service and may be accrued to various levels. The District compensates certain employees for unused vacation leave upon termination of employment and records an expenditure in the governmental fund when payment is made.

Compensated absences that are earned and unused as of June 30, 2023, are shown as a liability in the Statement of Net Position.

N. Pensions

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

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

O. Severance

The District maintains various early retirement incentive payment plans for its employee groups. Each employee group plan contains benefit formulas based on years of service and/or minimum age requirements. For substantially all employees, early retirement incentive benefits are eliminated if retirement occurs at the normal retirement age of 65 as specified in their contracts. In addition, certain bargaining unit members are eligible to be compensated for unused accumulated sick leave upon termination, subject to certain conditions.

Severance and sick leave that are earned and unused as of June 30, 2023, are shown as a liability in the Statement of Net Position.

P. Fund Equity

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

- 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 not spendable, such as, but not limited to, inventory, prepaid items, long-term receivables, nonfinancial assets held for resale, or the permanent principal of endowment funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Equity (Continued)

- Restricted Fund Balances – These are amounts that are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board (highest level of decision making authority) through resolution.

- Assigned Fund Balance – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the Director of Business Services or the Superintendent.

- 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 one month, or 8%, of the annual budget.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Budgetary Information

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

1. Prior to July 1, the 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. Budgetary control for governmental funds is established by each fund's total appropriations.
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 Funds.
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: For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that requires the District's deposits to be collateralized as required by *Minnesota Statutes* § 118.03 for an amount exceeding FDIC, SAIF, BIF, FCUA, or other federal deposit coverage. As of June 30, 2023, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

The District's deposits had a book balance as follows:

Pooled	
Checking	$ 202,819
Nonpooled	
Petty Cash	500
Cash with Fiscal Agent	90
Total deposits	$ 203,409

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

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

Investment Type	Total	Less than 1 year	1-2 years	Rating
Pooled				
MNTrust Term Series	$ 1,000,000	$ 1,000,000	$ -	AAAm
MNTrust Term Series Flex	3,137,118	3,137,118	-	AAAm
MNTrust Investment Shares	7,602,414	7,602,414	-	AAAm
MNTrust Limited Term Duration	1,082,200	1,082,200	-	AAAm
MSDLAF	87,708	87,708	-	AAAm
MSDLAF MAX	2,560	2,560	-	AAAm
Nonpooled				
MNTrust Investment Shares (2022A)	5,914,002	5,914,002	-	AAAm
MNTrust Term Series Flex (2022A)	519,687	519,687	-	AAAm
US Treasury Notes (2022A)	19,373,418	17,478,067	1,895,351	AAA
MNTrust Investment Shares (2022B)	248,247	248,247	-	AAA
MNTrust Term Series Flex (2022B)	1,040,070	1,040,070	-	AAA
Total investments	$ 40,007,424	$ 38,112,073	$ 1,895,351	

The District has a formal investment policy in place as of June 30, 2023, to address the following risks:

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 by type. The District's investments were rated in the table above by Standard & Poor's (S&P).

Concentration of Credit Risk: 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.

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.

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

- $19,373,418 of nonpooled investments using level 1 inputs

C. Deposits and Investments

Summary of cash, deposits, and investments as of June 30, 2023:

Deposits	$ 203,409
Investments	40,007,424
Total deposits and investments	$ 40,210,833

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

Statement of Net Position	
Cash and investments	$ 40,210,743
Cash with fiscal agent	90
Total	$ 40,210,833

NOTE 3 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 639,386	$ -	$ -	$ 639,386
Construction in progress	2,474,914	19,977,390	-	22,452,304
Total capital assets not depreciated	3,114,300	19,977,390	-	23,091,690
Capital assets being depreciated				
Land improvements	8,417,992	478,852	-	8,896,844
Buildings	74,485,144	90,727	8,100	74,567,771
Machinery and equipment	10,591,033	642,802	24,954	11,208,881
Total capital assets being depreciated	93,494,169	1,212,381	33,054	94,673,496
Less accumulated depreciation for				
Land improvements	4,885,513	291,649	-	5,177,162
Buildings	34,203,946	1,772,723	5,670	35,970,999
Machinery and equipment	7,540,148	646,172	24,885	8,161,435
Total accumulated depreciation	46,629,607	2,710,544	30,555	49,309,596
Total capital assets being depreciated, net	46,864,562	(1,498,163)	2,499	45,363,900
Governmental activities, capital assets, net	$ 49,978,862	$ 18,479,227	$ 2,499	$ 68,455,590

NOTE 3 – CAPITAL ASSETS (CONTINUED)

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

Administration	$ 3,586
District support services	2,579
Elementary and secondary regular instruction	120,545
Vocational education instruction	151
Special education instruction	578
Instructional support services	71,634
Pupil support services	315,627
Sites and buildings	197,297
Food service	21,753
Community service	1,612
Unallocated	1,975,182
Total depreciation expense	$ 2,710,544

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds						
2013A G.O. School Building Bonds	04/09/13	3.00%	$ 10,000,000	02/01/30	$ 10,000,000	$ 740,000
2016A G.O. Crossover Refunding Bonds	10/24/16	2.0%-2.5%	2,235,000	02/01/32	1,610,000	165,000
2020A G.O. Refunding Bonds	11/23/20	5.00%	7,085,000	02/01/24	1,985,000	1,985,000
2022A G.O. School Building Bonds	02/15/22	1.0%-2.93%	37,498,444	02/01/43	37,409,303	92,887
2022B G.O. School Building Bonds	02/15/22	3.0%-4.0%	6,510,000	02/01/46	6,320,000	190,000
Total G.O. bonds					57,324,303	3,172,887
Certificates of Participation 2018A	06/15/18	3.0%-4.0%	2,325,000	02/01/33	1,775,000	155,000
Note from direct borrowing	12/18/19	2.49%	190,284	02/01/25	79,181	39,101
Unamortized premiums on bonds					731,665	-
Financed purchase agreements from direct borrowing					263,201	119,919
Compensated absences					197,180	49,295
Severance					352,299	35,230
Total long-term liabilities					$ 60,722,829	$ 3,571,432

NOTE 4 – LONG-TERM DEBT (CONTINUED)

A. Components of Long-Term Liabilities (Continued)
The long-term bonds and certificate of participation liabilities listed on above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. The note from direct borrowing is payable to the Sherburne and Northern Wright Special Education Cooperative for the District's share of the Cooperative's lease purchase agreement debt. The District entered into various financed purchase agreements for the acquisition of school buses.

B. Minimum Debt Payments for Bonds
Minimum annual principal and interest payments required to retire bond liabilities:

Year Ending June 30,	G.O. Bonds Principal	G.O. Bonds Interest
2024	$ 3,172,887	$ 640,000
2025	3,253,608	556,930
2026	3,288,560	523,528
2027	3,315,375	491,362
2028	3,348,145	461,442
2029-2033	15,708,277	3,348,073
2034-2038	13,226,340	5,788,610
2039-2043	10,931,111	6,903,039
2044-2046	1,080,000	65,400
Total	$ 57,324,303	$ 18,778,384

Year Ending June 30,	Certificates of Participation Principal	Certificates of Participation Interest
2024	$ 155,000	$ 57,550
2025	160,000	52,900
2026	165,000	48,100
2027	165,000	43,150
2028	175,000	38,200
2029-2033	955,000	101,000
Total	$ 1,775,000	$ 340,900

NOTE 4 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds (Continued)

Year Ending June 30,	Note from Direct Borrowing Principal	Note from Direct Borrowing Interest
2024	$ 39,101	$ 1,730
2025	40,080	750
Total	$ 79,181	$ 2,480

Year Ending June 30,	Finanaced Purchase Agreements from Direct Borrowing Principal	Finanaced Purchase Agreements from Direct Borrowing Interest
2024	$ 119,919	$ 6,245
2025	96,557	3,196
2026	46,725	1,042
Total	$ 263,201	$ 10,483

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	$ 60,363,444	$ -	$ 3,039,141	$ 57,324,303
Certificates of Participation	1,920,000	-	145,000	1,775,000
Note from direct borrowing	117,327	-	38,146	79,181
Bond premiums	976,538	-	244,873	731,665
Financed purchase agreements	404,479	-	141,278	263,201
Compensated absences	206,820	202,386	212,026	197,180
Severance	432,934	-	80,635	352,299
Total long-term liabilities	$ 64,421,542	$ 202,386	$ 3,901,099	$ 60,722,829

The General Fund typically liquidates the liability related to the note from direct borrowing, financed purchase agreements, compensated absences, and severance.

NOTE 5 – 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.

NOTE 5 – 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	Building Construction Capital Project	Nonmajor Funds	Total
Nonspendable for					
Inventory	$ -	$ -	$ -	$ 31,165	$ 31,165
Prepaid items	820,266	-	-	14,532	834,798
Total nonspendable	820,266	-	-	45,697	865,963
Restricted/reserved for					
Operating Capital	1,453,976	-	-	-	1,453,976
Scholarships	5,561	-	-	-	5,561
Student Activities	124,362	-	-	-	124,362
Long-term Facilities Maintenance	162,548	-	-	-	162,548
Early Childhood and Family Education	-	-	-	251,988	251,988
Community Service	-	-	-	9,145	9,145
Debt Service	-	719,478	-	-	719,478
Building Construction	-	-	21,707,154	-	21,707,154
Food Service	-	-	-	1,072,332	1,072,332
Total restricted/reserved	1,746,447	719,478	21,707,154	1,333,465	25,506,544
Assigned for					
Building Level Activity	196,720	-	-	-	196,720
Unassigned for					
General Purposes	3,075,915	-	-	-	3,075,915
School Readiness	-	-	-	(30,726)	(30,726)
Community Education	-	-	-	(80,978)	(80,978)
Total unassigned	3,075,915	-	-	(111,704)	2,964,211
Total fund balance	$ 5,839,348	$ 719,478	$ 21,707,154	$ 1,267,458	$ 29,533,438

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

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

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

Restricted/Reserved for Scholarships – This balance represents available resources for the scholarship funds.

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

NOTE 5 – 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 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). This restriction is negative at June 30, 2023, and has been reclassified as unassigned.

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

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

Restricted for Building Construction – This balance represents the unspent bond proceeds available for future construction costs.

Restricted for Food Service – This balance represents the resources available for food service.

Assigned for Building Level Activity – This balance represents unspent amounts carried over for the subsequent year, which is tracked at each respective school.

Unassigned for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education, and extended day programs. This balance was negative as of June 30, 2023.

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.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2023, was ($2,721,263). The components of pension expense are noted in the following plan summaries.

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

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

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 Defined Contribution Plan (DCP) administered by Minnesota State.

B. Benefits Provided

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

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

Tier 1 Benefits

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

With these provisions:

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

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, 2021, June 30, 2022, and June 30, 2023, were:

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

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

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

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

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

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

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

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

Teachers' Retirement Association (Continued)

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

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

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

Changes in actuarial assumptions since the 2021 valuation:
- None

E. Discount Rate
The discount rate used to measure the total pension liability was 7.0%. There was no change in the discount rate since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability

On June 30, 2023, the District reported a liability of $20,435,066 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.2552% at the end of the measurement period and 0.2570% 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	$ 20,435,066
State's proportionate share of the net pension liability associated with the District	1,515,685

For the year ended June 30, 2023, the District recognized pension expense of ($3,710,306). Included in this amount, the District recognized $208,411 as pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 307,174	$ 182,121
Net collective difference between projected and actual earnings on plan investment	544,943	-
Changes of assumptions	3,296,988	4,329,558
Changes in proportion	409,961	435,050
Contributions to TRA subsequent to the measurement date	1,405,130	-
Total	$ 5,964,196	$ 4,946,729

The $1,405,130 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

Year Ended June 30,	Pension Expense Amount
2024	$ (3,577,000)
2025	526,143
2026	91,141
2027	2,570,774
2028	1,279
Total	$ (387,663)

G. Pension Liability Sensitivity

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

District proportionate share of NPL		
1% Decrease Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase Discount Rate (8.0%)
$ 32,214,769	$ 20,435,066	$ 10,779,383

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

H. Pension Plan Fiduciary Net Position

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

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

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan

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

B. Benefits Provided

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

General Employees Plan Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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

Public Employees' Retirement Association (Continued)

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2023 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2023, were $457,003. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2023, the District reported a liability of $6,668,668 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 $94,024.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0842% at the end of the measurement period and 0.0721% for the beginning of the period.

School's proportionate share of net pension liability	$ 6,668,668
State of Minnesota's proportionate share of the net pension liability associated with the School	195,576
Total	$ 6,864,244

For the year ended June 30, 2023, the District recognized pension expense of $989,043 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $29,224 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.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

At June 30, 2023, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 55,702	$ 61,196
Changes in actuarial assumptions	1,298,906	24,064
Net collective difference between projected and actual investments earnings	453,566	-
Change in proportion	387,543	91,762
Contributions paid to PERA subsequent to the measurement date	457,003	-
Total	$ 2,652,720	$ 177,022

The $457,003 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2024	$ 670,051
2025	706,845
2026	38,719
2027	603,080
Total	$ 2,018,695

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

Public Employees' Retirement Association (Continued)

E. Long-Term Expected Return on Investment

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

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

F. Actuarial Methods and Assumptions

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

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

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

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

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

Public Employees′ Retirement Association (Continued)

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

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

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

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

G. Discount Rate
The discount rate used to measure the total pension liability in 2022 was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease in Discount Rate (5.5%)	Current Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
District's proportionate share of the PERA net pension liability	$ 10,533,510	$ 6,668,668	$ 3,498,901

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

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan ("the Plan") that provides health and dental insurance to eligible employees and their spouses through the District's self-insured health insurance plan. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report. No assets have been acclimated in a trust.

B. Benefits Paid

Teachers hired prior to July 1, 2015, who have reached 55 years of age and 18 years of service are eligible for District contributions towards single medial insurance until Medicare eligible. Principals hired prior to August 1, 2011, who have 15 years of service are eligible for full family premiums until age 65. Other employees are also eligible for District contributions towards medical insurance as dictated in their contracts until age 65.

C. Members

As of the July 1, 2022, valuation date, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	35
Active employees	396
Total	431

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2023, the District contributed $459,370 to the plan.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2022, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Discount rate	3.80%
Salary increases	Service graded table
Inflation	2.50%
Healthcare cost trend increases	6.5% as of July 1, 2020, decreasing to 5.0% over 6 years, then to 4.0% over the following 48 years.
Mortality Assumption	Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.

Changes in actuarial assumptions and benefits:

- The discount rate was changed from 2.1% to 3.8%.

F. Total OPEB Liability

The District's total OPEB liability was measured as of July 1, 2022, and was determined by an actuarial valuation as of July 1, 2022.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Total OPEB Liability (Continued)

Changes in the total OPEB liability are as follows:

	Total OPEB Liability
Balances at July 1, 2021	$ 6,702,349
Changes for the year	
Service cost	296,389
Interest	142,655
Differences between expected and actual economic experience	(678,114)
Assumption changes	(423,534)
Benefit payments	(413,454)
Net changes	(1,076,058)
Balances at June 30, 2022	$ 5,626,291

G. OPEB Liability Sensitivity

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

	1% Decrease Discount Rate (2.8%)	Current Discount Rate (3.8%)	1% Increase Discount Rate (4.8%)
Total OPEB liability	$ 5,940,816	$ 5,626,291	$ 5,317,681

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. OPEB Liability Sensitivity (Continued)

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

	1% Decrease (5.5% Decreasing to 4.0%, then 3.0%)	Current (6.5% Decreasing to 5.0%, then 4.0%)	1% Increase (7.5% Decreasing to 6.0%, then 5.0%)
Total OPEB liability	$ 5,175,042	$ 5,626,291	$ 6,145,446

The trend rate assumption has not changed since the initial valuation date of July 1, 2022.

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

For the year ended June 30, 2023, the District recognized OPEB expense of $230,980. As of June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability gain or loss	$ 67,669	$ 978,509
Changes of assumptions	118,312	352,945
Contributions made subsequent to the measurement date	459,370	-
Total	$ 645,351	$ 1,331,454

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

The $459,370 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 pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources will be recognized as OPEB expense as follows:

Year Ending June 30,	Total
2024	$ (208,066)
2025	(278,603)
2026	(306,020)
2027	(169,176)
2028	(183,608)
Total	$ (1,145,473)

NOTE 8 – RISK MANAGEMENT

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

In 2013, the District began to self-insure for dental insurance. Under this program, the fund provides up to a maximum of $1,250 for each dental care claim. The General, Food Service, and Community Service Funds of the District participate in the program. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the basic financial statements indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss can be reasonably estimated.

In 2014, the District began to self-insure for health insurance. Under this program, the fund provides up to a maximum of $6,675,266 for total claims and fixed costs for 2023. The General, Food Service, and Community Service Funds of the District participate in the program. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the basic financial statements indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss can be reasonably estimated.

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

NOTE 8 – RISK MANAGEMENT

Year End	Beginning of Year	Expense and Estimates	Claims Payments	End of Year
2021	$ 59,293	$ 327,183	$ (336,233)	$ 50,243
2022	50,243	325,413	(336,703)	38,953
2023	38,953	369,310	(377,489)	30,774

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

Year End	Beginning of Year	Expense and Estimates	Claims Payments	End of Year
2021	$ 902,396	$ 6,132,759	$ (6,355,241)	$ 679,914
2022	679,914	5,450,396	(5,836,028)	294,282
2023	294,282	7,314,713	(6,948,947)	660,048

NOTE 9 – INTERFUND ACTIVITY

The District transferred $10,000 from the General fund to the Community Service nonmajor special revenue fund to offset revenue shortfalls in the early childhood screening program.

NOTE 10 – CONTINGENCIES AND COMMITMENTS

A. Program Compliance

Federal and state program activities are subject to financial and compliance regulation. To the extent any expenditures are disallowed, or other compliance features are not met, a liability to the respective grantor agencies could result.

B. Constructions Commitments

As of June 30, 2023, the District had construction commitments totaling $13,367,779 related to various projects in process.

(THIS PAGE LEFT BLANK INTENTIONALLY)

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 726
Schedule of Changes in Total OPEB Liability
and Related Ratios
June 30, 2023

	June 30, 2018	June 30, 2019	June 30, 2020	June 30, 2021
Total OPEB Liability				
Service cost	$ 326,423	$ 355,562	$ 391,174	$ 366,377
Interest	193,678	203,461	236,128	223,986
Difference between expected and actual experience	-	406,024	-	(826,829)
Changes of assumptions	-	17,196	164,512	5,765
Changes of benefit terms	-	9,754	-	-
Benefit payments	(257,839)	(258,377)	(271,712)	(304,622)
Net change in total OPEB liability	262,262	733,620	520,102	(535,323)
Beginning of year	5,494,158	5,756,420	6,490,040	7,010,142
End of year	$ 5,756,420	$ 6,490,040	$ 7,010,142	$ 6,474,819
Covered employee payroll	$ 16,807,857	$ 18,597,413	$ 19,155,335	$ 19,232,979
Total OPEB Liability as a percentage of covered employee payroll	34.25%	34.90%	36.60%	33.67%

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

	June 30, 2022	June 30, 2023
	$ 394,491	$ 296,389
	159,931	142,655
	-	(678,114)
	86,592	(423,534)
	-	
	(413,484)	(413,454)
	227,530	(1,076,058)
	6,474,819	6,702,349
	$ 6,702,349	$ 5,626,291
	$ 19,809,968	$ 20,447,465
	33.83%	27.52%

Independent School District No. 726
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 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	0.0764%	$ 3,588,889	$ -	$ 3,588,889	$ 4,012,966	89.4%	78.75%
2015	0.0723%	3,746,961	-	3,746,961	4,180,347	89.6%	78.19%
2016	0.0695%	5,643,055	73,692	5,716,747	4,306,773	131.0%	68.91%
2017	0.0714%	4,558,129	57,343	4,615,472	4,602,013	99.0%	75.90%
2018	0.0742%	4,116,312	134,963	4,251,275	4,985,000	82.6%	79.53%
2019	0.0757%	4,185,283	129,994	4,315,277	5,354,427	78.2%	80.23%
2020	0.0747%	4,478,606	138,098	4,616,704	5,327,947	84.1%	79.06%
2021	0.0721%	3,078,993	94,024	3,173,017	5,193,520	59.3%	87.00%
2022	0.0842%	6,668,668	195,576	6,864,244	6,307,653	105.7%	76.67%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.2509%	$ 11,561,291	$ 813,471	$ 12,374,762	$ 11,452,249	101.0%	81.50%
2015	0.2400%	14,846,374	1,820,790	16,667,164	12,181,573	121.9%	76.77%
2016	0.2427%	57,889,741	5,811,474	63,701,215	12,623,680	458.6%	44.88%
2017	0.2494%	49,784,764	4,812,380	54,597,144	13,423,853	370.9%	51.57%
2018	0.2555%	16,047,791	1,507,712	17,555,503	14,116,960	113.7%	78.07%
2019	0.2628%	16,750,927	1,482,629	18,233,556	14,918,599	112.3%	78.21%
2020	0.2645%	19,541,614	1,637,839	21,179,453	15,371,679	127.1%	75.48%
2021	0.2570%	11,247,088	948,651	12,195,739	15,381,882	73.1%	86.63%
2022	0.2552%	20,435,066	1,515,685	21,950,751	15,777,206	129.5%	76.17%

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

Independent School District No. 726
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years

For Fiscal Year Ended 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
2014	$ 290,940	$ 290,940	$ -	$ 4,012,966	7.25%
2015	313,526	313,526	-	4,180,347	7.50%
2016	323,008	323,008	-	4,306,773	7.50%
2017	345,151	345,151	-	4,602,013	7.50%
2018	373,875	373,875	-	4,985,000	7.50%
2019	401,582	401,582	-	5,354,427	7.50%
2020	399,596	399,596	-	5,327,947	7.50%
2021	389,514	389,514	-	5,193,520	7.50%
2022	473,074	473,074	-	6,307,653	7.50%
2023	457,003	457,003	-	6,093,373	7.50%
		-			

Schedule of District Contributions
TRA Retirement Fund
Last Ten Years

For Fiscal Year Ended 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
2014	$ 801,657	$ 801,657	$ -	$ 11,452,243	7.00%
2015	913,618	913,618	-	12,181,573	7.50%
2016	946,776	946,776	-	12,623,680	7.50%
2017	1,006,789	1,006,789	-	13,423,853	7.50%
2018	1,058,772	1,058,772	-	14,116,960	7.50%
2019	1,150,224	1,150,224	-	14,918,599	7.71%
2020	1,217,437	1,217,437	-	15,371,679	7.92%
2021	1,250,547	1,250,547	-	15,381,882	8.13%
2022	1,315,819	1,315,819	-	15,777,206	8.34%
2023	1,405,130	1,405,130	-	16,434,269	8.55%

See notes to required supplementary information.

TRA Retirement Fund

2022 Changes
Changes in Actuarial Assumptions
- None

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

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

2019 Changes
Changes in Actuarial Assumptions
- None

2018 Changes
Changes in Actuarial Assumptions
- The discount rate was increased to 7.5% from 5.12%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0.0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

TRA Retirement Fund (Continued)

2017 Changes
Changes in Actuarial Assumptions

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

2016 Changes
Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes
Changes of Benefit Terms

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

TRA Retirement Fund (Continued)

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

Independent School District No. 726
Notes to the Required Supplementary Information

General Employees Fund

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

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

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

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

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

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

Independent School District No. 726
Notes to the Required Supplementary Information

General Employees Fund (Continued)

2019 Changes
Changes in Actuarial Assumptions
- The mortality projection scale was changed from MP-2017 to MP-2018.

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

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

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

2017 Changes
Changes in Actuarial Assumptions
- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

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

General Employees Fund (Continued)

2016 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no change since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

Post Employment Health Care Plan

2023 Changes
Changes in Actuarial Assumptions
- The discount rate was changed from 2.1% to 3.8%.
- The healthcare trend rates, mortality tables, salary increased rates for non-teachers, and withdrawal rates were updated.

2022 Changes
Changes in Actuarial Assumptions
- The discount rate was changed from 2.4% to 2.1%.

2021 Changes
Changes in Actuarial Assumptions
- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.0% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 3.1% to 2.4%.

2020 Changes
Changes in Actuarial Assumptions
- The discount rate was changed from 3.5% to 3.1%.

2019 Changes
Changes in Actuarial Assumptions
- The healthcare trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with the MP-2017 Generational Scale.
- The discount rate was changed from 3.4% to 3.5%.

SUPPLEMENTARY INFORMATION

Independent School District No. 726
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2023

	Special Revenue Funds		
	Food Service	Community Service	Total Nonmajor Funds
Assets			
Cash and investments	$ 1,327,177	$ 318,612	$ 1,645,789
Current property taxes receivable	-	105,956	105,956
Delinquent property taxes receivable	-	763	763
Accounts receivable	9,085	31,846	40,931
Due from Department of Education	-	24,143	24,143
Due from Federal Government through Department of Education	-	6,875	6,875
Due from other governmental units	-	5,847	5,847
Inventory	31,165	-	31,165
Prepaid Items	3,858	10,674	14,532
Total assets	$ 1,371,285	$ 504,716	$ 1,876,001
Liabilities			
Accounts payable	$ 224,626	$ 15,423	$ 240,049
Salaries and benefits payable	938	80,035	80,973
Unearned revenue	38,366	28,610	66,976
Total liabilities	263,930	124,068	387,998
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	219,782	219,782
Unavailable revenue - delinquent property taxes	-	763	763
Total deferred inflows of resources	-	220,545	220,545
Fund Balances			
Nonspendable	35,023	10,674	45,697
Restricted	1,072,332	261,133	1,333,465
Unassigned	-	(111,704)	(111,704)
Total fund balances	1,107,355	160,103	1,267,458
Total liabilities, deferred inflows of resources, and fund balances	$ 1,371,285	$ 504,716	$ 1,876,001

Independent School District No. 726
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2023

	Special Revenue Funds		
	Food Service	Community Service	Total Nonmajor Funds
Revenues			
Local property taxes	$ -	$ 218,917	$ 218,917
Other local and county revenues	43,788	1,207,657	1,251,445
Revenue from state sources	161,491	223,544	385,035
Revenue from federal sources	964,531	11,801	976,332
Sales and other conversion of assets	876,327	-	876,327
Total revenues	2,046,137	1,661,919	3,708,056
Expenditures			
Current			
Food service	2,043,428	-	2,043,428
Community education and services	-	1,757,800	1,757,800
Capital outlay			
Food service	174,396	-	174,396
Total expenditures	2,217,824	1,757,800	3,975,624
Excess of revenues under expenditures	(171,687)	(95,881)	(267,568)
Other financing sources			
Transfers in	-	10,000	10,000
Net change in fund balances	(171,687)	(85,881)	(257,568)
Fund Balances			
Beginning of year	1,279,042	245,984	1,525,026
End of year	$ 1,107,355	$ 160,103	$ 1,267,458

Independent School District No. 726
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2023

		Audited	UFARS	Audit-UFARS
01 GENERAL FUND				
Total revenue		$ 37,454,940	$ 37,454,937	$ 3
Total expenditures		37,904,320	37,904,314	6
Nonspendable:				
4.60	Nonspendable fund balance	820,266	820,266	-
Restricted/reserved:				
4.01	Student Activities	124,362	124,362	-
4.02	Scholarships	5,561	5,561	-
4.03	Staff Development	-	-	-
4.07	Capital Projects Levy	-	-	-
4.08	Cooperative Programs	-	-	-
4.09	Alternative Facility Program	-	-	-
4.13	Building Projects Funded by COP	-	-	-
4.14	Operating Debt	-	-	-
4.16	Levy Reduction	-	-	-
4.19	Encumbrances	-	-	-
4.24	Operating Capital	1,453,976	1,453,976	-
4.26	$25 Taconite	-	-	-
4.27	Disabled Accessibility	-	-	-
4.28	Learning and Development	-	-	-
4.34	Area Learning Center	-	-	-
4.35	Contracted Alternative Programs	-	-	-
4.36	State Approved Alternative Program	-	-	-
4.38	Gifted and Talented	-	-	-
4.40	Teacher Development And Evaluation	-	-	-
4.41	Basic Skills Programs	-	-	-
4.48	Achievement and Integration Revenue	-	-	-
4.49	Safe School Crime	-	-	-
4.51	QZAB Payments	-	-	-
4.52	OPEB Liabilities not Held in Trust	-	-	-
4.53	Unfunded Severance and Retirement Levy	-	-	-
4.59	Basic Skills Extended Time	-	-	-
4.67	Long-term Facilities Maintenance	162,548	162,548	-
Restricted:				
4.72	Medical Assistance	-	-	-
4.64	Restricted fund balance	-	-	-
4.75	Title VII - Impact Aid	-	-	-
4.76	Payments in Lieu of Taxes	-	-	-
Committed:				
4.18	Committed for separation	-	-	-
4.61	Committed	-	-	-
Assigned:				
4.62	Assigned fund balance	196,720	196,720	-
Unassigned:				
4.22	Unassigned fund balance (net position)	3,075,915	3,075,917	(2)
02 FOOD SERVICES FUND				
Total revenue		$ 2,046,137	$ 2,046,137	$ -
Total expenditures		2,217,824	2,217,822	2
Nonspendable:				
4.60	Nonspendable fund balance	35,023	35,022	1
Restricted/reserved:				
4.52	OPEB Liabilities not held in trust	-	-	-
Restricted:				
4.64	Restricted fund balance	1,072,332	1,072,332	-
Unassigned:				
4.63	Unassigned fund balance	-	-	-
04 COMMUNITY SERVICE FUND				
Total revenue		$ 1,661,919	$ 1,661,917	$ 2
Total expenditures		1,757,800	1,757,800	-
Nonspendable:				
4.60	Nonspendable fund balance	10,674	10,674	-
Restricted/reserved:				
4.26	$25 Taconite	-	-	-
4.31	Community Education	(80,978)	(80,978)	-
4.32	ECFE	251,988	251,988	-
4.40	Teacher Development and Evaluation	-	-	-
4.44	School Readiness	(30,726)	(30,726)	-
4.47	Adult Basic Education	-	-	-
4.52	OPEB Liabilities not Held In Trust	-	-	-
Restricted:				
4.64	Restricted fund balance	9,145	9,144	1
Unassigned:				
4.63	Unassigned fund balance	-	-	-

		Audited	UFARS	Audit-UFARS
06 BUILDING CONSTRUCTION FUND				
Total revenue		$ 766,126	$ 766,125	$ 1
Total expenditures		19,886,873	19,886,872	1
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted/reserved:				
4.07	Capital Projects Levy	-	-	-
4.09	Alternative Facility Program	-	-	-
4.13	Building Projects Funded By COP	-	-	-
Restricted:				
4.64	Restricted fund balance	21,707,154	21,707,153	1
Unassigned:				
4.63	Unassigned fund balance	-	-	-
07 DEBT SERVICE FUND				
Total revenue		$ 3,921,899	$ 3,921,899	$ -
Total expenditures		3,815,607	3,815,606	1
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted/reserved:				
4.25	Bond refundings	-	-	-
4.33	Maximum Effort Loan Aid	-	-	-
4.51	QZAB Payments	-	-	-
4.67	LTFM	-	-	-
Restricted:				
4.64	Restricted fund balance	719,478	719,478	-
Unassigned:				
4.63	Unassigned fund balance	-	-	-
08 TRUST FUND				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
4.01	Student Activities	-	-	-
4.02	Scholarships	-	-	-
4.22	Unassigned fund balance (net position)	-	-	-
18 CUSTODIAL				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Restricted/Reserved:				
4.01	Student Activities	-	-	-
4.02	Scholarships	-	-	-
4.48	Achievement and Integration	-	-	-
4.64	Restricted	-	-	-
20 INTERNAL SERVICE FUND				
Total revenue		$ 6,500,842	$ 6,500,842	$ -
Total expenditures		7,815,857	7,815,857	-
Unassigned:				
4.22	Net position	(384,863)	(384,862)	(1)
25 OPEB REVOCABLE TRUST				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
4.22	Net position	-	-	-
45 OPEB IRREVOCABLE TRUST				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
4.22	Net position	-	-	-
47 OPEB DEBT SERVICE				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted:				
4.25	Bond refundings	-	-	-
4.64	Restricted fund balance	-	-	-
Unassigned:				
4.63	Unassigned fund balance	-	-	-

Independent School District No. 726
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Funding Source	Federal Assistance Listing Number	Pass Through Entity	Grant Name	Expenditures
Department of Agriculture	10.553	Minnesota Department of Education	School Breakfast Program	$ 202,582
Department of Agriculture	10.555C	Minnesota Department of Education	COVID-19 - Supply Chain Assistance	83,549
Department of Agriculture	10.555	Minnesota Department of Education	Commodities Programs	7,880
Department of Agriculture	10.555	Minnesota Department of Education	Commodities Programs (Noncash Assistance)	126,855
Department of Agriculture	10.555	Minnesota Department of Education	Child Nutrition Type A Lunch	538,767
Department of Agriculture	10.556	Minnesota Department of Education	Special Milk	4,269
			Total Child Nutrition Cluster	963,902
Department of Agriculture	10.649C	Minnesota Department of Education	State Pandemic Electronic Benefit Tranfer	628
Department of Treasury	21.027C	Minnesota Department of Education	COVID-19 - Coronavirus State and Local Fiscal Recovery Fund	156,489
Department of Education	84.010	Minnesota Department of Education	Title I Grants to Local Education Agencies	71,995
Department of Education	84.027	Monticello Special Education Co-op	Special Education Grants to States	36,354
Department of Education	84.027X	Monticello Special Education Co-op	COVID-19 - Individuals with Disabilitie Education Act (IDEA)/American Rescue Plan Act of 2021 (ARP)	204,000
			Total Special Education Cluster	240,354
Department of Education	84.048A	Wright Technical Center	Career and Technical Education Basic Grants to States	6,844
Department of Education	84.367	Minnesota Department of Education	Supporting Effective Instruction State Grants	34,096
Department of Education	84.424	Minnesota Department of Education	Student Support and Academic Enrichment	10,000
Department of Education	84.425D	Minnesota Department of Education	COVID-19 - Elementary and Secondary School Emergency Relief (ESSER) Fund	51,218
Department of Education	84.425U	Minnesota Department of Education	COVID 19 - ARP - ESSER	170,955
			Total Education Stabilization Fund	222,173
Department of Health and Human Services	93.323	Minnesota Department of Education	COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases	374,207
Total Federal Expenditures				$ 2,080,688

See notes to schedule of expenditures of federal awards.

Independent School District No. 726
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 – PASS-THROUGH GRANT NUMBERS

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

NOTE 4 – INVENTORY

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

NOTE 5 – INDIRECT COST RATE

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

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

Independent Auditor's Report

To the School Board
Independent School District No. 726
Becker, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 726, Becker, Minnesota, as of and for the year ending June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 20, 2023.

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses, or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance as Audit Finding 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters
As part of obtaining reasonable assurance about whether the District's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the basic financial 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
The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of the basic 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 result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BerganKDV, Ltd.

St. Cloud, Minnesota
November 20, 2023

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

Independent Auditor's Report

To the School Board
Independent School District No. 726
Becker, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the compliance of Independent School District No. 726, Becker, Minnesota with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2023. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

Report on Internal Control over Compliance (Continued)

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

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

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

BerganKDV, Ltd.

St. Cloud, Minnesota
November 20, 2023

Independent School District No. 726
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

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

Identification of Major Programs

Assistance Listing No:	93.323
Name of Federal Program or Cluster:	MN COVID-19 Testing Program
Assistance Listing No:	84.425C 84.425D, 84.425U, 84.425W
Name of Federal Program or Cluster:	Education Stabilization Fund
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	No

Independent School District No. 726
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – BASIC FINANCIAL STATEMENT FINDINGS

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:

Significant Deficiency: Audit Finding 2023-001

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

Condition:
The District does not have adequate segregation of accounting duties.

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

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 basic financial statements.

Cause:
There are a limited number of office employees.

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

SECTION II – BASIC FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2023-001 (Continued)

Responsible Official's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   The District reviews and makes improvements to its internal controls on an ongoing basis and attempts to maximize the segregation of duties in all areas within the limits of the staff available.

3. Official Responsible for Ensuring CAP
   Kevin Januszewski, Director of Business Services, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The planned completion date for the CAP is ongoing.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None

Minnesota Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 726
Becker, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 726, Becker, Minnesota, as of and for the year ended June 30, 2023, and the related notes to basic financial statements which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 20, 2023.

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

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

BerganKDV, Ltd.

St. Cloud, Minnesota
November 20, 2023