Independent School District No. 709

Duluth, Minnesota

Financial Statements and Supplementary Information

Year Ended June 30, 2023

WIPFLI

Independent School District No. 709

Year Ended June 30, 2023

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Independent School District No. 709

Year Ended June 30, 2023

School Officials

Elective	Office	Term Expires
Jill Lofald	Chair	January 5, 2026
Rosalie Loeffler-Kemp	Vice Chair	January 5, 2026
Anna Oswald	Clerk	January 8, 2024
Kelly Durick Eder	Treasurer	January 5, 2026
David Kirby	Director	January 8, 2024
Amber Sadowski	Director	January 5, 2026
Paul Sandholm	Director	January 8, 2024

Appointive	
John Magas	Superintendent
Simone Zunich	Deputy Clerk

WIPFLI

Independent Auditor's Report

To the School Board
Independent School District No. 709
Duluth, Minnesota

Report on 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. 709, Duluth, Minnesota (District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States.

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 of America. 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District adopted Statement No. 96 of the Government Accounting Standards Board *Subscription Based Information Technology Arrangements* during the year ended June 30, 2023. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted 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 generally accepted auditing standards 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, that 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis, pages 5 – 12 information about the District's other postemployment health care plan, page 60, and information about the District's net pension liability, pages 61 and 62, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor governmental funds financial statements and fiscal compliance table, pages 62 through 65, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements. The combining nonmajor governmental funds financial statements, fiscal compliance table, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining nonmajor governmental funds financial statements, fiscal compliance table and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the 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 December 19, 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 the District's 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 District's internal control over financial reporting and compliance.

Wipfli LLP

December 19, 2023
Duluth, Minnesota

Management's Discussion and Analysis

As management of Independent School District No. 709 (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2023.

Financial Highlights

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

- Net position increased $28,442,425 or 1367.41% of the prior year's net position (deficit).
- Overall actual revenues in the Statement of Activities were $178,492,966 and expenses were $150,050,541; leaving revenues exceeding expenditures by $28,442,425.
- General Fund unassigned fund balance decreased $5,596,050 compared to Fiscal Year 2022, which accounts for 4% of General Fund Revenues.
- Assigned Fund Balances, which include Severance, Technology, Curriculum, Transportation, Facilities, and Textbooks increased by $7,653,600 in FY2023. These funds will be spent in FY24 and future fiscal years for planned investments.
- The District's Capital Project Fund fund balance decreased $18,235,318 due to significant spending for capital projects ongoing and completed during FY2023.

Overview of the Financial Statements

The financial section of the financial statements consists of four parts - Independent Auditor's Report, required supplementary information which includes the Management's Discussion and Analysis (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.

Government-wide Statements

The government-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 deferred outflows of resources, and liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed.

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services.

Fund Financial Statements

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

Governmental funds - Most of the District's basic services are included in governmental funds. Governmental fund financial statements focus on near-term inflows of cash and other financial assets that can readily be converted to cash, as well as the balances 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 government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. A reconciliation is provided to facilitate a comparison between governmental fund financial statements and government-wide financial statements.

Proprietary funds - The District maintains two proprietary funds, both internal service funds, which accumulate and allocate costs internally among the District's various functions. The District's internal service funds are used to account for the District's postemployment benefits and health insurance benefits. Because these services predominately benefit the governmental function, they have been included in the governmental activities in the government-wide financial statements.

Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the employee insurance and employee flex benefit plan. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operation.

Financial Analysis of the District as a Whole

Net position may serve over time as a useful indicator of a district's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources as of June 30, 2023.

Statement of Net Position
June 30,

	2023	2022
Capital assets	$ 293,129,161	$ 283,278,957
Current and other assets	107,983,988	121,747,670
Total assets	401,113,149	405,026,627
Deferred Outflows of Resources	28,982,797	27,202,949
Long-term liabilities	316,255,681	292,589,170
Other liabilities	24,479,413	20,731,669
Total liabilities	340,735,094	313,320,839
Deferred Inflows of Resources	62,998,453	120,988,763
Net position		
Net investment in capital assets	107,852,497	74,464,909
Restricted	9,188,513	9,765,067
Unrestricted (deficit)	(90,678,611)	(86,310,002)
Total net position (deficit)	$ 26,362,399	$ (2,080,026)

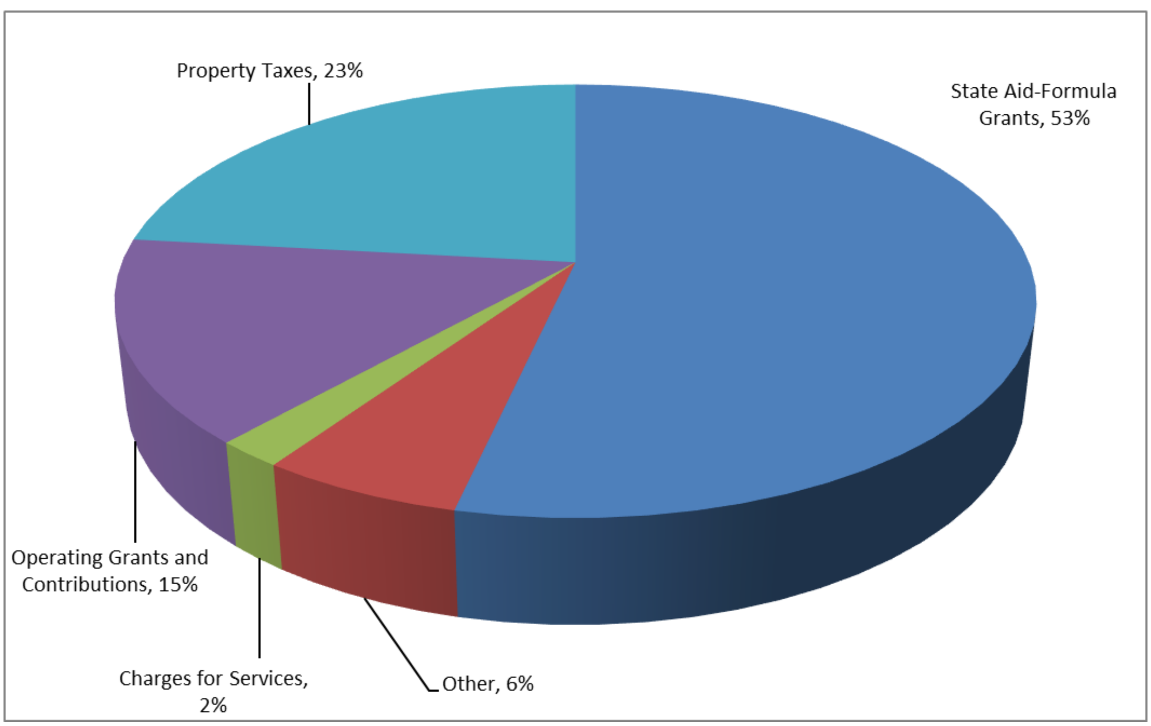
Change in Net Position
For the Years Ended June 30,

	2023	2022
Revenues		
Program revenues		
Charges for service	$ 30,926,291	$ 3,571,870
Operating grants and contributions		27,381,128
Capital grants and contributions		99,138
General revenues		
Property taxes	41,419,015	43,173,126
State aids	95,380,801	87,822,406
Other	10,766,859	3,749,121
Total revenues	178,492,966	165,796,789

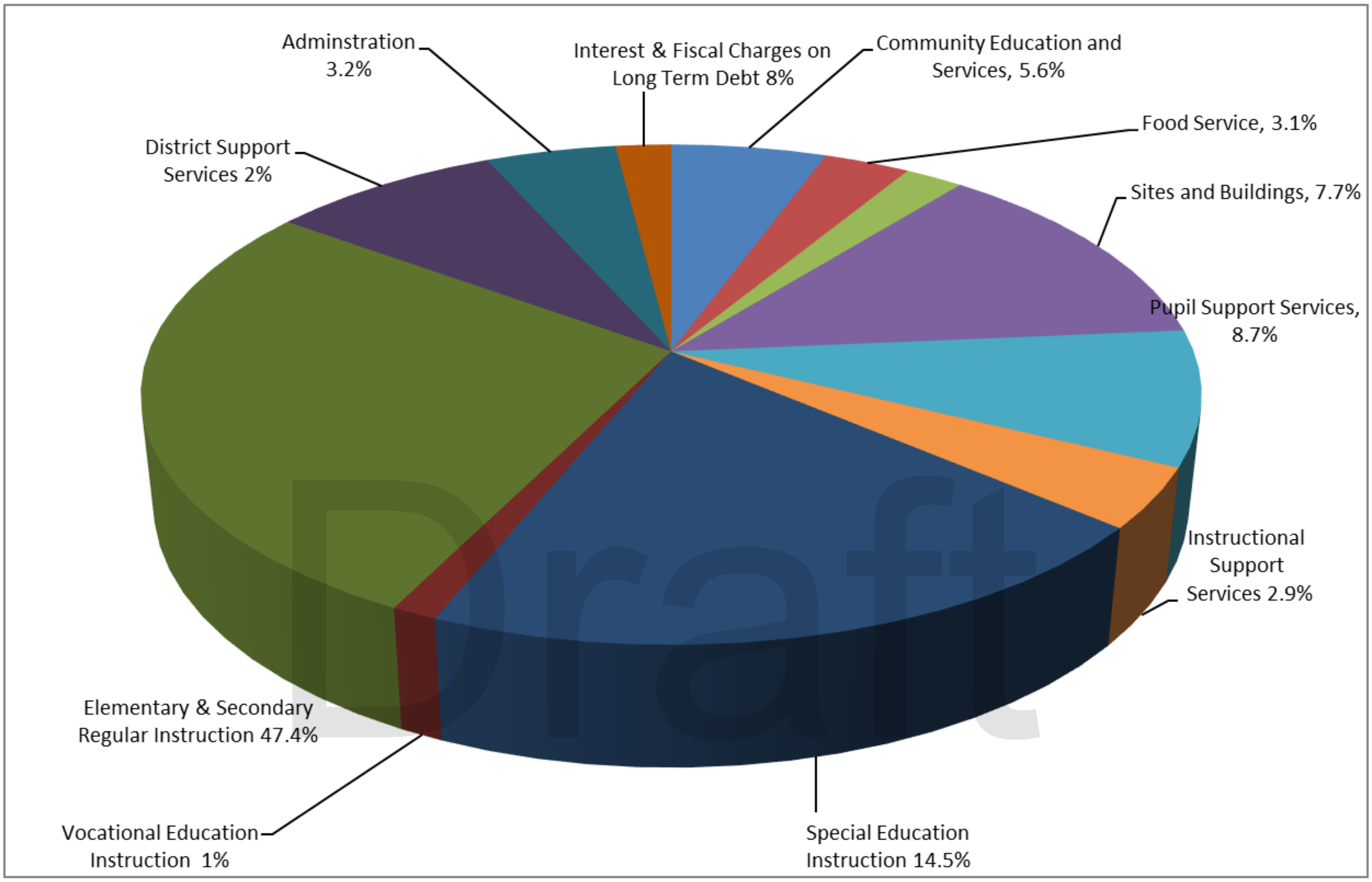
Change in Net Position (Continued)
For the Years Ended June 30,

	2023	2022
Expenses		
District and school administration	$ 7,087,518	$ 5,795,239
District support services	12,385,411	10,842,806
Regular instruction	41,403,083	53,362,040
Vocational instruction	1,804,238	1,308,837
Exceptional instruction	29,977,581	26,787,632
Instructional support services	5,910,872	5,265,125
Pupil support services	13,047,330	10,460,039
Sites, buildings and equipment	19,203,437	19,257,397
Food service	4,649,407	4,151,190
Community service	8,412,634	8,187,580
Interest and fiscal charges on long-term debt	3,036,043	2,163,077
Fiscal and other fixed cost programs	3,132,987	2,893,372
Total expenses	150,050,541	150,474,334
Change in net position	28,442,425	15,322,455
Beginning of year net position (deficit)	(2,080,026)	(17,402,481)
End of year net position (deficit)	$ 26,362,399	$ (2,080,026)

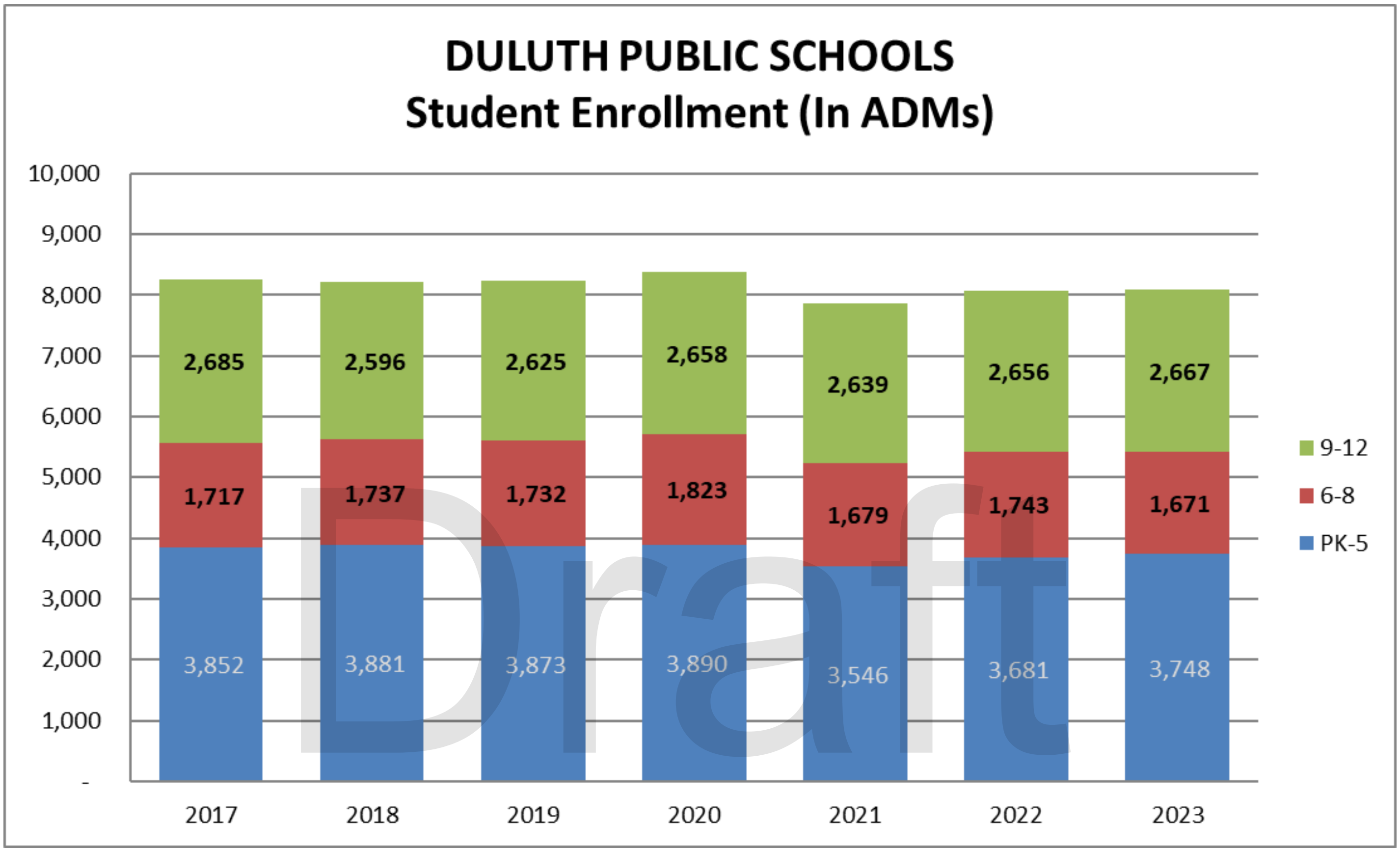
Sources of Revenue for Fiscal Year 2023



Expenses for Fiscal Year 2023



Student Enrollment
Average Daily Membership (ADM)



After seeing three years of small, but consistent enrollment growth, the 2022-23 school year resulted in an increase of 101 ADM compared to FY22. The district enrollment remains constant. As of December 2023, while only estimates, the District has an ADM of 8086. Anticipated budgeted ADM was 7985.

In the coming years, the district will need to monitor what percentage of students will choose to re-enroll and how much will be sustained enrollment loss into the future. With careful analysis we will use estimates of slightly less than 90 ADM's per year for budget purposes.

Financial Analysis of the District's Funds

While the government-wide presentations are designed to present users with a more complete picture of the District's financial position and results of operation, the traditional fund accounting basis provides users with information that can be used by the District to make decisions in the near-term.

General Fund Budgetary Highlights

The General Fund (which includes the District's general, transportation and capital funds) adopted an original revenue and other financing sources budget of $119,341,674, which was revised to $132,753,808. Actual revenues and other financing sources were $9,064,042 more than budgeted amounts, or 6.83% more.

The General Fund adopted an original expenditure budget of $119,343,236, which was revised to $132,640,038, to account for construction projects and the additional costs related to programming. In the end, expenditures were $8,247,425 over budget due to Esser spending and an increase to special education investment and transportation staffing needs. A portion of these funds are required to be in reserved fund balances.

While the District's final budget for the General Fund anticipated that revenues and other financing sources would exceed expenditures and other financing uses by $113,770, the actual results for the year showed revenue and other financing sources exceeded expenditures and other financing uses by $816,617.

- Revenues and other financing resources were $9,064,042 over budget due to the District receiving over $7.6M in the sale of buildings, land, and equipment.
- Expenditures were $8,247,425 more than anticipated due to due to ESSER spending, special education and transportation.

Capital Asset and Debt Administration

Capital Assets

By the end of fiscal year 2023, the District had invested $383,224,021 in capital assets, including school buildings and technology equipment. Total depreciation expense for the year was $7,411,657. More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

Debt Administration

At June 30, 2023, the District had $185,135,374 in general obligation bonds, certificates of participation, contracts payable and lease obligations outstanding. The District's debt rating from the State of Minnesota Credit Enhancement Program is Aa2. Under current state statues, the District's general obligation bonded debt issuances are subject to a legal limitation of 10 percent of the fair market value of property in the District. The District is within its legal authority for bonded debt.

The District also had $130,975,933 in compensated absences, severance benefits, postemployment health benefits payable, and net pension liability at June 30, 2023.

More detailed information about the District's long-term liabilities is presented in Notes 4, 5, 6, 7 and 10 to the financial statements.

Factors Bearing on the District's Future

Duluth Public Schools has been working with the District's financial advisors to utilize bonding in relation to the Long-Term Facilities Maintenance (LTFM) 10-year planning. This structure is allowing for more stability in funding and providing flexibility in completing projects.

Contacting the District’s Financial Management

This financial report is designed to provide our 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 #709, 4316 Rice Lake Road, Suite 108, Duluth, MN 55811 or call Simone Zunich, Executive Director of Finance, (218) 336-8700.

Government-Wide Financial Statements

Independent School District No. 709

Statement of Net Position (Deficit)
June 30, 2023

		Governmental Activities
Assets and Deferred Outflows of Resources		
Current assets		
Cash and temporary cash investments	$	63,602,473
Current property taxes receivable		23,945,203
Delinquent property taxes receivable		732,349
Accounts receivable		85,450
Interest receivable		22,088
Due from other Minnesota school districts		764,893
Due from the Minnesota Department of Education		10,730,604
Due from the federal government through the Minnesota Department of Education		7,322,418
Due from other governmental units		611,069
Inventory		125,140
Prepaid items		42,301
Total current assets		107,983,988
Right to use assets, net of accumulated amortization		1,948,904
SBITAs, net of amortization		149,276
Capital assets, net of depreciation		
Assets not being depreciated		38,786,710
Assets being depreciated, net		252,244,271
Total capital assets, net of depreciation		291,030,981
Total assets		401,113,149
Deferred outflows of resources		
Items related to OPEB		729,482
Items related to pension plans		28,253,315
Total deferred inflows of resources		28,982,797
Total assets and deferred outflows of resources	$	430,095,946

Independent School District No. 709

Statement of Net Position (Deficit) (Continued)

June 30, 2023

		Governmental Activities
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities		
Salaries payable	$	9,071,357
Accounts payable		7,889,906
Accrued interest payable		2,283,702
Due to other Minnesota school districts		
Due to other governments		631
Accrued expenses		4,876,312
Claims payable		103,396
Unearned revenue		254,109
Current portion of long-term liabilities		26,932,352
Total current liabilities		51,411,765
Long-term liabilities		289,323,329
Total liabilities		340,735,094
Deferred inflows of resources		
Property taxes levied for subsequent year's expenditures		42,483,595
Items related to OPEB		2,710,015
Items related to pension plans		17,804,843
Total deferred inflows of resources		62,998,453
Net position (deficit)		
Net investment in capital assets		107,852,497
Restricted		9,188,513
Unrestricted (deficit)		(90,678,611)
Total net position (deficit)		26,362,399
Total liabilities, deferred inflow of resources, and net position (deficit)	$	430,095,946

See accompanying notes to financial statements.

Independent School District No. 709

Statement of Activities

For the 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 (Expenses) Revenue and Changes in Net Position: Governmental Activities
Governmental activities					
District and school administration	$ 7,087,518	$ 14,556	$ 24,585	$	$ (7,048,377)
District support services	12,385,411		174,513		(12,210,898)
Regular instruction	41,403,083	1,083,188	14,222,777		(26,097,118)
Vocational instruction	1,804,238	11,118	11,188		(1,781,932)
Exceptional instruction	29,977,581	1,241,553	2,692,905		(26,043,123)
Instructional support services	5,910,872	4,369	1,263,950		(4,642,553)
Pupil support services	13,047,330		1,516,086		(11,531,244)
Sites, buildings and equipment	19,203,437	660	5,825		(19,196,952)
Food service	4,649,407		3,463,652		(1,185,755)
Community service	8,412,634	2,102,349	3,093,017		(3,217,268)
Interest and fiscal charges on long-term debt	3,036,043				(3,036,043)
Fiscal and other fixed cost programs	3,132,987				(3,132,987)
Total governmental activities	$ 150,050,541	$ 4,457,793	$ 26,468,498	$	(119,124,250)

General revenues	
Taxes	
Property taxes, levied for general purposes	20,152,675
Property taxes, levied for community service	975,202
Property taxes, levied for debt service	20,291,138
State aid-formula grants	95,380,801
Other general revenues	9,070,948
Investment earnings	1,695,911
Total general revenues	147,566,675
Change in net position	28,442,425
Net position (deficit), beginning of the year	(2,080,026)
Net position (deficit), end of the year	$ 26,362,399

See accompanying notes to financial statements.

Independent School District No. 709

Governmental Funds – Balance Sheet

June 30, 2023

	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and temporary investments	$ 28,702,312	$ 13,849,070	$ 15,509,998	$ 4,909,943	$ 62,971,323
Current property taxes receivable	10,443,598		12,970,801	530,804	23,945,203
Delinquent property taxes receivable	319,411		396,704	16,234	732,349
Accounts receivable	51,008			33,264	84,272
Interest receivable	22,088				22,088
Due from other Minnesota school districts	719,149			45,744	764,893
Due from the Minnesota Department of Education	10,188,691		220,472	321,441	10,730,604
Due from the federal government through the Minnesota Department of Education	6,786,781			535,637	7,322,418
Due from other governmental units	611,069				611,069
Inventory	26,473			98,667	125,140
Prepaid expenses	42,301				42,301
Total assets	$ 57,912,881	$ 13,849,070	$ 29,097,975	$ 6,491,734	$ 107,351,660
Liabilities					
Salaries payable	$ 8,638,147	$	$	$ 433,210	$ 9,071,357
Accounts payable	6,109,325	1,558,284		222,257	7,889,866
Due to other Minnesota school districts					
Due to other governments	631				631
Accrued expenses	4,682,456			193,856	4,876,312
Unearned revenue	156,987			70,687	227,674
Total liabilities	19,587,546	1,558,284		920,010	22,065,840
Deferred Inflows of Resources					
Unavailable revenue - delinquent property taxes	319,411		396,704	16,234	732,349
Property taxes levied for subsequent year's expenditures	15,432,238		25,982,623	1,068,734	42,483,595
Total deferred inflows of resources	15,751,649		26,379,327	1,084,968	43,215,944
Fund balances					
Nonspendable	68,774			98,667	167,441
Restricted	4,767,753	12,290,786	2,718,648	4,388,089	24,165,276
Assigned	17,743,919				17,743,919
Unassigned	(6,760)				(6,760)
Total fund balances	22,573,686	12,290,786	2,718,648	4,486,756	42,069,876
Total liabilities, deferred inflows of resources and fund balances	$ 57,912,881	$ 13,849,070	$ 29,097,975	$ 6,491,734	$ 107,351,660

See accompanying notes to financial statements.

Independent School District No. 709

Governmental Funds – Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)
June 30, 2023

Total fund balances - governmental funds	$	42,069,876
Amounts reported for governmental activities in the statement of activities are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets		383,224,021
Less accumulated depreciation		(92,193,040)
Right of use assets		5,278,570
Less accumulated amortization		(3,329,666)
SBITAs		298,551
Less accumulated amortization		(149,275)
Long-term liabilities, including bonds, capital leases payable, compensated absences, and severance benefits, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of net position.		
General obligation bonds		(63,872,602)
Certificates of participation		(109,445,000)
Contract payable		(7,986)
Leases payable		(3,073,424)
SBITAs payable		(144,374)
Compensated absences		(482,680)
Severance benefits		(27,322,191)
Unamortized bond premium and discounts		(8,736,362)
Other postemployment benefits and the deferred outflows of resources and deferred inflows of resources related to OPEB are only reported in the statement of net position.		
Total OPEB liability		(15,401,656)
Deferred outflows of resources related to OPEB		729,482
Deferred inflows of resources related to OPEB		(2,710,015)
The net pension liability and the deferred outflows of resources and inflow of resources of resources related to pensions are only reported in the statement of net position.		
Net pension liability		(87,769,406)
Deferred outflows of resources related to pensions		28,253,315
Deferred inflows of resources related to pensions		(17,804,843)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		732,349
Governmental funds do not report a liability for accrued interest until due and payable.		(2,283,702)
An internal service fund is used by management to charge the costs of OPEB to individual funds. These assets and liabilities of the internal service fund are included in the statement of net position.		502,457
Total net position (deficit) - governmental activities	$	26,362,399

See accompanying notes to financial statements.

Independent School District No. 709

General Fund – Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Year Ended June 30, 2023

	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local property tax levies	$ 20,014,998	$	$ 20,344,005	$ 969,342	$ 41,328,345
Other local and county revenues	3,946,837			2,310,009	6,256,846
Revenue from state sources	90,264,152		2,204,846	2,911,803	95,380,801
Revenue from federal sources	18,501,276			6,349,410	24,850,686
Sales and other conversion of assets	138,271			1,111,633	1,249,904
Interest income	1,300,353	395,558	-		1,695,911
Total revenues	134,165,887	395,558	22,548,851	13,652,197	170,762,493
Expenditures					
Current					
District and school administration	6,963,552				6,963,552
District support services	12,062,327				12,062,327
Regular instruction	54,584,490				54,584,490
Vocational instruction	1,682,223				1,682,223
Exceptional instruction	29,941,822				29,941,822
Community education and services				8,408,207	8,408,207
Instructional support services	5,908,092				5,908,092
Pupil support services	12,428,816			4,638,497	17,067,313
Site, buildings, and equipment	9,294,561	317,244			9,611,805
Fiscal and other fixed cost programs	3,132,987				3,132,987
Debt service					
Principal	1,699,953		18,945,000		20,644,953
Interest and other fiscal costs	919,643		5,380,884		6,300,527
Capital outlay	2,268,997	18,450,325		13,411	20,732,733
Total expenditures	140,887,463	18,767,569	24,325,884	13,060,115	197,041,031
Excess (deficiency) of revenues over expenditures	(6,721,576)	(18,372,011)	(1,777,033)	592,082	(26,278,538)
Other financing sources (uses)					
Insurance recovery	30,751		-		30,751
Premium on the issuance of debt		136,693			136,693
Sale of capital assets	7,653,600				7,653,600
Transfer of fund balance	(1,637)		-	1,637	
Total other financing sources	7,682,714	136,693	-	1,637	7,821,044
Net change in fund balance	961,138	(18,235,318)	(1,777,033)	593,719	(18,457,494)
Fund balances, beginning	21,612,548	30,526,104	4,495,681	3,893,037	60,527,370
Fund balances, ending	$ 22,573,686	$ 12,290,786	$ 2,718,648	$ 4,486,756	$ 42,069,876

See accompanying notes to financial statements.

Independent School District No. 709

General Fund – Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities

For the Year Ended June 30, 2023

Total net changes in fund balances - governmental funds	$ (18,457,494)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the costs of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	21,412,306
Depreciation expense	(7,411,657)
Right of use assets	51,544
Right of use assets amortization	(1,918,069)
SBITAs	298,551
SBITAs amortization	(149,275)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities a gain or (loss) is reported for each disposal.	
Loss from disposal of capital assets	(2,433,196)
The issuance of long-term debt provides current financial resources to governmental funds but increase long-term liabilities in the statement of net position.	
Lease liabilities	(51,544)
SBITA liabilities	(298,551)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Principal payments on general obligations bonds	6,095,000
Principal payments on certificates of participation	14,545,000
Principal payments on leases	1,262,272
Principal payments on SBITAs	154,177
Principal payments on contracts payable	90,588
Amortization of bond premiums/discounts	1,737,358
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 the 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.	375,137
Vested employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.	
Change in total OPEB liability	1,546,972
Change in deferred outflows of resources related to OPEB	21,072
Change in deferred inflows of resources related to OPEB	(1,306,625)
Change in severance benefits	(5,891,710)
Change in compensated absences	(87,714)
Change in net pension liability	(42,768,359)
Change in deferred outflows of resources related to pensions	1,758,776
Change in deferred inflows of resources related to pensions	60,054,283
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditure, and therefore are deferred in the funds.	(90,671)
The net income of the internal service fund is reported in the statement of activities.	(95,746)
Change in net position - governmental activities	$ 28,442,425

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Independent School District No. 709

General Fund – Statement of Revenues, Expenditures, and Change in Fund Balance – Budget to Actual

For the Year Ended June 30, 2023

	Budget Original	Budget Final	Actual	Variance Over (Under)
Revenues				
Local property tax levies	$ 6,326,796	$ 21,080,166	$ 20,014,998	$ (1,065,168)
Other local and county revenues	2,732,800	3,545,952	3,946,837	400,885
Revenue from state sources	99,912,267	90,508,018	90,264,152	(243,866)
Revenue from federal sources	10,232,905	17,482,766	18,501,276	1,018,510
Sales and other conversion of assets	136,906	136,906	138,271	1,365
Interest income			1,300,353	1,300,353
Total revenues	119,341,674	132,753,808	134,165,887	1,412,079
Expenditures				
Current				
District and school administration	5,778,734	6,027,239	6,963,552	936,313
District support services	6,053,200	10,672,660	12,062,327	1,389,667
Regular instruction	49,717,392	56,224,193	54,584,490	(1,639,703)
Vocational instruction	1,433,464	1,433,464	1,682,223	248,759
Exceptional instruction	25,790,372	25,922,203	29,941,822	4,019,619
Instructional support services	3,645,021	4,255,916	5,908,092	1,652,176
Pupil support services	9,059,193	10,151,440	12,428,816	2,277,376
Site, buildings, and equipment	9,735,671	9,851,706	9,294,561	(557,145)
Fiscal and other fixed cost programs	3,436,791	3,436,791	3,132,987	(303,804)
Debt service				
Principal	1,612,000	1,612,000	1,699,953	87,953
Interest and other fiscal costs	1,122,300	1,122,300	919,643	(202,657)
Capital outlay	1,959,098	1,930,126	2,268,997	338,871
Total expenditures	119,343,236	132,640,038	140,887,463	8,247,425
Excess (deficiency) of revenues over expenditures	(1,562)	113,770	(6,721,576)	(6,835,346)
Other financing sources (uses)				
Transfers out			(1,637)	(1,637)
Sale of capital assets			7,653,600	7,653,600
Total other financing sources (uses)			7,651,963	7,651,963
Net change in fund balance	(1,562)	113,770	930,387	816,617
Fund balance, beginning	21,612,548	21,612,548	21,612,548	
Fund balance, ending	$ 21,610,986	$ 21,726,318	$ 22,542,935	$ 816,617

See accompanying notes to financial statements.

Independent School District No. 709

Proprietary Funds – Internal Service Funds - Statement of Net Position

June 30, 2023

		Dental Insurance Fund
Assets		
Cash and temporary cash investments	$	631,150
Accounts receivable		1,178
Total assets	$	632,328
Liabilities		
Accounts payable	$	40
Claims payable		103,396
Unearned revenue		26,435
Total liabilities		129,871
Net position		
Unrestricted		502,457
Total net position		502,457
Total liabilities and net position	$	632,328

See accompanying notes to financial statements.

Independent School District No. 709

Proprietary Funds – Internal Service Funds - Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2023

		Dental Plan Fund
Operating revenues		
Contributions from the District and employees	$	911,485
Total operating revenues		911,485
Operating expenses		
Dental care benefits/claims		949,533
Administrative costs		57,698
Total operating expenses		1,007,231
Operating loss		(95,746)
Net position, beginning of year		598,203
Net position, end of year	$	502,457

See accompanying notes to financial statements.

Independent School District No. 709

Proprietary Funds – Internal Service Funds - Statement of Cash Flows

For the Year Ended June 30, 2023

		Dental Plan Fund
Cash flows from operating activities		
Contributions from the District and employees	$	909,913
Payments for health care premiums		(866,409)
Payments for administrative costs		(57,698)
Net cash used in operating activities		(14,194)
Cash, beginning of year		645,344
Cash, end of year	$	631,150
Reconciliation of operating loss to net cash used in operating activities		
Operating income (loss)	$	(95,746)
Change in assets and liabilities		
Accounts receivable		(394)
Accounts payable		81,946
Net cash used in operating activities	$	(14,194)

See accompanying notes to financial statements.

Independent School District No. 709

Fiduciary Funds – Statement of Fiduciary Net Position

June 30, 2023

	Federal Employee Benefit Trust Fund	Private-Purpose Fund
Assets		
Cash and temporary investments	$ 687,185	$
Investments	1,094,189	140,948
Total assets	$ 1,781,374	$ 140,948
Liabilities		
	$	$
Net position		
Restricted for endowment		121,521
Restricted for clock tower		19,427
Restricted for retirees	1,781,374	
Total net position	1,781,374	140,948
Total liabilities and net position	$ 1,781,374	$ 140,948

See accompanying notes to financial statements.

Independent School District No. 709

Fiduciary Funds – Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2023

	Federal Employee Benefit Trust Fund	Private-Purpose Fund
Additions		
Contributions	$ 241,674	$
Interest	39,226	760
Total additions	280,900	760
Deductions		
Benefits paid		
Pupil support services		
Total deductions		
Change in net position	280,900	760
Net position		
Beginning of year	1,500,474	140,188
End of year	$ 1,781,374	$ 140,948

See accompanying notes to financial statements.

Note 1 Summary of Significant Accounting Policies

Independent School District No. 709 (District) was formed and operates pursuant to applicable Minnesota laws and statutes. The Governing Body consists of a seven-member Board elected by voters of the District. Members are elected for four-year terms. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting board for establishing governmental accounting and financial reporting principles.

Reporting Entity

The District's financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable or for which the exclusion of would render the financial statements to be misleading. The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial statements to be misleading or incomplete. Based on criteria established by the Governmental Accounting Standards Board, there are no organizations considered to be component units of the District.

Basic Financial Statement Presentation

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function and is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material inter-fund activity has been removed from the government-wide financial statements.

Separate fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds are reported as a separate column in the fund financial statements. Aggregated information for the remaining non-major governmental funds is reported in a single column in the fund financial statements.

Note 1 Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to customers for service. Operating expenses for the internal service funds include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The fiduciary funds are presented in the fiduciary fund financial statements by type (benefit trust and private trust). Since by definition these assets are being held for the benefit of a third party (employees and donors) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts recognized in advanced accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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 in which it applies according to Minnesota Statutes. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.

2. Recording of Expenditures - Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The District's internal service fund is used to account for the revocable trust fund established to provide funds needed for future OPEB obligations for employees and retirees.

A general summary of the nature and purpose of each of the funds maintained by the District follows:

Note 1 Summary of Significant Accounting Policies (Continued)

Major Governmental Funds

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund accounts for administration, early childhood special education through 12th grade instruction, transporting students to and from school, maintenance of facilities, equipment purchases and maintenance and capital projects.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources used in the acquisition and construction of major capital facilities.

Debt Service Fund - The Debt Service Fund accounts for the accumulation of resources for the retirement of principal and interest on all general obligation bond indebtedness, other than the District's OPEB bonds. Assets of the Debt Service Fund are restricted to the payment of bond principal and interest.

Nonmajor Governmental Funds

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specified purposes. The District's has two special revenue funds:

Food Service Fund - is used to account for food service revenues and expenditures. Revenues consist of state and federal aids, grants, and sales to pupils and adults.

Community Service Fund - is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, K-6 extended day programs, or other similar services. Revenues consist of state and federal aids, grants, and program participant fees.

Proprietary Funds

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

Fiduciary Funds

Private Purpose Trust Fund - These funds are used to account for specific purposes that were defined by the individual that gave the funds. The District includes the Miller Memorial Playground endowment and the Clock Tower endowment as Private Purpose Trust Funds.

Federal Employee Benefit Trust Fund - These funds are used to account for employees' severance for federally funded programs.

Note 1 Summary of Significant Accounting Policies (Continued)

Budgeting

Formal budgetary accounting is employed as a management control for all funds of the District. For each fund for which a formal budget is adopted, the budget is prepared on the same basis of accounting as the fund financial statements. The budget is adopted through passage of a resolution. The School Board must approve revisions. Legal budgetary control is at the fund account level. The annual budget is not legally binding on the District unless the District has a total deficit in its general fund, which exceeds 2.5 percent of expenditures.

Cash and Temporary Investments

Cash and investments of the individual funds are combined to form a pool, except for fiduciary funds, and are invested to the extent available in various securities as authorized by state law. Investments in state and local government securities are recorded at fair value, based on quoted market price. Negotiable certificates of deposit are recorded at cost, which approximates fair value. Money market accounts and investments in external investment pools are recorded at fair value, based on the fair value of the position in the pool. Earnings from the pooled investments are distributed between the funds based on their prorated portion of monthly cash balances.

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Receivables

All receivables are shown net of any allowance for uncollectible amounts. No allowances for uncollectibles have been recorded. The only receivables not expected to be collected within one year are delinquent property taxes receivable.

Inventory

General Fund inventory includes instructional and other materials held in the central storeroom. Inventory in the Food Service Fund consists of food and supplies. The General Fund central storeroom inventory is priced using the weighted average method. All inventories are accounted for using the consumption method. Under the consumption method, expenditures are recognized when inventory is used rather than when purchased. Food and supplies are valued at cost on a first-in, first-out basis.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Note 1 Summary of Significant Accounting Policies (Continued)

Property Taxes

Property taxes are set by the school board and certified to the county auditor who acts as collecting agent, in December of the year prior to collection. Taxes become a lien on property on the following January 1. Minnesota school districts operate under a levy limitation law that generally limits annual increases in taxes per capita. This law does not cover levies for bonded indebtedness.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The county provides tax settlements to school districts and other taxing districts in January, March, June, and November or December. Portions of the tax levy paid by the state in the form of credits are included in revenue from state sources.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as a deferred inflow of resources (property taxes levied for subsequent year). General fund revenue is determined annually by statutory funding formulas. These formulas allocate revenue between property taxes and state aids based on education funding priorities set by the Minnesota State Legislature. Changes in this allocation result in an annual change in property tax revenue recognition referred to as the “tax shift”. In prior years, the amount of shift has varied between 0 and 50 percent.

The following is a summary of tax shift transactions by fund:

	(0.0%) Total Shift June 30, 2022	State Aid Adjustment	Revenue Adjustment	(0.0%) Total Shift June 30, 2023
General Fund	$ 1,359,633	$	$ 115,739	$ 1,475,372

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources in the fund based financial statements (unavailable revenue – delinquent taxes) because it is not available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

Capital Assets

Capital assets are recorded at historical cost if purchased, or estimated historical cost for assets where actual historical cost is not available, based on an appraisal performed as of June 30, 2023. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Note 1 Summary of Significant Accounting Policies (Continued)

Capital assets are reported in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives, ranging from five to fifty years.

Capital assets not being depreciated include land and construction in progress.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

Unearned Revenue

Unearned revenue results when asset recognition criteria have been met, but revenue recognition criteria have not been met. The balance consists primarily of revenue that will be recognized based on future expenditures.

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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has reported deferred outflows of resources related to pensions for its proportionate shares of collective deferred outflows of resources related to pensions and the District's contributions to pension plans subsequent to the measurement date of the collective net pension liability. The District has also reported deferred outflows of resources related to OPEB for the changes of assumption and the District's contributions subsequent to the measurement date of the total OPEB liability.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position 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 reported unavailable revenue from delinquent property taxes, which arises only under a modified accrual basis of accounting, in the governmental funds balance sheet. The District has also reported property taxes levied for subsequent years expenditures as a deferred inflow of resources in both the governmental funds balance sheet and the statement of net position. The District has also reported deferred inflows of resources for its proportionate share of the collective deferred inflows of resources related to pensions. The District has also reported deferred inflows of resources related to OPEB for the difference between expected and actual liability and changes in assumptions.

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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenses.

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

Note 1 Summary of Significant Accounting Policies (Continued)

Leases

The District is a lessee in a noncancelable lease. If the contract provides the District the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU asset is also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

The discount rate used is the implicit rate in the lease contract, if it is readily determinable, or the District's incremental borrowing rate. The District uses the incremental borrowing rate based on the information available at the commencement date for all leases. The District's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment.

The ROU asset for leases is amortized on a straight-line basis over the lease term.

Subscription Based Information Technology Arrangements (SBITAs)

The District is a party to multiple noncancelable subscription based information technology arrangements (SBITAs). If the contract provides the District the right to use the present service capacity and the right to direct the use of the identified asset, it is considered to be or contain a SBITA. Subscription-based assets and liabilities are recognized at the agreement commencement date based on the present value of the future payments over the expected contract term. The SBITA asset is also adjusted for any prepayments made and capitalizable initial implementation costs as incurred.

The SBITA liability is initially and subsequently recognized based on the present value of its future payments. Variable payments are included in the present value when the underlying rate or index is fixed and predictable for the life of the lease. Variable costs that depend on an unpredictable index are accounted for as expenses as they are incurred. Increases (decreases) to variable payments due to subsequent changes in an index or rate are recorded as an adjustment to expense in the period in which they are incurred.
The discount rate used is the implicit rate in the SBITA contract, if it is readily determinable, or the District's incremental borrowing rate.

For all underlying classes of assets, the District does not recognize SBITA assets and liabilities for short-term agreements that have a contract term of 12 months or less at contract commencement. Contracts containing termination clauses in which either party may terminate without cause and the notice period is less than 12 months are deemed short-term agreements with costs included in expense.

Compensated Absences

Vacation granted and sick pay earned is based on length of service and various bargaining unit contracts. A liability is recorded for earned but unpaid vacation. Unused sick leave enters into the calculation of severance payments for some employees upon termination.

Note 1 Summary of Significant Accounting Policies (Continued)

Severance Benefits

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

Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of the Teachers Retirement Association (TRA) and Public Employees Retirement Association (PERA) and additions to/deductions from TRA and PERA's fiduciary net position have been determined on the same basis as they are reported by TRA and PERA. 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 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. Additional information can be found in Note 8.

Other Postemployment Benefits (OPEB)

The District provides postemployment health insurance benefits to some retired employees as established by contracts with bargaining units or other employment contracts. These contracts state the years, age and retiring dates needed to qualify for these postemployment benefits. The contracts also establish the amount the District will contribute towards the purchase of health insurance.

Fund Balance

In the fund financial statements, governmental funds report fund balance amounts within one of the following categories: non-spendable, restricted, committed, assigned, or unassigned. Non-spendable fund balance consists of amounts that cannot be spent because it is not in spendable form. Restricted fund balance consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions. Committed fund balance consists of amounts that are constrained for specific purposes that are internally imposed by a formal action of the School Board. Assigned fund balance consists of amounts intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed.

Note 1 Summary of Significant Accounting Policies (Continued)

The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted fund balance is available. The portion of the fund balance not non-spendable, restricted, committed or assigned is reported as unassigned fund balance. If resources from more than one fund balance classification could be spent, the District will strive to spend resources in the following order: non-spendable, restricted, committed, assigned and unassigned.

In accordance with the District's fund balance policy, a majority vote of the School Board is required to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the board and the District's management is authorized to assign fund balance to a specific purpose.

The District strives to maintain a minimum unassigned General Fund fund balance equal to 8 percent of the annual expenditures budget. At June 30, 2022, the District had met the minimum fund balance goal.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, in the government-wide, proprietary and fiduciary fund 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 statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 19, 2023, the date the financial statements were available to be issued. There were no subsequent events identified by the District that are required to be disclosed.

Change in Accounting Policy

In May 2020, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 96, SBITAs. The statement will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The District adopted this guidance for the year ended June 30, 2023. The adoption of this guidance did not affect beginning net position and, accordingly, restatement of beginning July 1, 2022, net position was not necessary.

Note 2 Deposits and Investments

Deposits

In accordance with Minnesota Statutes, the District maintains deposits at those depositories authorized by the School Board. Such depositories are members of the Federal Reserve System.

Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. Authorized collateral includes certain notes secured by first mortgages; obligations that are legally authorized investments for debt service funds and certain state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District requires collateral for deposits over FDIC insurance amounts. At June 30, 2023, the District's deposits were not exposed to custodial credit risk.

Investments

The District may also invest idle funds as authorized by Minnesota statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' bank eligible for purchase by the Federal Reserve System; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; time deposits fully insured by U.S. banks; guaranteed investment contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

Note 2 **Deposits and Investments (Continued)**

The Minnesota School District Liquid Asset Fund (MSDLAF) and MN Trust are regulated by Minnesota Statutes and are external investment pools not registered with the Securities and Exchange Commission (SEC). The District's investment in MSDLAF and MN Trust are measured at net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. MSDLAF and MN Trust are short-term money market portfolios. The portfolios are managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of $1.00.

Interest rate risk - Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The District had the following investments at June 30, 2023:

		Maturities		
	Fair Value	Less than 1 Year	1-3 Years	Over 3 Years
Money Market Funds	$ 5,197,502	$ 5,197,502	$	$
External Investments Pools	57,237,144	57,237,144		
Negotiable CDs	2,079,883	2,079,883		
Total	$ 64,514,529	$ 64,514,529	$	$

Credit risk - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law limits investments as discussed above. The District has no investment policy that would further limit its investment choices.

S&P or Moody's Rating	Fair Value
AAAm	$ 62,434,646
Not rated	2,079,883
Total	$ 64,514,529

Note 2 Deposits and Investments (Continued)

Concentration of credit risk - The concentration risk is the risk of loss that may be caused by the District's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer.

Custodial risk - The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2023, the District's investments were not exposed to custodial risk.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 are significant unobservable inputs.

The District has the following investments valued at recurring fair value measurements at June 30, 2023:

		Fair Value Measurements Using		
Investments by fair value level		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
Negotiable certificates of deposit	2,079,883		2,079,883	
Total debt securities/investment by fair value level	2,079,883		2,079,883	
Investments measured at the net asset value (NAV)				
External investment pools	57,237,144			
Other Investments				
Money market funds	5,197,502			
Total investments	$ 64,514,529			

Note 2 Deposits and Investments (Continued)

The following table sets forth additional disclosures about the District's investments whose value are estimated using net asset value (NAV) as of June 30, 2023:

	Total	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - MSDLAF Liquid Class	$ 7,629,372	$ 0	On Demand	2 P.M. Eastern Time transaction deadline.
External Investment Pool - MSDLAF MAX Class	$ 1,170,515	$ 0	14 days, with the exception of direct investments of funds distributed by the State of Minnesota	24-hour notice
External Investment Pool - MN Trust	$ 48,737,257	$ 0	None	None
Total External Pool Investments	$ 57,537,144			

The District's total cash and investments are as follows:

Petty Cash	$ 5,680
Deposits	1,014,619
Investments	64,514,529
Total	$ 65,524,795

Presented in the basic financial statements as follows:

Statement of Net Position	
Cash and temporary investments	$ 63,602,473
Statement of Fiduciary Net Position	
Private Purpose Trust Fund	
Investments	140,948
Federal Employee Benefit Trust Fund	
Cash and temporary investments	687,185
Investments	1,094,189
Total cash and investments	$ 65,524,795

Note 3 **Capital Assets**

The following is a summary of capital assets:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Capital assets not being depreciated				
Land	$ 9,899,254			$ 9,899,254
Construction in progress	10,089,860	18,797,596		28,887,456
Total capital assets not being depreciated	19,989,114	18,797,596		38,786,710
Capital assets being depreciated				
Land improvements	3,383,049			3,383,049
Buildings	341,125,655	314,098	10,470,060	330,969,693
Equipment	8,177,732	2,300,612	393,775	10,084,569
Total capital assets being depreciated	352,686,436	2,614,710	10,863,835	344,437,311
Less accumulated depreciation				
Land improvements	2,278,789	150,622		2,429,411
Buildings	85,080,527	6,593,531	8,036,864	83,637,194
Equipment	5,852,706	667,504	393,775	6,126,435
Total accumulated depreciation	93,212,022	7,411,657	8,430,639	92,193,040
Total capital assets being depreciated, net	259,474,414	(4,796,947)	2,433,196	252,244,271
Capital assets, net	$ 279,463,528	$ 14,000,649	$ 2,433,196	$ 291,030,981

Depreciation is charged to governmental functions as follows:

District and school administration	$ 16,016
District support services	195,683
Regular instruction	15,514
Vocational instruction	12,655
Specialized instruction	9,570
Community education	1,927
Instructional support services	2,780
Pupil support services	294,665
Sites, buildings and equipment	6,862,847
Total	$ 7,411,657

Note 4 Leases

The following is a summary of leased assets:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Right of use assets				
Buildings	$ 5,017,679	$ 51,544	$	5,069,223
Equipment	209,347			209,347
Total right of use assets being depreciated	5,227,026	51,544		5,278,570
Less accumulated amortization				
Building	(1,345,611)	(1,852,083)		(3,197,694)
Equipment	(65,986)	(65,986)		(131,972)
Total accumulated amortization	(1,411,597)	(1,918,069)		(3,329,666)
Total right of use assets being depreciated, net	$ 3,815,429	$ (1,866,525)	$	$ 1,948,904

Lease amortization totaled $1,918,069 during 2022-23.

The District's leases consist of the following:

Arvig Building - lease of space beginning October 1, 2021 through April 30, 2027 in the original principal amount of $545,576, with monthly payments of $8,917, increasing each year starting May 1, 2025 by the Consumer Price Index.

Northwoods Chester Creek - lease of space beginning July 1, 2020 through July 1, 2023 in the original principal amount of $135,550, with monthly payments of $5,802.

UHG - lease of space beginning October 1, 2021 through September 30, 2023 in the original principal amount of $1,366,397, with monthly payments of $582,555.

Tech Village – lease of space beginning October 1, 2021 through September 30, 2023, with one year renewals through September 30, 2030 in the original principal amount of $2,970,156, with monthly payments of $34,668, increasing 3% per year.

Konica – lease of copiers dated September 8, 2020 in the original principal amount of $209,347, with monthly payments of $5,737 through September 2024.

Note 4 Leases (continued)

The following is a summary of the changes in leases during 2022-23.

Lease	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023
Arvig Building	$ 476,760		$ 92,399	$ 384,361
Northwoods Chester Creek	68,697		68,510	187
UHG Lease	861,293		686,488	174,805
Tech Village	2,731,876		336,338	2,395,538
Washington Center		51,544	13,271	38,273
Konica	145,526		65,266	80,260
Total	$ 4,284,152	$ 51,544	$ 1,262,272	$ 3,073,424

Future minimum lease payments by year and in the aggregate consist of the following at June 30, 2023:

Year Ending June 30	Principle	Interest	Total
2024	$ 701,618	$ 80,421	$ 782,039
2025	425,110	65,873	490,983
2026	396,042	53,897	449,939
2027	397,957	41,177	439,134
2028	330,518	30,143	360,661
2029-2031	822,179	28,155	850,334
Total	$ 3,073,424	$ 299,666	$ 3,373,090

Note 5 **Subscription Based Information Technology Arrangements**

The Organization has entered into non-cancelable SBITAs with several third parties. The agreements mature in varying amounts through the fiscal year ended 2024. The related subscription liabilities have been discounted at rates ranging from 3.80 to 3.93%.

The following is a summary of SBITA assets:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Subscription-based IT arrangements	$	$ 298,551	$	298,551
Total SBITAs assets being amortized		298,551		298,551
Less accumulated amortization				
Subscription-based IT arrangements		(149,275)		(149,275)
Total accumulated amortization		(149,275)		(149,275)
Total SBITAs being amortized, net	$	$ 149,276	$	$ 149,276

The future payments of these agreements are as follows at June 30, 2023:

	SBITAs		
	Principal	Interest	Total
2024	$ 144,374	$ 5,560	$ 149,934
Total	$ 144,374	$ 5,560	$ 149,934

Note 6 Long-Term Obligations

The following is a summary of changes in long-term obligations:

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Current Portion
General Obligation Bonds Payable					
$44,320,000 General Obligation School Building Refunding Bonds (Series 2015B) due in annual installments of $30,000 to $5,135,000, plus interest at 2.00% to 5.00% from August 1, 2015 to February 1, 2028	$ 28,435,000		$ (4,275,000)	$ 24,160,000	$ 4,490,000
$31,497,602 General Obligation Capital Appreciation Bonds (Series 2021C) due in annual installments of $5,894,859 to $6,711,224, plus interest at 1.54% to 2.15% from February 1, 2029 to February 1, 2033	31,497,602			$ 31,497,602	
$10,035,000 General Obligation Facilities Maintenance Bonds (Series 2021D) due in annual installments of $1,820,000 to $4,165,000, plus interest at 2.00% from August 1, 2022 to February 1, 2026	10,035,000		(1,820,000)	$ 8,215,000	4,165,000
Plus deferred amounts for net premiums/discounts	1,469,793		(234,310)	$ 1,235,483	234,309
Total General Obligation Bonds Payable	71,437,395		(6,329,310)	65,108,085	8,889,309
Certificates of Participation					
$82,605,000 Full Term Refunding Certificates of Participation, Series 2016A due in annual installments of $4,470,000 to $9,900,000 plus interest at 3.00% to 5.00% beginning in 2017	50,250,000		(6,865,000)	$ 43,385,000	7,440,000
$24,130,000 Refunding Certificates of Participation, Series 2019A due in annual installments of $1,350,000 to $2,585,000 plus interest at 3.00% to 4.20% beginning in 2020	20,385,000		(1,260,000)	$ 19,125,000	1,300,000
$41,715,000 Refunding Certificates of Participation, Series 2019B due in annual installments of $4,215,000 to $5,935,000 plus interest at 5.00% beginning in 2020	30,065,000		(4,155,000)	$ 25,910,000	4,470,000

Note 6 Long-Term Obligations (Continued)

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Current Portion
$2,710,000 Full Term Refunding Certificates of Participation, Series 2019C due in annual installments of $295,000 to $350,000 plus interest at 5.00% beginning in 2020	1,895,000		(280,000)	$ 1,615,000	295,000
$18,385,000 Full Term Refunding Certificates of Participation, Series 2021A due in annual installments of $1,570,000 to $4,145,000 plus interest at .71% to 1.72% beginning in 2022	16,815,000		(1,550,000)	$ 15,265,000	1,560,000
$5,070,000 Refunding Certificates of Participation, Series 2021B due in annual installments of $405,000 to $505,000 plus interest at 2.60% to 3.00% beginning in 2022	4,580,000		(435,000)	$ 4,145,000	450,000
Plus deferred amounts for net premiums/discounts	9,003,927		(1,503,048)	$ 7,500,879	1,503,048
Total Certificates of Participation	132,993,927		(16,048,048)	116,945,879	17,018,048
Contracts payable	98,574		(90,588)	7,986	6,087
Leases payable	4,284,152	51,544	(1,262,272)	3,073,424	701,618
SBITAs		298,551	(154,177)	144,374	144,374
Compensated absences	394,966	87,714		482,680	172,916
Severance benefits	21,430,481	8,387,036	(2,495,326)	27,322,191	
Net pension liability	45,001,047	48,606,518	(5,838,159)	87,769,406	
Total OPEB obligation	16,948,628	1,691,511	(3,238,483)	15,401,656	
Total	$ 292,589,170	$ 59,122,874	$ (35,456,363)	$ 316,255,681	$ 26,932,352

General Obligation Bonds and Certificates of Participation are paid from the Debt Service Fund and the General Fund. Capital leases are paid from the General Fund. Compensated absences, severance benefits, OPEB obligations, and net pension liability are paid from the General Fund, Food Service Fund, Community Service Fund or the Federal Employee Benefit Trust Fund.

Note 6 Long-Term Obligations (Continued)

Annual debt service requirements for years ending June 30 are:

	General Obligation Bonds			Certificates of Participation		
	Principal	Interest	Total	Principal	Interest	Total
2024	$ 8,655,000	$ 956,400	$ 7,339,460	$ 15,515,000	$ 4,425,957	$ 19,598,587
2025	6,680,000	693,500	9,611,400	17,055,000	3,746,385	19,940,957
2026	6,915,000	466,400	7,373,500	19,625,000	3,008,640	20,801,385
2027	4,990,000	303,750	7,381,400	21,000,000	2,186,370	22,633,640
2028			5,293,750	20,330,000	756,544	23,186,370
2029 - 2033	36,632,602	6,261,449	35,369,050	10,855,000	2,330,510	34,282,054
2034			7,525,001	5,065,000	321,300	5,386,300
Total	$ 63,872,602	$ 8,681,499	$ 79,893,561	$ 109,445,000	$ 16,775,706	$ 145,829,293

Legal Debt Margin

The District's legal debt limit is 15% of the fair market value of the property within the District. The District's legal debt margin at June 30, 2023 is approximately $1,262,003,604.

Contracts Payable

The District has entered into contracts for the purchase of custodial equipment and copiers.

Future minimum lease payments by year and in the aggregate under the contracts payable consist of the following at June 30, 2023:

Year Ending June 30	
2024	$ 6,087
2025	1,899
Total	$ 7,986

Note 7 **Postemployment Healthcare Plan (OPEB)**

Plan Description - Independent School District No. 709 (District) administers a single-employer defined benefit health care plan which provides medical benefits to eligible retirees and their dependents in accordance with the terms of the plan. The District has not established trust to account for the accumulated plan assets. The District does not issue a stand-alone financial report for the plan.

Employees covered by benefit terms

At June 30, 2023, the following employees were covered by the benefit terms:

Active employees electing coverage	1,096
Actives waiving coverage	70
Retirees electing coverage	817
	1,983

The District's total OPEB liability of $15,401,656 was measured as of June 30, 2023 and was determined by an actuarial valuation as of June 30, 2022.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate		2.25%	
Discount rate		3.69%	
Healthcare trend rates	Fiscal Year Beginning	Not Medicare Eligible	Medicare Eligible
	2022	6.70%	4.70%
	2023	6.20%	4.70%
	2024	5.70%	4.70%
	2025	5.20%	4.70%
	2026-2038	4.70%	4.70%
	2039-2074	Transition to ultimate rate	Transition to ultimate rate
	2075+	3.70%	3.70 %

The discount rate was determined using the index rate for 20-Year, tax-exempt, municipal bonds (Fidelity 20-year Municipal GO AA Index).

Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on Scale MP-2015 and other adjustments for teachers and Pub-2010 with projected mortality improvements based on scale MP-2020 and other adjustments for non-teachers.

Note 7 **Postemployment Healthcare Plan (OPEB) (Continued)**

Changes in the Total OPEB Liability

Balances at 6/30/2022	$ 16,948,628
Changes for the year:	
Service Cost	1,267,214
Interest	335,229
Differences between expected and actual experience	89,068
Changes of assumptions	(1,726,526)
Benefit payments	(1,511,957)
Net changes	(1,546,972)
Balances at 6/30/2023	$ 15,401,656

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

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 a discount rate that is 1-percentage point lower (.92 percent) or 1-percentage point higher (2.92 percent) than the current discount rate:

	1% Decrease 2.69%	Discount Rate 3.69%	1% Increase 4.69%
Total OPEB Liability	$ 16,285,327	$ 15,401,656	$ 14,544,802

Sensitivity of the Total OPEB Liability to Changes in the Health Care Trend Rates

The following presents the total OPEB Liability of the District, as well as what the District's total OPEB liability would be if calculated using healthcare trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare trend rates:

	1% Decrease	Discount Rate	1% Increase
Total OPEB Liability	$ 14,854,106	$ 15,401,656	$ 16,035,720

Note 7 Postemployment Healthcare Plan (OPEB) (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to OPEB

For the year ended June 30, 2023 the District recognized OPEB expense of $1,257,730. 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
Differnce between expected and actual liablity	$ 80,370	$ 851,464
Changes of assumptions	407,438	1,858,551
Contributions subsequent to the measurement date	241,674	
Totals	$ 729,482	$ 2,710,015

The amount of $241,674 reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30	Pension Expense Amount
2024	$ (344,713)
2025	(344,713)
2026	(289,294)
2027	(274,341)
2028	(273,427)
Thereafter	(695,719)
Total	$ (2,222,207)

Note 8 **Net Position/Fund Balance**

Fund balances were non-spendable for the following purposes at June 30, 2023:

Nonspendable		
General Fund		
Prepaid expenses	$	24,293
Food Service Fund		
Inventory		128,223
Total nonspendable	$	152,516

Net position and fund balances were restricted for the following purposes at June 30, 2023:

	Net Position	Fund Balances
General Fund		
Staff development	$ 313,515	$ 313,515
Teacher Development & Evaluation	16,729	16,729
Basic skills	134,134	134,134
Medical assistance	199,860	199,860
Gifted and talented	12,682	12,682
Safe schools	476,489	476,489
Operating capital	1,685,548	1,685,548
LTFM	1,553,883	1,553,883
ALC	11,367	11,367
Student activities	363,546	363,546
Total General Fund		4,767,753
Debt Service Fund		
Debt service		2,702,216
Refinancing	16,432	16,432
Total Debt Service Fund		2,718,648
Building Construction Fund		
Building construction		12,290,786
Nonmajor governmental funds		
Food Service Fund	2,133,238	2,133,238
Community Service Fund		
Community education	1,697,635	1,681,401
Early childhood family education	266,987	266,987
School readiness	56,773	56,773
Adult basic education	249,695	249,695
Total Nonmajor Funds		4,388,094
Total restricted	$ 9,188,513	$ 24,165,281

Note 8 Net Position/Fund Balance (Continued)

Fund balances were assigned for the following purposes at June 30, 2023:

General Fund		
Severance-insurance premiums	$	4,100,000
Textbooks		1,960,610
Equipment		1,059,000
Student activities		887,350
Property sales		7,653,600
Instructional equipment		1,573,359
Special programs		510,000
Total assigned	$	17,743,919

Note 9 Interfund Transactions

The composition of interfund transfers during 2022-2023 are as follows:

	Transfer Out	Transfer In
General Fund	$ 1,637	
Community Service Fund		1,637
Total	$ 1,637	$ 1,637

The interfund transfer from the general fund to the capital projects fund was recorded to transfer funds for long-term facility maintenance.

The District did not report any interfund receivables/payables at June 30, 2023.

Note 10 Defined Benefit Pension Plans

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by Teachers Retirement Association (TRA) and Public Employees Retirement Association (PERA). TRA and PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, TRA and PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

A. Teachers Retirement Fund (TRA)

1. 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 TRA-covered educational institutions maintained by the state (except those teachers employed by St. Paul schools and Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect TRA coverage or coverage through the Define Contribution Plan (DCR) administered by the State of Minnesota.

2. Benefits Provided

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

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

Tier I Benefits

Tier I	Step rate formula	Percentage
Basic	1st ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

Note 10 Defined Benefit Pension Plans (Continued)

With these provisions:

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

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent 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 which 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 members terminating service are 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.

Note 10 Defined Benefit Pension Plans (Continued)

3. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for the 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	11.00%	12.13%	11.00%	12.34%	11.00%	12.55%
Coordinated	7.50%	8.13%	7.50%	8.34%	7.50%	8.55%

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$	482,679,000
Add employer contributions not related to future contribution efforts		(2,178,000)
Deduct TRA's contributions not included in allocation		(572,000)
Total employer contributions		479,929,000
Total nonemployer contributions		35,590,000
Total contributions reported in Schedule of Employer and Non-Employer pension allocations	$	515,519,000

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

4. 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
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% thereafter

Note 10 **Defined Benefit Pension Plans (Continued)**

Projected Salary Increase	2.85 to 8.85% before July 1, 2028 and 3.25 to 9.25% thereafter
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 Assumption:

Pre-retirement	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.
Post-retirement	RP-2014 white collar annuitant table, male rates setback three years and female rates set back three years, with further adjustments to the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disables retiree mortality, without adjustment.

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 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 an expected long-term 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 Stocks	35.5%	5.10%
International Stocks	16.5%	5.30%
Private Markets	25.0%	5.90%
Fixed Income	25.0%	0.75%
Unallocated cash	0%	0.00%
Total	100%	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2023 is 6 years. The “Difference Between Expected and Actual Experience”, “Changes of Assumptions,” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is over a period of 5 years as required by GASB 68.

Changes in actuarial assumptions since the 2021 valuation:

- None.

Note 10 Defined Benefit Pension Plans (Continued)

5. Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The discount rate used to measure the TPL at the Prior Measurement Date was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the fiscal 2022 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on these 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).

6. Net Pension Liability

At June 30, 2023, the District reported a liability of $69,592,930 for its proportionate share of TRA's 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. The District's proportionate share was 0.8691% at the end of the measurement period and 0.8181% 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 proportional share of net pension liability	$	69,592,930
State's proportional share of net pension liability associated with the District	$	5,161,200

For the year ended June 30, 2023, the District recognized pension expense of $10,743,720. It also recognized $709,681 as an increase to pension expense for the support provided by direct aid.

At 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 economic experience	$ 980,784	$ 579,069
Net difference between projected and actual earnings on plan investments	3,351,845	
Changes in proportion	1,891,331	2,526,335
Changes in actuarial assumptions	10,494,702	14,052,939
Contributions made to TRA subsequent to the measurement date	4,859,660	
Total	$ 21,578,322	$ 17,158,343

$4,859,660 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the

Note 10 Defined Benefit Pension Plans (Continued)

net pension liability in the year ended June 30, 2023. 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 Amount
2024	$ (13,566,090)
2025	2,314,678
2026	1,194,299
2027	9,196,379
2028	421,053
Total	$ (439,681)

7. Pension Liability Sensitivity

The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the liability measured using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	6.00%	7.00%	8.00%
District's proportionate share of the TRA net pension liability	$ 149,665,362	$ 69,592,930	$ 10,484,058

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.

8. Pension Plan Fiduciary Net Position

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-4000; or by calling (651)296-2409 or 1-800-657-3669.

B. Public Employee Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the District other than teachers participate in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue

Note 10 Defined Benefit Pension Plans (Continued)

Code. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

2. 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.

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 accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary 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 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. 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.

3. Contributions

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

Coordinated Plan members were required to contribute 6.5% their annual covered salary in fiscal year 2021 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 $1,438,217. The District's contributions were equal to the required contributions as set by state statute.

4. Pension Costs

At June 30, 2023, the District reported a liability of $18,176,476 for its proportionate share of 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

Note 10 Defined Benefit Pension Plans (Continued)

liability associated with the District totaled $533,042.

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 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. At June 30, 2023, the District's proportion was 0.2295% at the end of the measurement period and 0.2154% for the beginning of the period.

For the year ended June 30, 2023, the District recognized pension expense of $2,965,530 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $79,649 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million.

At June 30, 2023, the District reported is proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 151,823	$ 183,221
Net difference between projected and actual earnings on plan investments	738,526	
Changes in proportion	477,861	389,705
Changes in actuarial assumptions	3,868,566	73,574
Contributions made to PERA subsequent to the measurement date	1,438,217	
Total	$ 6,674,993	$ 646,500

$1,438,217 reported as deferred outflows of resources related to pensions resulting from the District's 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 Amount
2024	$ 1,594,280
2025	1,638,684
2026	(286,479)
2027	1,643,791
Total	$ 4,590,276

Note 10 Defined Benefit Pension Plans (Continued)

5. 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 percent. 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 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter.

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

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

The following changes in actuarial assumptions occurred in 2022:

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

The following changes in plan provisions occurred in 2022:

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

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimates 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 Stocks	33.5%	5.10%
International Stocks	16.5%	5.30%
Private Markets	25.0%	5.90%
Fixed Income	25.0%	0.75%
Total	100%	

Note 10 Defined Benefit Pension Plans (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability in 2022 was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund 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.

7. Pension Liability Sensitivity

The following table presents the District's proportionate share of the net pension liability 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	Discount Rate	1% Increase in Discount Rate
Discount Rate	7.50%	6.50%	5.50%
District's proportionate share of the PERA net pension liability	$ 1,352,512	$ 18,176,476	$ 18,760,336

8. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report can be obtained at www.mnpera.org.

Note 11 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; injuries to employee health and dental; and natural disasters. Risks of loss related to employee dental claims are self-insured. Risk of loss associated with workers' compensation claims were insured through participation in the Minnesota School Boards Association Insurance Trust and continue to cover claims arising during their period of coverage. The District currently carries commercial workers' compensation insurance. This policy provides coverage for up to a maximum liability limit of $2,000,000 with a medical deductible of $2,500 for each workers' compensation claim. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

Note 12 Dental Self-Insurance Plan

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

An analysis of claims activity for the last two fiscal years is presented below:

Year Ended	Claim Liability Beginning of Year	Claims Incurred	Claims Paid	Claim Liability End of Year
June 30, 2023	$ 21,420	$ 867,557	$ 785,581	$ 103,396
June 30, 2022	21,422	709,529	709,531	21,420

Note 13 Commitments and Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's counsel the resolution of these matters will not have a material adverse effect on the financial conditions of the District.

At June 30, 2023 the District had $1,357,918 remaining under construction contracts for future work on buildings and sites.

Required Supplementary Information

Independent School District No. 709

Information about the District's Other Postemployment Health Care Plan
Year Ended June 30, 2023

Schedule of Changes in Net OPEB Liability and Related Ratios

	2023	2022	2021	2020	2019
Total OPEB Liability					
Service Cost	$ 1,267,214	$ 1,202,398	$ 1,034,727	$ 1,046,751	$ 997,070
Interest	335,229	424,005	509,112	629,943	613,488
Differences between expected and actual experience	89,068	(26,233)	-	(1,471,559)	
Changes of assumptions	(1,726,526)	(175,570)	578,584	31,787	(49,578)
Benefit payments	(1,511,957)	(1,159,816)	(1,338,844)	(1,383,288)	(1,500,194)
Net change in total OPEB liability	(1,546,972)	264,784	783,579	(1,146,366)	60,786
Total OPEB Liability - beginning of year	16,948,628	16,683,844	15,900,265	17,046,631	16,985,845
Total OPEB liability - end of year	$ 15,401,656	$ 16,948,628	$ 16,683,844	$ 15,900,265	$ 17,046,631
Covered-employee payroll	75,080,891	67,511,107	67,802,595	57,803,966	55,080,812
Total OPEB liability as a percentage of covered-employee payroll	20.5%	25.1%	24.6%	27.5%	30.9%

Notes to Schedule:
Funding: There are no assets accumulated in a trust that meets the criteria of GASB NO. 75 paragraph 4, to pay related benefits.
The discount rate was reduced from 3.13% to 2.45% from the previous measurement date.

*The schedule is intended to present information for the last 10 years.
Additional information will be presented as it becomes available.

Independent School District No. 709

Information about the District's Net Pension Liability

Year Ended June 30, 2023

Schedule of Employer's Share of Net Pension Liability

TEACHER'S RETIREMENT ASSOCIATION (TRA)

Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability associated with the District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2022	0.8691%	$69,592,930	$ 5,161,200	$74,754,130	$54,320,051	128.1%	76.2%
June 30, 2021	0.8181%	$35,802,502	$ 3,019,548	$38,822,050	$48,952,106	73.1%	86.6%
June 30, 2020	0.8273%	$61,122,033	$ 5,122,031	$66,244,064	$47,219,040	127.1%	75.5%
June 30, 2019	0.8317%	$53,012,733	$ 4,691,452	$57,704,185	$47,690,576	112.3%	78.1%
June 30, 2018	0.8293%	$52,088,203	$ 4,893,712	$56,981,915	$45,816,146	113.7%	78.1%
June 30, 2017	0.8874%	$177,141,137	$ 17,123,980	$194,265,117	$47,767,591	370.8%	51.6%
June 30, 2016	0.8681%	$207,062,563	$ 20,782,926	$227,845,489	$45,155,373	458.6%	44.9%
June 30, 2015	0.7225%	$44,693,771	$ 5,481,972	$50,175,743	$36,668,947	121.9%	76.8%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability associated with the District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2022	0.2295%	$18,176,476	$ 533,042	$18,709,518	$17,168,616	105.9%	76.7%
June 30, 2021	0.2154%	$9,198,545	$ 280,806	$9,479,351	$15,484,741	59.4%	87.0%
June 30, 2020	0.2284%	$13,693,624	$ 422,365	$14,115,989	$16,275,133	84.1%	79.1%
June 30, 2019	0.2265%	$12,565,292	$ 389,316	$12,954,608	$13,895,137	78.4%	80.2%
June 30, 2018	0.2357%	$13,075,670	$ 428,850	$13,504,520	$15,809,497	82.7%	79.5%
June 30, 2017	0.2588%	$16,521,621	$ 207,740	$16,729,361	$16,672,067	99.1%	75.9%
June 30, 2016	0.2547%	$20,680,377	$ 270,170	$20,950,547	$15,804,347	130.9%	68.9%
June 30, 2015	0.2582%	$13,381,264	$ -	$13,381,264	$14,926,453	89.6%	78.2%
June 30, 2014	0.2272%	$12,772,500	$ -	$12,772,500	$14,262,185	89.6%	78.7%

DULUTH TEACHER'S RETIREMENT FUND ASSOCIATION (DTRFA)

Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2014	31.6004%	$81,187,076	$42,238,042	192.2%	46.8%

Schedule of Employer's Contributions

Schedule of Employer's Contributions

TEACHER'S RETIREMENT ASSOCIATION (TRA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2023	$4,859,660	$4,859,660	$0	$56,838,134	8.55%
June 30, 2022	$4,530,292	$4,530,292	$0	$54,320,051	8.34%
June 30, 2021	$3,979,806	$3,979,806	$0	$48,952,106	8.13%
June 30, 2020	$3,640,588	$3,640,588	$0	$47,219,040	7.92%
June 30, 2019	$3,636,786	$3,636,786	$0	$47,690,576	7.71%
June 30, 2018	$3,436,211	$3,436,211	$0	$45,816,146	7.50%
June 30, 2017	$3,582,569	$3,582,569	$0	$47,767,591	7.50%
June 30, 2016	$3,386,653	$3,386,653	$0	$45,155,373	7.50%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2023	$1,438,217	$1,438,217	$0	$19,177,178	7.50%
June 30, 2022	$1,287,115	$1,287,115	$0	$17,168,626	7.50%
June 30, 2021	$1,161,356	$1,161,356	$0	$15,484,741	7.50%
June 30, 2020	$1,220,635	$1,220,635	$0	$16,275,133	7.50%
June 30, 2019	$1,042,135	$1,042,135	$0	$13,895,137	7.50%
June 30, 2018	$1,185,712	$1,185,712	$0	$15,809,497	7.50%
June 30, 2017	$1,250,405	$1,250,405	$0	$16,672,067	7.50%
June 30, 2016	$1,185,326	$1,185,326	$0	$15,804,347	7.50%
June 30, 2015	$1,119,484	$1,119,484	$0	$14,926,453	7.50%

DULUTH TEACHER'S RETIREMENT ASSOCIATION (DTRFA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2015	$2,750,171	$2,750,171	$0	$36,668,947	7.50%

*The schedule is intended to present information for the last 10 years.
Additional information will be presented as it becomes available.

Supplementary Financial Information

Independent School District No. 709

Nonmajor Governmental Funds – Combining Balance Sheet

For the Year Ended June 30, 2023

	Special Revenue Funds		
	Food Service Fund	Community Service Fund	Total Nonmajor Governmental Funds
Assets			
Cash and temporary cash investments	$ 2,049,861	$ 2,860,082	$ 4,909,943
Accounts receivable	559	32,705	33,264
Current property taxes receivable		530,804	530,804
Delinquent property taxes receivable		16,234	16,234
Due from other Minnesota school districts		45,744	45,744
Due from the Minnesota Department of Education		321,441	321,441
Due from the federal government through the Minnesota Department of Education	134,084	401,553	535,637
Inventory	98,667		98,667
Total assets	$ 2,283,171	$ 4,208,563	$ 6,491,734
Liabilities			
Salaries payable	$ 15,385	$ 417,825	$ 433,210
Accounts payable	33,496	188,761	222,257
Accrued expenses	2,390	191,466	193,856
Deferred revenue		70,687	70,687
Total liabilities	51,271	868,739	920,010
Deferred Inflows of Resources			
Unavailable revenue - delinquent property taxes		16,234	16,234
Property taxes levied for subsequent year's expenditures		1,068,734	1,068,734
Total deferred inflows of resources		1,084,968	1,084,968
Fund balances			
Nonspendable	98,667		98,667
Restricted	2,133,233	2,254,856	4,388,089
Total fund balances	2,231,900	2,254,856	4,486,756
Total liabilities, deferred inflows of resources and fund balances	$ 2,283,171	$ 4,208,563	$ 6,491,734

Independent School District No. 709

Nonmajor Governmental Funds – Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2023

	Special Revenue Funds		Total
	Food Service Fund	Community Service Fund	Nonmajor Governmental Funds
Revenues			
Local property tax levies	$	$ 969,342	$ 969,342
Other local and county revenues		2,310,009	2,310,009
Revenue from state sources	238,505	2,673,298	2,911,803
Revenue from federal sources	3,463,653	2,885,757	6,349,410
Sales and other conversion of assets	1,111,633		1,111,633
Total revenues	4,813,791	8,838,406	13,652,197
Expenditures			
Current			
Community education and services		8,408,207	8,408,207
Pupil support services	4,638,497		4,638,497
Capital outlay	10,911	2,500	13,411
Total expenditures	4,649,408	8,410,707	13,060,115
Excess (deficiency) of revenues over expenditures	164,383	427,699	592,082
Other financing sources (uses)			
Transfer		1,637	
Net change in fund balances	164,383	429,336	592,082
Fund balances, beginning	2,067,517	1,825,520	3,893,037
Fund balances, ending	$ 2,231,900	$ 2,254,856	$ 4,486,756

Independent School District No. 709

Fiscal Compliance Table

For the Year Ended June 30, 2023

	Audit	UFARS	Audit - UFARS
01 GENERAL FUND			
Total revenues	$134,165,887	$134,165,887	$ -
Total expenditures	140,887,463	140,887,462	1
Non spendable			
460 Non spendable fund balance	68,774	68,774	-
Restricted/Reserve			
401 Student activities	363,546	363,546	-
403 Staff development	313,515	313,515	-
405 Deferred maintenance			-
406 Health and safety			-
407 Capital Projects Levy			-
408 Cooperative revenue			-
411 Severance pay			-
413 Project funded by COP			-
414 Operating debt			-
416 Levy reduction			-
417 Taconite building maintenance			-
423 Certain teacher programs			-
424 Operating capital	1,685,548	1,685,548	-
426 $25 Taconite			-
427 Disabled accessibility			-
428 Learning and development			-
434 Area learning center	11,367	11,367	-
435 Contracted alt. programs			-
436 St. approved alt. program			-
438 Gifted & talented	12,682	12,682	-
440 Teacher development & eval	16,729	16,729	
441 Basic skills program	134,134	134,134	-
445 Career and technical programs			-
446 First Grade Preparedness			-
449 Safe schools levy	476,489	476,489	-
450 Prekindergarten			-
451 QZAB payments			-
452 OPEB liability not in trust			-
453 Unfunded sev & retirement levy			-
467 LTFM	1,553,883	1,553,883	-
472 Medical Assistance	199,860	199,860	-
Restricted			
464 Restricted fund balance			-
Committed			
418 Committed for separation			-
461 Committed fund balance			-
Assigned			
462 Assigned fund balance	17,743,919	17,743,919	-
Unassigned			
422 Unassigned fund balance	-6,760	(6,759)	(1)
02 FOOD SERVICE			
Total revenues	4,813,791	4,813,790	1
Total expenditures	4,649,408	4,649,402	6
Non spendable			
460 Non spendable fund balance	98,667	98,667	-
Restricted			
452 OPEB liability not in trust			-
464 Restricted fund balance	2,133,233	2,133,238	(5)
Unassigned			
463 Unassigned fund balance			-
04 COMMUNITY SERVICE			
Total revenues	8,838,406	8,838,406	-
Total expenditures	8,410,707	8,410,707	-
Non spendable			-
460 Non spendable fund balance			-
Restricted/Reserve			
426 $25 taconite			-
431 Community education	1,681,401	1,681,401	-
432 ECFE	266,987	266,987	-
444 School readiness	56,773	56,773	-
447 Adult Basic Education	249,695	249,695	-
452 OPEB liability not in trust			-
Restricted			
464 Restricted fund balance		-	-
Unassigned			
463 Unassigned fund balance	-	-	-

	Audit	UFARS	Audit - UFARS
06 BUILDING CONSTRUCTION			
Total revenues	$ 395,558	$ 395,558	$ -
Total expenditures	18,767,569	18,767,569	-
Non spendable			
460 Non spendable fund balance			-
Restricted/Reserve			
407 Down payment levy			
413 Projects funded by COP	12,290,786	12,290,786	-
409 Alternative facility program			-
467 LTFM		-	-
Restricted			
464 Restricted fund balance		-	-
Unassigned			
463 Unassigned fund balance	-	-	-
			-
07 DEBT SERVICE - SEE NEXT PAGE FOR DISCUSSION OF VARIANCES			-
Total revenues	22,548,851	22,548,853	(2)
Total expenditures	24,325,884	24,325,884	-
Non spendable			
460 Non spendable fund balance			-
Restricted/Reserve			
425 Bond refundings	16,432	16,432	-
451 QZAB payments			-
Restricted			
464 Restricted fund balance	2,702,216	2,702,216	-
Unassigned			
463 Unassigned fund balance			-
08 TRUST			
Total revenues	281,660	281,660	-
Total expenditures	-	-	-
401 Student activities	-	-	-
402 Scholarships	1,922,322	1,922,322	-
422 Unassigned	1,922,322	1,922,322	-
18 CUSTODIAL FUND			
Total revenues			-
Total expenditures			-
401 Student activities			-
402 Scholarships			-
20 INTERNAL SERVICE			
Total revenues	911,485	911,485	-
Total expenditures	1,007,231	1,007,231	-
422 Net position	502,457	502,458	(1)
25 OPEB REVOCABLE TRUST FUND			
Total revenues			-
Total expenditures			-
422 Net position			-
45 OPEB IRREVOCABLE TRUST FUND			
Total revenues			-
Total expenditures			-
422 Net position			-
47 OPEB DEBT SERVICE FUND			
Total revenues			-
Total expenditures			-
Non spendable			-
460 Non spendable fund balance			
Restricted			
425 Bond refundings			-
464 Restricted fund balance			-
Unassigned			
463 Unassigned fund balance			-

Reports Required by *Government Auditing Standards*, Uniform Guidance, and the State of Minnesota

Independent School District No. 709

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Federal AL Number	Expenditures
U.S. Department of Agriculture		
Passed-through Minnesota Department of Education:		
Child Nutrition Cluster		
School Breakfast Program	10.553	$ 658,462
Non-Cash Assistance (Commodities)	10.555	304,735
National School Lunch Program	10.555	2,224,156
Total 10.555		2,528,891
Summer Food Service Program for Children	10.559	221,242
Total Child Nutrition Cluster		3,408,595
Farm to School Grant	10.185	1,535
Fresh Fruit and Vegetable Program	10.582	23,429
Child and Adult Care Food Program	10.558	30,094
Total U.S. Department of Agriculture		3,463,653
U.S. Department of Interior		
Passed-through Fond du Lac Band of Lake Superior Chippewa		
Indian Education - Grants to Schools	15.130	51,516
U.S. Department of Treasury		
Passed-through Minnesota Department of Revenue		
ARP - Coronavirus State and Local Fiscal Recovery Funds	21.027	577,621
ARP - Coronavirus State and Local Fiscal Recovery Funds	21.027	263,762
Passed-through St. Louis County		
ARP - Coronavirus State and Local Fiscal Recovery Funds	21.027	615,400
Total Coronavirus State and Local Fiscal Recovery Funds		1,456,783
U.S. Department of Education		
Direct Program		
Title VII Indian Education, Grants to Local Education Agencies	84.060	200,776
Passed-through Minnesota Department of Education:		
Adult Basic Education - Basic Grants to States	84.002	26,435
Title I, Part A	84.010	2,095,681
Title I, Neglected and Delinquent	84.010	390,441
Total 84.010		2,486,122
Special Education Cluster		
IDEA, Part B	84.027	2,565,169

Independent School District No. 709

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Federal AL Number	Expenditures
ARP IDEA Part B Section 611	84.027X	38,811
IDEA, Part B Preschool Grant for Children with Disabilities	84.173	81,049
Total Special Education Cluster		2,685,029
Education for Homeless Children and Youth	84.196	35,000
Special Education - State Personnel Development	84.323	289,210
Title III - English Language Acquisition	84.365	22,969
Title II, Part A	84.367	353,346
Student Support and Academic Enrichment Program	84.424	201,844
ARP - Elementary and Secondary School Emergency Relief Fund	84.425U	10,046,958
ARP - Elementary and Secondary School Emergency Relief Fund - Homeless Children and Youth	84.425W	34,800
Total Education Stabilization Fund		10,081,758
Total U.S. Department of Education		16,382,489
U.S. Department of Health and Human Services		
Direct Program		
Head Start	93.600	2,859,322
Passed-through Minnesota Department of Education		
Project Aware	93.243	449,786
MN COVID Testing	93.323	187,137
Total U.S. Department of Health and Human Services		3,496,245
Total expenditures of federal awards		$ 24,850,686

Independent School District No. 709

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Independent School District No. 709 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 of Federal* Awards (Uniform Guidance) Because the schedule presents only a selected portion of the operations of Independent School District No. 709, it is not intended to and does not present the financial position, changes in net position, or cash flows of Independent School District No. 709.

Note 2 Significant Accounting Policies

Expenditures reported on the schedules are reported on the 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. Pass-through entity identifying numbers are presented where available.

Independent School District No. 709 has not elected to use the 10 percent de minimus indirect costs rate as allowed under Uniform Guidance.

Note 3 Pass-Through Grant Numbers

All pass-through listed on the previous page use the same AL numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

Note 4 Subrecipients

The District has not passed funding to subrecipients during 2022-23.

WIPFLI

Independent Auditor's 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

To the School Board
Independent School District No. 709
Duluth, Minnesota

We have audited, in accordance with the auditing standards general accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 709 (District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2023.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiencies in internal control that we consider to be material weaknesses.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2022-001 and 2022-002 to be material weaknesses.

Compliance and Other Matters

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

The District's Response to the Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

Wipfli LLP

December 19, 2023
Duluth, Minnesota

WIPFLI

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance

To the School Board
Independent School District No. 709
Duluth, Minnesota

Opinion on Each Major Federal Program

We have audited Independent School District No. 709 (District)'s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2023. Independent School District No. 709 (District)'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Independent School District No. 709 (District) complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 Independent School District No. 709 (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, federal statues, regulations, rules, and provisions of contracts or 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 is 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. 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.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wipfli LLP
December 19, 2023
Duluth, Minnesota

WIPFLI

Independent Auditor's Report on Legal Compliance for the State of Minnesota

To the School Board
Independent School District No. 709
Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the Unites States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 709 (District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2023.

The *Minnesota Legal Compliance Audit Guide for School Districts,* promulgated by the State Auditor pursuant to Minnesota Statute §6.65 contains seven categories of compliance to be tested: 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. Our audit considered all of the listed categories.

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 *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

The purpose of this report is solely 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.

Wipfli LLP

December 19, 2023
Duluth, Minnesota

Independent School District No. 709

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	**Unmodified**			
Internal control over financial reporting:				
Material weakness identified?	X	Yes		No
Significant deficiency(s)?		Yes	X	None reported
Noncompliance material to the financial statements		Yes	X	No

Federal Awards

Internal control over major federal programs:				
Material weakness identified?		Yes	X	No
Significant deficiency(s)?		Yes	X	None reported
Type of auditor's report issued on compliance for major programs:	**Unmodified**			
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance [2 CFR 200.516(a)]?		Yes	X	No

Identification of major federal program

AL Number	**Name of Federal Program or Cluster**
84.027, 84.173	Special Education Cluster
21.027	Coronavirus State and Local Fiscal Recovery Funds
84.425	Governor's Emergency Education Relief Fund and Elementary and Secondary School Emergency Relief Fund

Dollar threshold used to distinguish between Type A and Type B Programs	$750,000			
Auditee qualified as a low-risk auditee?		Yes	X	No

Section II - Financial Statement Findings:

Item 2023-001 - Audit adjustments/Reconciliation of Significant Accounts (Material Weakness)

Criteria - Controls should be in place to ensure accurate financial reporting. In order to make the financial reports generated by the accounting system as meaningful as possible, the District should reconcile the general ledger accounts to supporting documentation on a monthly basis.

Condition - The District is responsible for controls over the period-end financial reporting process, including controls over procedures to process journal entries into the general ledger and record recurring and nonrecurring adjustments to the financial statements and reconciling general ledger accounts to supporting documentation. As a result of audit procedures, we identified significant accounts that were not reconciled at year end, including taxes receivable, general aid receivables, accounts receivable, accounts payable, salaries payable, and accrued expenses; and proposed material adjustments to the District's general ledger accounts to correct these misstatements.

Cause - The District's controls over period-end financial reporting did not prevent or detect material misstatements of the financial statements.

Effect - Without controls over procedures that will detect or prevent misstatements when entering transactions or making adjustments to the financial statements and reconciling significant accounts to supporting documentation, the financial statements may be misstated.

Recommendation - We recommend that management implement controls necessary to achieve accurate financial reporting, including reconciling significant accounts monthly.

District's Response - The District feels that we have reached milestones regarding audit compliance and Skyward reporting procedures. We feel this will improve each year and as we complete another audit we have already started conversations about the next audit on areas for the district to improve on.

2023-002 - Financial Statement Presentation and Disclosures (Material Weakness)

Criteria - Controls should be in place to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

Condition - The District internal control over financial reporting does not end at the general ledger, but extends to the financial statements and related notes. As part of our professional services for the year ended June 30, 2022, Wipfli assisted in drafting the financial statements and related notes. While the District does have an internal control process to review the financial statements prepared by the auditors, the District does not have sufficient expertise to completely prepare its own financial statements and related notes, and relies on the auditors to provide necessary understanding of current accounting and disclosure principles in the preparation of the financial statements and related notes.

Cause - The District does not expect, nor does it require, its financial staff to have the ability to prepare GAAP financial statements.

Effect - The completeness of the related note disclosures and the accuracy of the overall financial presentation is negatively impacted as outside auditors do not have the same comprehensive understanding of the District and its staff. The potential exists that a misstatement of the financial statements and related notes could occur and not be prevented or detected by the District.

Recommendation - We recommend that management and those charged with governance continue to evaluate whether to accept the degree of risk associated with this condition because of cost or other considerations.

District's Response - The District will continue to rely upon the auditors to prepare the financial statements and related notes. Management will review and approve the annual financial statements and related notes.

Section III - Federal Findings:

None.

Section IV - Minnesota Legal Compliance Findings:

None.

Independent School District No. 709

Schedule of Prior Year Findings and Questioned Costs

For the Year Ended June 30, 2023

Prior Year Findings:

Section II – Financial Statement Findings:

Finding 2022-001 - Audit adjustments/Reconciliation of Significant Accounts – Repeated as finding 2023-001

Finding 2022-002 - Financial Statement Presentation and Disclosures – Repeated as finding 2023-002.

Section III - Federal Findings:

None.

Section IV - Minnesota Legal Compliance Findings:

None.