

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

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NORTHOME, MINNESOTA  
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NORTHOME, MINNESOTA  
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**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
ROSTER OF SCHOOL OFFICIALS  
June 30, 2023**

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Bob Stueven	Chairperson
Ralph Lewis	Vice-Chairperson
Scott Mai	Treasurer
Douglas Jourdan	Clerk
Emily Lindley	Director
Malisa Schue	Director
Jeremy Tammi	Superintendent

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Independent School District No. 363  
Northome, Minnesota

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

#### ***Opinions***

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. 363, 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 Independent School District No. 363, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independent School District No. 363, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Independent School District No. 363'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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement 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 judgement 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 Independent School District No. 363'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Independent School District No. 363's ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the District's total OPEB liability and related ratios, schedule of District contributions, schedule of District's share of net pension liability, and notes to required supplementary information as listed in the table of contents as required supplementary information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining statements, schedule of changes in fund balances, and compliance table as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, schedule of changes in fund balances, and compliance table are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Information**

Management is responsible for the other information in the annual report. The other information comprises the roster of school officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 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 the District's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

November 3, 2023

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**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2023**

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This section of Independent School District No. 363's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2023. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### **Financial Highlights**

The District's fund balance decreased \$807,630 during the 2022-2023 school year.

### **Overview of the Financial Statements**

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
  - The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short-term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget for the year, and supplementary information that is presented for additional analysis.

### District-wide Statements

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

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

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

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

- *Governmental activities*: All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2023**

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Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

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

The District has one kind of fund:

Governmental funds: The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance to help explain the relationship (or differences) between governmental funds and governmental activities.

The District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and the building fund, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data is provided in the form of combining statements elsewhere in this report.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2023**

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**Financial Analysis of the District as a Whole**

Net Position

The District's combined net position was \$3,283,241 on June 30, 2023 (see details in Table A-1). This was an increase of 25.2 percent from the prior year.

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

	<u>2023</u>	<u>2022</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 8,207,544	\$ 10,336,944	(20.6) %
Capital and Lease Assets	4,452,420	3,986,318	11.7
Total Assets	<u>12,659,964</u>	<u>14,323,262</u>	(11.6)
Deferred Outflows of Resources	<u>1,283,661</u>	<u>1,453,499</u>	(11.7)
Long-Term Liabilities	8,285,208	6,567,121	26.2
Other Liabilities	818,755	2,253,041	(63.7)
Total Liabilities	<u>9,103,963</u>	<u>8,820,162</u>	3.2
Deferred Inflows of Resources	<u>1,556,421</u>	<u>4,335,235</u>	(64.1)
Net Position			
Net Investment in Capital and Lease Assets	4,079,284	3,696,636	10.4
Restricted	721,359	668,908	7.8
Unrestricted	<u>(1,517,402)</u>	<u>(1,744,180)</u>	13.0
Total Net Position	<u>\$ 3,283,241</u>	<u>\$ 2,621,364</u>	25.2 %

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2023**

Change in Net Position

Table A-2 presents the change in net position of the District.

**Table A-2  
Change in Net Position**

	<u>2023</u>	<u>2022</u>	<u>Total Percentage Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 170,313	\$ 50,790	235.3 %
Operating Grants and Contributions	1,508,278	2,193,139	(31.2)
Capital Grants and Contributions	116,066	291,009	(60.1)
General Revenues			
Property Taxes	1,229,677	1,275,684	(3.6)
Unrestricted State Aid	3,588,860	3,481,530	3.1
Other Sources	325,414	222,694	46.1
Total Revenues	<u>6,938,608</u>	<u>7,514,846</u>	(7.7)
Expenses			
Administration	344,221	335,684	2.5
District Support Services	286,946	405,193	(29.2)
Elementary & Secondary Regular Instruction	1,792,451	2,624,973	(31.7)
Vocational Education Instruction	36,958	41,833	(11.7)
Special Education Instruction	799,741	771,848	3.6
Community Education and Services	91,002	73,157	24.4
Instructional Support Services	125,556	97,859	28.3
Pupil Support Services	1,718,319	1,675,493	2.6
Sites and Buildings	747,971	684,725	9.2
Fixed Costs	64,996	37,709	72.4
Interest on Long-Term Debt	96,969	23,651	310.0
Depreciation - Unallocated	171,601	171,601	0.0
Total Expenses	<u>6,276,731</u>	<u>6,943,726</u>	(9.6)
Change in Net Position	661,877	571,120	15.9
Net Position - Beginning	<u>2,621,364</u>	<u>2,050,244</u>	27.9
Net Position - Ending	<u>\$ 3,283,241</u>	<u>\$ 2,621,364</u>	25.2 %

The District's total revenues were \$6,938,608 for the year ended June 30, 2023. Property taxes and state aid payments accounted for 86 percent of total revenue for the year.

The total cost of all programs and services was \$6,276,731. The District's expenses are predominantly related to educating and caring for students.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2023**

Total revenues surpassed expenses, increasing net position \$661,877 over last year. For the year ended June 30, 2023, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by \$843,147. For the year ended June 30, 2022, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA decreased net position by \$261,474.

The net cost of governmental activities is their total costs less program revenues applicable to each category.

Table A-3 presents these net costs.

**Table A-3  
Net Cost of Governmental Activities**

	Total Cost of Services		Total	Net Cost of Services		Total
	2023	2022	Percentage Change	2023	2022	Percentage Change
Expenses						
Administration	\$ 344,221	\$ 335,684	2.5 %	\$ 343,728	\$ 335,684	2.4 %
District Support Services	286,946	405,193	(29.2)	286,946	213,601	34.3
Elementary & Secondary						
Regular Instruction	1,792,451	2,624,973	(31.7)	1,370,035	2,149,047	(36.2)
Vocational Education Instruction	36,958	41,833	(11.7)	27,005	31,404	(14.0)
Special Education Instruction	799,741	771,848	3.6	160,814	211,284	(23.9)
Community Education and Services	91,002	73,157	24.4	53,703	35,123	52.9
Instructional Support Services	125,556	97,859	28.3	84,265	(77,461)	208.8
Pupil Support Services	1,718,319	1,675,493	2.6	1,289,876	785,613	64.2
Sites and Buildings	747,971	684,725	9.2	532,136	491,532	8.3
Fixed Costs	64,996	37,709	72.4	64,996	37,709	72.4
Interest on Long-Term Debt	96,969	23,651	310.0	96,969	23,651	310.0
Depreciation - Unallocated	171,601	171,601	0.0	171,601	171,601	0.0
	<u>\$ 6,276,731</u>	<u>\$ 6,943,726</u>	(9.6) %	<u>\$ 4,482,074</u>	<u>\$ 4,408,788</u>	1.7 %

**Financial Analysis of the District's Funds**

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

**Table A-4  
Major Funds**

	Fund Balance		Decrease	Percentage Decrease
	6/30/23	6/30/22		
Governmental Funds				
General	\$ 3,451,994	\$ 3,988,816	\$ (536,822)	(13.5) %
Debt Service Fund	45,451	128,578	(83,127)	(64.7)
Building Fund	3,395,658	3,584,634	(188,976)	(5.3)

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2023**

General Fund

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

Table A-5 presents a summary of general fund revenue.

**Table A-5  
General Fund Revenue**

	<u>2023</u>	<u>2022</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Local Sources				
Property Taxes	\$ 1,097,437	\$ 1,136,860	\$ (39,423)	(3.5) %
Interest Earnings	90,971	10,980	79,991	728.5
Other	210,890	247,882	(36,992)	(14.9)
State Sources	4,663,172	4,486,038	177,134	3.9
Federal Sources	221,381	1,111,882	(890,501)	(80.1)
Total General Fund Revenue	<u>\$ 6,283,851</u>	<u>\$ 6,993,642</u>	<u>\$ (709,791)</u>	<u>(10.1) %</u>

Total general fund revenue decreased by \$709,791 or 10.1 percent from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

Table A-6 presents a summary of general fund expenditures.

**Table A-6  
General Fund Expenditures**

	<u>2023</u>	<u>2022</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Salaries	\$ 3,151,870	\$ 3,391,449	\$ (239,579)	(7.1) %
Employee Benefits	905,695	902,313	3,382	0.4
Purchased Services	1,674,833	1,508,265	166,568	11.0
Supplies and Materials	438,497	511,412	(72,915)	(14.3)
Capital Expenditures	676,728	1,236,544	(559,816)	(45.3)
Debt Service	6,699	8,757	(2,058)	(23.5)
Other Expenditures	65,769	124,300	(58,531)	(47.1)
Total General Fund Expenditures	<u>\$ 6,920,091</u>	<u>\$ 7,683,040</u>	<u>\$ (762,949)</u>	<u>(9.9) %</u>

Total general fund expenditures decreased \$762,949 or 9.9 percent from the previous year.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2023**

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General Fund Budgetary Highlights

The District adopted its original budget in June 2022. During the year ended June 30, 2023, the District revised its budget.

The District's final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$856,668, the actual results for the year show a \$536,822 deficit.

**Capital Assets and Debt Administration**

Capital Assets

Note 3 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2023. Additions totaling \$860,487 consisted of gym mats, a new gym floor and the new roofing project. The District disposed of the old gym floor and seven buses in fiscal year 2023.

Long-Term Debt

At year-end, the District had \$4,139,895 of long-term debt consisting of bonded indebtedness net of related premiums, leases payable, and severance payable. Note 6 and 7 to the financial statements presents details and payment provisions of these items.

**Factors Bearing on the District's Future**

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

- As the building ages, the District expects the cost of maintaining the building to increase significantly over the years.
- Weakening economic conditions in local economy.
- Koochiching County has a declining population.
- Results of pending litigation regarding the closure of Indus School.

**Contacting the District's Financial Management**

This financial report is designed to provide the District's 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 Administration Offices, Independent School District No. 363, P.O. Box 465, Northome, MN 56661.

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**June 30, 2023**

GOVERNMENTAL ACTIVITIES

ASSETS

Cash and Investments	\$ 7,629,841
Property Taxes Receivable, Net of Allowance	273,466
Accounts Receivable	1,366
Due From Other MN School Districts	20,189
Due From Department of Education	241,829
Due From Other Governmental Units	30,000
Prepaid Expense	4,764
Inventory	6,089

Capital Assets

Land	193,500
Construction in Process	336,829
Other Capital Assets, Net of Depreciation	3,884,992

Lease Assets, Net of Amortization	<u>37,099</u>
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TOTAL ASSETS	<u>12,659,964</u>
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DEFERRED OUTFLOWS OF RESOURCES

Cost Sharing Defined Benefit Pension Plan	1,253,736
Other Postemployment Benefit	<u>29,925</u>

TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,283,661</u>
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LIABILITIES

Accounts Payable	89,734
Salaries Payable	218,211
Due to Other MN School Districts	159,518
Payroll Deductions	147,872
Interest Payable	34,451
Unearned Revenue	470
Long-Term Liabilities Due Within One Year	168,499

Long-Term Liabilities

Bonds, Net Unamortized Premium	3,785,419
Severance Payable	317,094
Lease Payable	37,382
Total Other Postemployment Benefit Liability	250,862
Net Pension Liability	4,062,950
Less Amounts Due Within One Year	<u>(168,499)</u>
Total Long-Term Liabilities	<u>8,285,208</u>

TOTAL LIABILITIES	<u>9,103,963</u>
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DEFERRED INFLOWS OF RESOURCES

Property Taxes Levied - Subs. Years	573,283
Cost Sharing Defined Benefit Pension Plan	933,612
Other Postemployment Benefit	<u>49,526</u>

TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,556,421</u>
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See Notes to the Financial Statements

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
STATEMENT OF NET POSITION (CONTINUED)  
June 30, 2023**

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NET POSITION	
Net Investment in Capital and Lease Assets	4,079,284
Restricted	
Student Activities	160,258
Scholarships	129,006
Safe Schools	27,536
Operating Capital	152,911
LTFM	72,719
Impact Aid	34,587
Community Education	6,162
Community Service	7,094
Debt Service	11,000
Permanent Fund - Nonexpendable	100,000
Permanent Fund - Expendable	20,086
Unrestricted	<u>(1,517,402)</u>
TOTAL NET POSITION	\$ <u>3,283,241</u>

See Notes to the Financial Statements

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2023**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>					
Administration	\$ 344,221	\$	\$ 493	\$	\$ (343,728)
District Support Services	286,946				(286,946)
Elementary & Secondary					
Regular Instruction	1,792,451	18,198	404,000	218	(1,370,035)
Vocational Education Instruction	36,958		9,953		(27,005)
Special Education Instruction	799,741	8,151	630,776		(160,814)
Community Education and Services	91,002	7,303	29,996		(53,703)
Instructional Support Services	125,556		41,291		(84,265)
Pupil Support Services	1,718,319	36,661	391,769	13	(1,289,876)
Sites and Buildings	747,971	100,000		115,835	(532,136)
Fixed Costs	64,996				(64,996)
Interest on Long-Term Debt	96,969				(96,969)
Depreciation - Unallocated	171,601				(171,601)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 6,276,731</b>	<b>\$ 170,313</b>	<b>\$ 1,508,278</b>	<b>\$ 116,066</b>	<b>(4,482,074)</b>

General Revenues

Taxes	
Property Taxes, Levied for General Purposes	1,103,071
Property Taxes, Levied for Community Education and Services	13,788
Property Taxes, Levied for Debt Services	112,818
Unrestricted State Aid	3,588,860
Unrestricted Investment Earnings	140,766
Loss on Sale of Capital Assets	(1,289)
Other General Revenue	185,937
<b>TOTAL GENERAL REVENUES</b>	<b>5,143,951</b>
Change in Net Position	661,877
Net Position - Beginning	2,621,364
Net Position - Ending	<b>\$ 3,283,241</b>

See Notes to the Financial Statements

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2023**

	General Fund	Debt Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Investments	\$ 3,987,060	\$ 107,005	\$ 3,395,658	\$ 140,118	\$ 7,629,841
Current Property Taxes Receivable	159,153	116,632		5,670	281,455
Delinquent Property Taxes Receivable	11,921	2,157		933	15,011
Accounts Receivable	1,366				1,366
Due From Other MN School Districts	20,189				20,189
Due From Department of Education	231,639	7,226		2,964	241,829
Due From Other Governmental Units	30,000				30,000
Due From Other Funds	4,921				4,921
Prepaid Expense	4,764				4,764
Inventory				6,089	6,089
<b>TOTAL ASSETS</b>	<b>\$ 4,451,013</b>	<b>\$ 233,020</b>	<b>\$ 3,395,658</b>	<b>\$ 155,774</b>	<b>\$ 8,235,465</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 88,781			\$ 953	\$ 89,734
Salaries Payable	217,267			944	218,211
Due To Other MN School Districts	159,518				159,518
Due To Other Funds				4,921	4,921
Payroll Deductions	147,872				147,872
Unearned Revenue				470	470
<b>TOTAL LIABILITIES</b>	<b>613,438</b>			<b>7,288</b>	<b>620,726</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue - Delinquent Taxes	11,921	2,157		933	15,011
Property Taxes Levied - Subs. Years	373,660	185,412		14,211	573,283
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>385,581</b>	<b>187,569</b>		<b>15,144</b>	<b>588,294</b>
<b>FUND BALANCES</b>					
Fund Balance:					
Nonspendable: Inventory				6,089	6,089
Nonspendable: Scholarships				100,000	100,000
Restricted for Student Activities	160,258				160,258
Restricted for Safe Schools	27,536				27,536
Restricted for Operating Capital	152,911				152,911
Restricted for Community Education				6,162	6,162
Restricted for Community Service				7,094	7,094
Restricted for Debt Service		45,451			45,451
Restricted for Scholarships	129,006			20,086	149,092
Restricted for Building Fund			1,412		1,412
Restricted for LTFM	72,719		3,394,246		3,466,965
Restricted for Impact Aid	34,587				34,587
Committed for Severance	300,000				300,000
Unassigned	2,574,977			(6,089)	2,568,888
<b>TOTAL FUND BALANCES</b>	<b>3,451,994</b>	<b>45,451</b>	<b>3,395,658</b>	<b>133,342</b>	<b>7,026,445</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 4,451,013</b>	<b>\$ 233,020</b>	<b>\$ 3,395,658</b>	<b>\$ 155,774</b>	<b>\$ 8,235,465</b>

See Notes to the Financial Statements

**INDEPENDENT SCHOOL DISTRICT NO. 363**

**NORTHOME, MINNESOTA**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF  
NET POSITION**

**June 30, 2023**

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Total fund balances - governmental funds \$ 7,026,445

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

Cost of capital assets	12,880,188
Less accumulated depreciation	(8,464,867)

Lease assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

Cost of lease assets	41,998
Less accumulated amortization	(4,899)

Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

1,283,661

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Bonds	(3,730,000)
Premium on bonds	(55,419)
Severance payable	(317,094)
Lease payable	(37,382)
Total other postemployment benefit liability	(250,862)
Net pension liability	(4,062,950)

Deferred inflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

(983,138)

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

15,011

An allowance has been set up for taxes receivable in the government-wide financial statements.

(23,000)

Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.

(34,451)

Net position - governmental activities \$ 3,283,241

See Notes to the Financial Statements

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2023**

	General Fund	Debt Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Local Property Tax Levies	\$ 1,097,437	\$ 112,287	\$	\$ 13,516	\$ 1,223,240
Other Local & County Revenues	301,861		48,769	9,724	360,354
Revenue From State Sources	4,663,172	72,243		41,734	4,777,149
Revenue From Federal Sources	221,381			196,257	417,638
Sale/Other Conversion of Asset				36,661	36,661
<b>TOTAL REVENUES</b>	<b>6,283,851</b>	<b>184,530</b>	<b>48,769</b>	<b>297,892</b>	<b>6,815,042</b>
<b>EXPENDITURES</b>					
Current					
Administration	344,221				344,221
District Support Services	280,608				280,608
Elementary & Secondary					
Regular Instruction	2,646,247				2,646,247
Vocational Education Instruction	36,958				36,958
Special Education Instruction	799,741				799,741
Community Education and Services				91,002	91,002
Instructional Support Services	125,556				125,556
Pupil Support Services	1,266,029			331,538	1,597,567
Sites and Buildings	676,283				676,283
Fixed Costs	61,021			3,500	64,521
Debt Service					
Principal	6,071	180,000			186,071
Interest and Fees	628	87,657			88,285
Capital Outlay	676,728		237,745		914,473
<b>TOTAL EXPENDITURES</b>	<b>6,920,091</b>	<b>267,657</b>	<b>237,745</b>	<b>426,040</b>	<b>7,851,533</b>
Revenues Under Expenditures	(636,240)	(83,127)	(188,976)	(128,148)	(1,036,491)
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of Capital Assets	86,863				86,863
Insurance Recovery	100,000				100,000
Debt Issued	41,998				41,998
Transfers In				129,443	129,443
Transfers Out	(129,443)				(129,443)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>99,418</b>			<b>129,443</b>	<b>228,861</b>
Net Change in Fund Balances	(536,822)	(83,127)	(188,976)	1,295	(807,630)
Fund Balances - Beginning	3,988,816	128,578	3,584,634	132,047	7,834,075
Fund Balances - Ending	<u>\$ 3,451,994</u>	<u>\$ 45,451</u>	<u>\$ 3,395,658</u>	<u>\$ 133,342</u>	<u>\$ 7,026,445</u>

See Notes to the Financial Statements

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2023**

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Total net change in fund balances - governmental funds \$ (807,630)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over the estimated useful lives as depreciation/amortization expense.

Capital Outlay	860,487
Depreciation	(341,893)
Amortization Expense	(6,338)

The disposal of capital assets decreases net position.	(88,152)
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Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	186,071
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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. Also, governmental funds report the effect of premiums when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(9,159)
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Change in net pension liability	(1,859,408)
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Change in deferred outflows and inflows of resources related to net pension liability	2,702,555
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Change in deferred outflows and inflows of resources related to other postemployment benefit liability	8,702
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Recognition of additional pension expense and grant revenue for the District's proportionate share of the State of Minnesota's contribution to the PERA and TRA.

In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid).

Other postemployment benefit liability	844
Severance payable	9,360

Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	6,438
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Change in net position - governmental activities	\$ 661,877
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See Notes to the Financial Statements

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of Independent School District No. 363 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**B. Reporting Entity**

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separated entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

**C. Basic Financial Statement Presentation**

The district-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

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

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

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

**D. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2023**

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when a liability is incurred, regardless of the timing or related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for advance amounts recognized in accordance with a statutory "tax shift." 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:

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 available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific 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.

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.

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements.

### **Description of Funds**

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report are as follows:

#### **Major Governmental Funds**

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds including pupil transportation and capital outlay activities, which were previously (prior to July 1, 1996) accounted for in separate special revenue funds.

Debt Service Fund – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Building Fund – Accounts for resources used for the acquisition and construction of major capital facilities.

GASB No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

#### **Nonmajor Governmental Funds**

Special Revenue Funds – Accounts for proceeds of specific revenue sources (other than permanent fund and major capital projects) that are legally restricted to expenditures for specified purposes. The District's special revenue funds and their purposes are as follows:

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2023**

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Food Service – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities.

Community Service – Accounts for all resources designated for programs other than those for elementary and secondary students.

Permanent Fund – Accounts for resources legally restricted such that only the earnings it generates, and not the principal, may be used to finance operations.

**E. Specific Account Information**

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

Investments are carried at fair value. The District considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable market inputs that are not corroborated by market data

Taxes Receivable – Taxes receivable represents taxes levied in 2022 which are not payable until 2023, net of the amount received prior to June 30.

Property Taxes – Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as the taxes are collected.

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

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 unavailable revenue (property taxes levied for subsequent years).

The majority of the revenue in the general fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the “tax shift.”

Taxes which 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 deferred in the fund based financial

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2023**

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statements because it is not known to be available to finance the operations of the District in the current year. The allowance for uncollectible taxes is \$23,000.

Inventory – Inventory is recorded using the consumption method of accounting and consists of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standardized costs, as determined by the Department of Agriculture.

Capital Assets – Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are recorded in the district-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. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 25 years for equipment.

Capital assets not being depreciated include land and construction in process, if any.

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

Leases – The determination of whether an arrangement contains a lease is made at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the District has control of the right to use asset. Control includes the right to obtain present service capacity and the right to determine the nature and manner of use of the underlying asset, as specified in the contract.

Leases with an initial lease term of more than 12 months, or that contain an option to purchase that the District is reasonably certain to exercise, are recognized based on the present value of lease payments over the lease term discounted using the interest rate implicit in the lease. In cases where the implicit rate is not readily determinable, the District uses its incremental borrowing rate based on the information available at the lease commencement date. The District has made an accounting policy election to use a risk free rate based on US Treasury Tbill rate as of the lease commencement. The District accounts for lease agreements with lease and non-lease components together as a single lease component for all underlying classes of assets.

The District continues to record rent expense for short term leases on a straight-line basis over the lease term. Short term leases have a term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the District is reasonably certain to exercise.

The depreciable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

The District's lease agreements do not include any material residual value guarantees or restrictive covenants.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued in the future, bond

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2023**

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premiums and discounts will be deferred and amortized over the life of the bonds using the effective interest method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs will be expensed in the period incurred.

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.

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net 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 resource (expense/expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represents actuarial differences within PERA and TRA pension plans and other postemployment benefit plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net 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 three types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The item, *property taxes levied – subs. years*, is reported as a deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent property tax revenue levied for a subsequent period. The third items, *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* represent actuarial differences within PERA and TRA pension plans and other postemployment benefits.

Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2023**

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those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.

Committed – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management. The Board of Education delegates the authority to assign fund balances to the Superintendent.

Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the District’s policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District’s policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The school district will strive to maintain a minimum unassigned general fund balance of three months of operating expenses.

**F. Use of Estimates**

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

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2023**

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**NOTE 2 DEPOSITS AND INVESTMENTS**

The District maintains a cash account at its depository bank. The District considers certificates of deposit to be cash.

The District's interest income for the year ended June 30, 2023, was \$140,766.

The pooled cash and investment account is comprised entirely of cash accounts.

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The District may invest idle funds as authorized in Minnesota Statutes, as follows:

- (a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated "A" or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a "depository" of public funds of the government entity, any other financial institution which is a member 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.
- (g) Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Deposits - The District does not have a policy for custodial credit risk. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2023, the District was not exposed to custodial credit risk.

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**NOTE 3 CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 193,500	\$	\$	\$ 193,500
Construction in Process	938,057	230,728	831,956	336,829
Total Capital Assets, Not Being Depreciated	<u>1,131,557</u>	<u>230,728</u>	<u>831,956</u>	<u>530,329</u>
Capital Assets, Being Depreciated:				
Land Improvements	516,741			516,741
Buildings	9,209,075	1,455,876	28,900	10,636,051
Equipment	1,767,594	5,839	576,366	1,197,067
Total Capital Assets, Being Depreciated	<u>11,493,410</u>	<u>1,461,715</u>	<u>605,266</u>	<u>12,349,859</u>
Less Accumulated Depreciation For:				
Land Improvements	431,834	8,187		440,021
Buildings	7,191,442	232,995	17,340	7,407,097
Equipment	1,016,812	100,711	499,774	617,749
Total Accumulated Depreciation	<u>8,640,088</u>	<u>341,893</u>	<u>517,114</u>	<u>8,464,867</u>
Total Capital Assets, Being Depreciated, Net	<u>2,853,322</u>	<u>1,119,822</u>	<u>88,152</u>	<u>3,884,992</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,984,879</u>	<u>\$ 1,350,550</u>	<u>\$ 920,108</u>	<u>\$ 4,415,321</u>

In the statement of activities, depreciation expense was charged to the following governmental functions:

Elementary & Secondary Regular Instruction	\$ 3,295
Pupil Support Services	77,766
Sites and Buildings	89,231
	<u>170,292</u>
Unallocated	171,601
Total Depreciation Expense	<u>\$ 341,893</u>

**NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE**

Substantially, all employees of the District are required by state law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis.

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Disclosures relating to these plans follow:

**A. Public Employees Retirement Association**

Plan Description – The District participates 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 Code.

*General Employees Retirement Plan*

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

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

General Employees Plan benefits 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 a Coordinated Plan member is 1.2% for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase will be 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 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 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.

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 6.50% of their annual covered salary in fiscal year 2023 and the District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2023, were \$69,666. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2023, the District reported a liability of \$1,164,245 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due

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to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$34,288.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0147% at the end of the measurement period and 0.0144% for the beginning of the period.

District's proportionate share of net pension liability	\$ 1,164,245
State of Minnesota's proportionate share of the net pension liability associated with the District	34,288
Total	<u>\$ 1,198,533</u>

For the year ended June 30, 2023, the District recognized pension expense of \$161,554 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized \$5,123 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual \$16 million contribution.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 9,724	\$ 12,121
Difference between projected and actual investment earnings	26,076	
Changes in actuarial assumptions	258,275	4,381
Changes in proportion	36,840	15,927
Contributions paid to PERA subsequent to the measurement date	69,666	
Total	<u>\$ 400,581</u>	<u>\$ 32,429</u>

The \$69,666 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending 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 Ending June 30	Pension Expense Amount
2024	\$ 101,532
2025	121,571
2026	(29,906)
2027	105,289

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Equity	16.50%	5.30%

Actuarial Methods and Assumptions – The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal cost 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. Benefit increases after retirement are assumed to be 1.25 percent.

Salary growth assumptions range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years.

Mortality rates are based on the Pub-2010 General Employee Mortality Table.

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

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

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

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 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.

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

Sensitivity Analysis - NPL at Different Discount Rates		
1% Decrease	Current	1% Increase
(5.5%)	(6.5%)	(7.5%)
\$ <u>1,838,986</u> \$	<u>1,164,245</u> \$	<u>610,853</u>

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in a separately-issued PERA financial report that includes the financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**B. Teachers Retirement Association**

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

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

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:

<u>Tier I</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	1 <sup>st</sup> ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1 <sup>st</sup> ten years if service years are up to July 1, 2006	1.2 percent per year
	1 <sup>st</sup> 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 up 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

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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 percent 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 benefit calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

Contribution Rate - Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal years 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 fiscal year 2022 ACFR “Statement of Changes in Fiduciary Net Position” to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations:

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

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

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2022
Measurement Date	June 30, 2022
Experience Study	June 28, 2019 (demographic and economic assumptions)
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Investment Rate of Return	7.00%
Price Inflation	2.50%
Wage Growth Rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increase	2.85 to 8.85% before July 1, 2028 and 3.25 to 9.25% after June 30, 2028
Cost of Living Adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually

Mortality Assumption

Pre-retirement	RP-2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, 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 real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	33.50%	5.10%
International Equity	16.50%	5.30%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year is 2023 is 6 years. The “Difference Between Expected and Actual Experience” and “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 5 years as required by GASB 68.

Changes in actuarial assumptions since the 2021 valuation: None

Discount Rate - The discount rate used to measure the total pension liability was 7.00 percent. The discount rates used to measure the TPL at the Prior Measurement Date was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that employee 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 those assumptions, the pension plan’s fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

Net Pension Liability - On June 30, 2023, the District reported a liability of \$2,898,705 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District’s proportionate share was 0.0362% at the end of the measurement period and 0.0363% for the beginning of the year.

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

District's proportionate share of net pension liability	\$	2,898,705
State's proportionate share of the net pension liability associated with the District	\$	215,050

For the year ended June 30, 2023, the District recognized pension expense of \$1,604,273. It also recognized \$29,570 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 42,579	\$ 26,589
Net difference between projected and actual earnings on plan inv.	79,058	
Changes in actuarial assumptions	465,651	650,703
Changes in proportion	70,009	223,891
Contributions paid to TRA subsequent to the measurement date	195,858	
Total	<u>\$ 853,155</u>	<u>\$ 901,183</u>

\$195,858 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2024	\$ (608,020)
2025	35,019
2026	(46,811)
2027	375,613
2028	313

Pension Liability Sensitivity - The following presents the net pension liability calculated using the discount rate of 7.00 percent as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate.

Sensitivity Analysis - NPL at Different Discount Rates		
1% Decrease (6.0%)	Current (7.0%)	1% Increase (8.0%)
\$ 4,569,650	\$ 2,898,705	\$ 1,529,050

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.

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

The District recognized total pension expense of \$1,765,827 for all of the pension plans in which it participates.

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**NOTE 5 OTHER POSTEMPLOYMENT BENEFITS**

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan for eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups.

Benefits Provided – The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan.

Funding Policy - Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The District provides postemployment healthcare benefits to qualifying retirees.

Employees Covered by Benefit Term – At June 30, 2023, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	1
Active plan members	<u>82</u>
Total Members	<u><u>83</u></u>

Total OPEB Liability – The District's total OPEB liability of \$250,862 was measured as of July 1, 2022 and was determined by an actuarial valuation as of July 1, 2021.

Actuarial Assumptions – The total OPEB liability in the July 1, 2021, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	Service graded table
Healthcare Cost Trend Rates	6.25 percent decreasing to 5 percent over 6 years, then 4 percent

The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.

The discount rate is based on the estimated yield of 20-year municipal bonds. The overall single discount rate is 3.80%.

In the July 1, 2021 actuarial valuation, the entry age, level percentage of pay actuarial cost method was used.

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Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 6/30/2022	\$ 251,706
Changes for the year:	
Service Cost	23,863
Interest Cost	5,629
Assumption Changes	(15,214)
Differences between Expected and Actual Experience	
Benefit Payments	(15,122)
Net Changes	(844)
Balance at 6/30/2023	\$ 250,862

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 one percentage point lower (2.8 percent) or one percentage point higher (4.8 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (2.8%)	Current (3.8%)	1% Increase (4.8%)
\$ 262,957	\$ 250,862	\$ 239,136

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost 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 it were calculated using healthcare cost trend rates that are one percentage point lower (5.25 percent decreasing to 4.0 percent over 6 years) or one percentage point higher (7.25 percent decreasing to 6.0 percent over 6 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.25% decreasing to 4.0% over 6 years)	(6.25% decreasing to 5.0% over 6 years)	(7.25% decreasing to 6.0% over 6 years)
\$ 233,380	\$ 250,862	\$ 271,299

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2023, the District recognized OPEB expense of \$12,512. At June 30, 2023, the District reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
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	Deferred Outflows of Resources	Deferred Inflows of Resources
Assumption change	\$ 7,868	\$ 14,551
Differences between expected and actual experience		34,975
Employer contributions paid subsequent to the measurement date	22,057	
Total	<u>\$ 29,925</u>	<u>\$ 49,526</u>

\$22,057 reported as deferred outflows of resources related to OPEB resulting from District contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the total other postemployment benefit liability in the year ending June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2024	\$ (16,980)
2025	(16,974)
2026	(1,241)
2027	(2,145)
2028	(2,148)
Thereafter	(2,170)

**NOTE 6 LONG-TERM LIABILITIES**

Changes in the District's long-term liabilities for the year ended June 30, 2023 are as follows:

**Summary of Long-Term Liabilities**

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
G.O. Bonds	\$ 3,910,000	\$	\$ 180,000	\$ 3,730,000	\$ 135,000
Premium on Bonds	60,462		5,043	55,419	2,917
Severance Payable	345,537	54,277	82,720	317,094	22,500
Total Long-Term Liabilities	<u>\$ 4,315,999</u>	<u>\$ 54,277</u>	<u>\$ 267,763</u>	<u>\$ 4,102,513</u>	<u>\$ 160,417</u>

Severance payable is generally liquidated by the general fund.

The District's interest expense for the year ended June 30, 2023 was \$96,969.

**A. General Obligation Bonds**

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/23	Amounts Due in 2023-2024	
						Principal	Interest
2012			\$ 2,090,000	\$ 180,000	\$	\$	
2022	3.00%	24/2043	3,730,000		3,730,000	135,000	111,900
				<u>\$ 180,000</u>	<u>\$ 3,730,000</u>	<u>\$ 135,000</u>	<u>\$ 111,900</u>

**INDEPENDENT SCHOOL DISTRICT NO. 363  
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Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2024	\$ 135,000	\$ 111,900
2025	140,000	107,850
2026	150,000	103,650
2027	155,000	99,150
2028	155,000	94,500
2029 - 2033	850,000	399,750
2034 - 2038	995,000	263,850
2039 - 2043	1,150,000	105,600
	<u>\$ 3,730,000</u>	<u>\$ 1,286,250</u>

**NOTE 7 LEASES**

The District leases copiers. The term of the lease is for a period of 60 months, commencing on December 25, 2022 and terminating on December 25, 2027 with a monthly payment of \$749.

Following is the total lease expense for the year ended June 30, 2023:

Lease expense	Year Ending 6/30/2023
Amortization expense by class of underlying asset	
Copy Machine	\$ 6,338
Total amortization expense	6,338
Interest on lease liabilities	625
Variable lease expense	
<b>Total</b>	<u>\$ 6,963</u>

Following is a schedule of activity in leased assets and the lease liability for the year ended June 30, 2023:

Lease Assets	Beginning of Year	Additions	Modifications & Remeasurements	Subtractions	End of Year	Amounts Due Within One Year
Copy Machine	\$ 10,071	\$ 41,998	\$	\$ (10,071)	\$ 41,998	
	<u>10,071</u>	<u>41,998</u>	<u></u>	<u>(10,071)</u>	<u>41,998</u>	
<b>Less: Accumulated Amortization</b>						
Copy Machine	(8,632)	(6,338)		10,071	(4,899)	
	<u>(8,632)</u>	<u>(6,338)</u>	<u></u>	<u>10,071</u>	<u>(4,899)</u>	
<b>Total Lease Assets, net</b>	<u>\$ 1,439</u>	<u>\$ 35,660</u>	<u>\$</u>	<u>\$</u>	<u>\$ 37,099</u>	
<b>Lease Liabilities</b>	<u>\$ 1,455</u>	<u>\$ 41,998</u>	<u>\$</u>	<u>\$ (6,071)</u>	<u>\$ 37,382</u>	<u>\$ 8,082</u>

**INDEPENDENT SCHOOL DISTRICT NO. 363  
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June 30, 2023**

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Following is a schedule by years of future minimum payments required under the lease:

Year Ending, June 30	Principal	Interest	Total
2024	\$ 8,082	\$ 900	\$ 8,982
2025	8,301	681	8,982
2026	8,525	457	8,982
2027	8,756	226	8,982
2028	3,718	25	3,743
	\$ 37,382	\$ 2,289	\$ 39,671

**NOTE 8 SEVERANCE PAYABLE**

The District has a severance plan for employees. The plan calls for employees to be paid for unused portions of their sick leave upon termination of employment. At June 30, 2023, the estimated liability under this plan was \$317,094.

**NOTE 9 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of June 30, 2023, is as follows:

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor Governmental	General	\$129,443

The purpose of the transfers are to cover the operating deficit in the food service and community service funds.

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental	\$4,921

The purpose of the interfund loan is to cover the cash shortage in the food service fund.

**NOTE 10 CONTINGENCIES**

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2023.

The District is involved in a legal action. Although the outcome cannot be determined, the District believes any potential liability would not have a material impact on the financial statement condition of the District.

## **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 employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

The District has joined together with other school districts in Minnesota in the Northwest Service Cooperative's Minimum Premium Funding Plan (Plan). The Plan is a public entity risk pool established as a health insurance purchasing pool for its members. The agreement for the formation of the Plan provides that the Plan will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$300,000. The pool and its members purchase reinsurance, currently with a \$300,000 specific stop loss attachment point and 110% aggregate stop loss attachment point. If the assets of the Plan were to be exhausted, members would not be responsible for the Plan's liabilities. The Northwest Service Cooperative retains the risk of the Plan's liabilities.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

## **NOTE 12 NEW PRONOUNCEMENTS**

GASB Statement No. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
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- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
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NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2023**

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Management has not yet determined the effect these Statements will have on the District's financial statements.

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**For the Year Ended June 30, 2023**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>REVENUES</b>				
Local Property Tax Levies	\$ 1,229,296	\$ 1,049,144	\$ 1,097,437	\$ 48,293
Other Local & County Revenues	71,050	119,200	301,861	182,661
Revenue From State Sources	4,676,813	4,530,312	4,663,172	132,860
Revenue From Federal Sources	190,664	217,490	221,381	3,891
<b>TOTAL REVENUES</b>	<b>6,167,823</b>	<b>5,916,146</b>	<b>6,283,851</b>	<b>367,705</b>
<b>EXPENDITURES</b>				
Current				
Administration	369,476	358,268	344,221	(14,047)
District Support Services	130,313	160,409	280,608	120,199
Elementary & Secondary				
Regular Instruction	2,618,297	2,355,492	2,646,247	290,755
Vocational Education Instruction	5,650	5,650	36,958	31,308
Special Education Instruction	811,328	850,645	799,741	(50,904)
Instructional Support Services	53,267	144,660	125,556	(19,104)
Pupil Support Services	1,361,748	1,342,596	1,266,029	(76,567)
Sites and Buildings	766,234	951,299	676,283	(275,016)
Fixed Costs	128,190	131,422	61,021	(70,401)
Debt Service				
Principal			6,071	6,071
Interest			628	628
Capital Outlay	76,285	541,285	676,728	135,443
<b>TOTAL EXPENDITURES</b>	<b>6,320,788</b>	<b>6,841,726</b>	<b>6,920,091</b>	<b>78,365</b>
Revenues Under Expenditures	(152,965)	(925,580)	(636,240)	289,340
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Capital Assets		86,863	86,863	
Insurance Recovery		100,000	100,000	
Debt Issued			41,998	41,998
Transfer Out	(117,951)	(117,951)	(129,443)	(11,492)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(117,951)</b>	<b>68,912</b>	<b>99,418</b>	<b>30,506</b>
Net Change in Fund Balances	(270,916)	(856,668)	(536,822)	319,846
Fund Balances - Beginning	3,988,816	3,988,816	3,988,816	
Fund Balances - Ending	\$ 3,717,900	\$ 3,132,148	\$ 3,451,994	\$ 319,846

See Notes to the Required Supplementary Information

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**Last 10 Years**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Total OPEB Liability						
Service Cost	\$ 22,116	\$ 22,779	\$ 20,137	\$ 22,494	\$ 28,401	\$ 23,863
Interest	13,671	11,921	10,863	6,901	6,015	5,629
Assumption Changes			(4,535)	5,424	7,220	(15,214)
Plan Changes			727			
Differences Between						
Expected and Actual Experience			(89,893)		(7,020)	
Benefit Payments	(106,857)	(68,668)	(57,593)	(15,159)	(10,202)	(15,122)
Net Change in Total OPEB Liability	(71,070)	(33,968)	(120,294)	19,660	24,414	(844)
Total OPEB Liability - Beginning	432,964	361,894	327,926	207,632	227,292	251,706
Total OPEB Liability - Ending	\$ <u>361,894</u>	\$ <u>327,926</u>	\$ <u>207,632</u>	\$ <u>227,292</u>	\$ <u>251,706</u>	\$ <u>250,862</u>
Covered Payroll	\$ 2,877,191	\$ 2,963,507	\$ 2,959,751	\$ 3,048,544	\$ 3,213,594	\$ 3,310,002
District's Total OPEB Liability as a Percentage of a Covered Payroll	12.58%	11.07%	7.02%	7.46%	7.83%	7.58%

The District implemented GASB No. 75 for the fiscal year ended June 30, 2018. Information from prior years is not available.

See Notes to the Required Supplementary Information

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
LAST 10 YEARS**

	<u>Fiscal Year Ended June 30</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
<b>PERA</b>						
	2015	\$ 76,698	\$ 76,698	\$	1,022,100	7.50 %
	2016	74,280	74,280		990,396	7.50
	2017	69,546	69,546		927,280	7.50
	2018	71,131	71,131		948,411	7.50
	2019	77,463	77,463		1,032,835	7.50
	2020	72,742	72,742		969,896	7.50
	2021	76,263	76,263		1,016,840	7.50
	2022	83,853	83,853		1,118,030	7.50
	2023	69,666	69,666		928,877	7.50
<b>TRA</b>						
	2015	\$ 157,926	\$ 157,926	\$	2,105,689	7.50 %
	2016	155,310	155,310		2,070,810	7.50
	2017	153,014	153,014		2,040,187	7.50
	2018	161,372	161,372		2,144,299	7.53
	2019	178,879	178,879		2,312,667	7.73
	2020	167,125	167,125		2,103,205	7.95
	2021	176,260	176,260		2,161,589	8.15
	2022	188,816	188,816		2,257,188	8.37
	2023	195,858	195,858		2,284,227	8.57

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY  
LAST 10 YEARS**

<u>Fiscal Year Ended June 30</u>	<u>District's Proportion of the Net Pension Liability</u>	<u>District's Proportionate Share of the Net Pension Liability</u>	<u>State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)</u>	<u>Total</u>	<u>District's Covered Payroll</u>	<u>District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
<b>PERA</b>							
2014	0.0184 %	\$ 864,340	\$	\$ 864,340	\$ 964,681	89.60 %	78.70 %
2015	0.0174	901,758		901,758	1,022,100	88.23	78.19
2016	0.0160	1,299,121	16,958	1,316,079	990,396	131.17	68.90
2017	0.0142	906,519	11,411	917,930	927,280	97.76	75.90
2018	0.0141	782,210	25,724	807,934	948,411	82.48	79.53
2019	0.0146	807,201	24,999	832,200	1,032,835	78.15	80.23
2020	0.0136	815,382	25,109	840,491	969,896	84.07	79.06
2021	0.0144	614,945	18,729	633,674	1,016,840	60.48	87.00
2022	0.0147	1,164,245	34,288	1,198,533	1,118,030	104.13	76.67
<b>TRA</b>							
2014	0.0459 %	\$ 2,115,039	\$ 148,702	\$ 2,263,741	\$ 2,094,512	100.98 %	81.50 %
2015	0.0416	2,573,371	315,631	2,889,002	2,105,689	122.21	76.80
2016	0.0402	9,588,659	961,689	10,550,348	2,070,810	463.04	44.88
2017	0.0382	7,625,413	737,253	8,362,666	2,040,187	373.76	51.57
2018	0.0384	2,411,788	226,561	2,638,349	2,144,299	112.47	78.07
2019	0.0405	2,581,479	228,535	2,810,014	2,312,667	111.62	78.21
2020	0.0364	2,689,281	225,653	2,914,934	2,103,205	127.87	75.48
2021	0.0363	1,588,597	134,111	1,722,708	2,161,589	73.49	86.63
2022	0.0362	2,898,705	215,050	3,113,755	2,257,188	128.42	76.17

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2023**

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**NOTE 1 BUDGETARY DATA**

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the District.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the District unless the District has a deficit fund balance which exceeds 2.5% of expenditures.

**NOTE 2 EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2023, expenditures exceeded appropriations by \$78,366 in the general fund.

**NOTE 3 DEFINED BENEFIT PLANS**

**PERA**

*2022 Changes*

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

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

**TRA**

Changes in actuarial assumptions since the 2022 valuation: None

**NOTE 4 OTHER POSTEMPLOYMENT BENEFITS**

Plan Changes: None

Assumption Changes:

- The inflation rate was changed from 2.00% to 2.50%.
- The discount rate was changed from 2.10% to 3.80%.

Method Changes: None

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2023**

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Permanent Fund	
<b>ASSETS</b>				
Cash and Investments	\$	\$ 20,032	\$ 120,086	\$ 140,118
Current Property Taxes Receivable		5,670		5,670
Delinquent Property Taxes Receivable		933		933
Due From Department of Education		2,964		2,964
Inventory	6,089			6,089
<b>TOTAL ASSETS</b>	<u>\$ 6,089</u>	<u>\$ 29,599</u>	<u>\$ 120,086</u>	<u>\$ 155,774</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 408	\$ 545	\$	\$ 953
Salaries Payable	290	654		944
Due to Other Funds	4,921			4,921
Unearned Revenue	470			470
<b>TOTAL LIABILITIES</b>	<u>6,089</u>	<u>1,199</u>		<u>7,288</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Delinquent Taxes		933		933
Property Taxes Levied - Subs. Years		14,211		14,211
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>		<u>15,144</u>		<u>15,144</u>
<b>FUND BALANCES</b>				
Fund Balance:				
Nonspendable: Inventory	6,089			6,089
Nonspendable: Scholarships			100,000	100,000
Restricted for Community Education		6,162		6,162
Restricted for Community Service		7,094		7,094
Restricted for Scholarships			20,086	20,086
Unassigned	(6,089)			(6,089)
<b>TOTAL FUND BALANCES</b>		<u>13,256</u>	<u>120,086</u>	<u>133,342</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 6,089</u>	<u>\$ 29,599</u>	<u>\$ 120,086</u>	<u>\$ 155,774</u>

**INDEPENDENT SCHOOL DISTRICT NO. 363**

**NORTHOME, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
NONMAJOR GOVERNMENTAL FUNDS**

**For the Year Ended June 30, 2023**

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Permanent Fund	
<b>REVENUES</b>				
Local Property Tax Levies	\$	\$ 13,516	\$	\$ 13,516
Other Local & County Revenues		7,303	2,421	9,724
Revenue From State Sources	11,194	30,540		41,734
Revenue From Federal Sources	196,257			196,257
Sale/Other Conversion of Asset	36,661			36,661
<b>TOTAL REVENUES</b>	<u>244,112</u>	<u>51,359</u>	<u>2,421</u>	<u>297,892</u>
<b>EXPENDITURES</b>				
Current				
Community Education and Services		91,002		91,002
Pupil Support Services	331,538			331,538
Fixed Costs			3,500	3,500
<b>TOTAL EXPENDITURES</b>	<u>331,538</u>	<u>91,002</u>	<u>3,500</u>	<u>426,040</u>
Revenues Under Expenditures	(87,426)	(39,643)	(1,079)	(128,148)
<b>OTHER FINANCING SOURCES</b>				
Transfers In	87,426	42,017		129,443
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>87,426</u>	<u>42,017</u>		<u>129,443</u>
Net Change in Fund Balances		2,374	(1,079)	1,295
Fund Balances - Beginning		10,882	121,165	132,047
Fund Balances - Ending	\$ <u>          </u>	\$ <u>13,256</u>	\$ <u>120,086</u>	\$ <u>133,342</u>

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**SCHEDULE OF CHANGES IN FUND BALANCES**  
**For the Year Ended June 30, 2023**

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	Sale of Capital Assets/ Insurance Recovery	Debt Issued	UFARS Balance End of Year
General Fund							
Restricted for:							
Student Activities	\$ 150,111	\$ 130,988	\$ 120,841	\$	\$	\$	\$ 160,258
Scholarships	138,122	4,354	13,470				129,006
Safe Schools	18,122	11,246	1,832				27,536
Long-Term Facilities Maint.	(1,438)	111,367	37,210				72,719
Operating Capital	122,182	71,189	140,460		100,000		152,911
Impact Aid		34,587					34,587
Committed for Severance	300,000						300,000
Unassigned	3,261,717	5,920,120	6,606,278	(129,443)	86,863	41,998	2,574,977
Food Service Fund							
Nonspendable	1,954			4,135			6,089
Restricted: Food Service		244,112	331,538	87,426			
Unassigned	(1,954)			(4,135)			(6,089)
Community Service Fund							
Restricted for:							
Community Education	3,049	16,904	13,791				6,162
ECFE		23,708	55,874	32,166			
School Readiness	2,044	9,442	21,337	9,851			
Community Service	5,789	1,305					7,094
Building Fund							
Restricted: Building Fund	1,412						1,412
Restricted: LTFM	3,583,222	48,769	237,745				3,394,246
Debt Service Fund							
Restricted: Debt Service	128,578	184,530	267,657				45,451
Permanent Fund							
Nonspendable	100,000						100,000
Restricted: Scholarships	21,165	2,421	3,500				20,086

## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Education  
Independent School District No. 363  
Northome, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 363 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 November 3, 2023.

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

The purpose of this report is 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.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
Thief River Falls, Minnesota

November 3, 2023

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**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 Board of Education  
Independent School District No. 363  
Northome, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 363, 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 November 3, 2023.

## **Report on 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as items 2023-001 and 2023-002 that we consider to be material weaknesses.

## **Report on Compliance and Other Matters**

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

## **The District's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's responses to the findings identified in our audit and described in the accompanying schedule of findings and corrective action plan. The District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## **Purpose of this Report**

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



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

November 3, 2023

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
SCHEDULE OF FINDINGS  
June 30, 2023**

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**2023-001 FINDING**

Criteria

A proper system of internal control has the proper segregation of duties between authorization, custody, record keeping, and reconciliation.

Condition

There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keepings, and reconciliation.

Cause

The District is subject to size and budget constraints limiting the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

We recommend the District review their internal controls over the accounting functions to determine if additional procedures can be implemented that are cost effective. The Board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will review on an annual basis.

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**SCHEDULE OF FINDINGS (CONTINUED)**  
**June 30, 2023**

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**2023-002 FINDING**

Criteria

An appropriate system of internal control requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. However, the District currently does not prepare the financial statements, including the accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The District elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the District's financial statements.

Recommendation

We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control, the District should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will review the financial statement preparation on an annual basis.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
CORRECTIVE ACTION PLAN  
For the Year Ended June 30, 2023**

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**2023-001 FINDING**

Contact Person – Jeremy Tammi, Superintendent

Corrective Action Plan – The following steps are being taken to mitigate the risk: the Superintendent will review and approve all journal entries, the Board of Education will approve checks, and the Superintendent will review all bank statements before turning the statements over to the business office for reconciliation.

Completion Date – Ongoing

**2023-002 FINDING**

Contact Person – Jeremy Tammi, Superintendent

Corrective Action Plan – The District will establish a policy to document review of financial statements and notes.

Completion Date – Ongoing

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE**  
**June 30, 2023**

District Name: INDEPENDENT SCHOOL DISTRICT NO. 363

District Number: 363

	Audit	UFARS	Variance		Audit	UFARS	Variance
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	6,283,851	6,283,851		Total Revenue	48,769	48,769	
Total Expenditures	6,920,091	6,920,093	(2)	Total Expenditures	237,745	237,745	
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance				460 Non Spendable Fund Balance			
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
401 Student Activities	160,258	160,258		407 Capital Projects Levy			
402 Scholarships	129,006	129,008	(2)	413 Projects Funded By COP			
403 Staff Development				467 LTFM	3,394,246	3,394,246	
407 Capital Projects Levy				<i>Restricted</i>			
408 Cooperative Revenue				464 Restricted Fund Balance	1,412	1,413	(1)
413 Project Funded by COP				<i>Unassigned:</i>			
414 Operating Debt				463 Unassigned Fund Balance			
416 Levy Reduction				Reconciliation of Building Construction	<u>3,682,172</u>	<u>3,682,173</u>	<u>(1)</u>
417 Taconite Building Maintenance							
424 Operating Capital	152,911	152,912	(1)	<b>07 DEBT SERVICE</b>			
426 \$25 Taconite				Total Revenue	184,530	184,530	
427 Disabled Accessibility				Total Expenditures	267,657	267,657	
428 Learning & Development				<i>Non Spendable</i>			
434 Area Learning Center				460 Non Spendable Fund Balance			
435 Contracted Alt Programs				<i>Restricted/Reserved:</i>			
436 State Approved Alt Program				425 Bond Refundings			
438 Gifted & Talented				451 QZAB Payments			
440 Teacher Development and Eval				<i>Restricted</i>			
441 Basic Skills Programs				464 Restricted Fund Balance	45,451	45,448	3
445 Career and Technical Programs				<i>Unassigned:</i>			
448 Achievement and Integration				463 Unassigned Fund Balance			
449 Safe Schools Levy	27,536	27,537	(1)		<u>497,638</u>	<u>497,635</u>	<u>3</u>
450 Prekindergarten							
451 QZAB Payments				<b>08 TRUST</b>			
452 OPEB Liab Not In Trust				Total Revenue	2,421	2,421	
453 Unfunded Sev & Retiremt Levy				Total Expenditures	3,500	3,500	
467 LTFM	72,719	72,717	2	<i>Unassigned:</i>			
472 Medical Assistance				402 Scholarships	<u>120,086</u>	<u>120,087</u>	<u>(1)</u>
475 Impact Aid	34,587	34,587		Reconciliation of Trust	<u>126,007</u>	<u>126,008</u>	<u>(1)</u>
<i>Restricted</i>							
464 Restricted Fund Balance				<b>20 INTERNAL SERVICE</b>			
<i>Committed</i>				Total Revenue			
418 Committed for Separation	300,000	300,000		Total Expenditures			
461 Committed				<i>Unassigned:</i>			
<i>Assigned</i>				422 Unassigned Fund Balance			
462 Assigned Fund Balance				Reconciliation of Internal Service			
<i>Unassigned:</i>							
422 Unassigned Fund Balance	<u>2,574,977</u>	<u>2,574,979</u>	<u>(2)</u>	<b>25 OPEB REVOCABLE TRUST FUND</b>			
Reconciliation of General	<u>16,655,936</u>	<u>16,655,942</u>	<u>(6)</u>	Total Revenue			
				Total Expenditures			
<b>02 FOOD SERVICE</b>				<i>Unassigned:</i>			
Total Revenue	244,112	244,112		422 Unassigned Fund Balance			
Total Expenditures	331,538	331,538		Reconciliation of OPEB Revocable Trust			
<i>Non Spendable</i>							
460 Non Spendable Fund Balance	6,089	6,088	1	<b>45 OPEB IRREVOCABLE TRUST FUND</b>			
<i>Restricted/Reserved:</i>				Total Revenue			
452 OPEB Liab Not In Trust				Total Expenditures			
<i>Restricted</i>				<i>Unassigned:</i>			
464 Restricted Fund Balance				422 Unassigned Fund Balance			
<i>Unassigned</i>				Reconciliation of OPEB Irrevocable Trust			
463 Unassigned Fund Balance	<u>(6,089)</u>	<u>(6,088)</u>	<u>(1)</u>				
Reconciliation of Food Service	<u>575,650</u>	<u>575,650</u>		<b>47 OPEB DEBT SERVICE FUND</b>			
				Total Revenue			
<b>04 COMMUNITY SERVICE</b>				Total Expenditures			
Total Revenue	51,359	51,359		<i>Non Spendable</i>			
Total Expenditures	91,002	91,002		460 Non Spendable Fund Balance			
<i>Non Spendable</i>				<i>Restricted</i>			
460 Non Spendable Fund Balance				425 Bond Refunding			
<i>Restricted/Reserved:</i>				464 Restricted Fund Balance			
426 \$25 Taconite				<i>Unassigned</i>			
431 Community Education	6,162	6,161	1	463 Unassigned Fund Balance			
432 E.C.F.E.				Reconciliation of OPEB Debt Service			
440 Teacher Development and Eval							
444 School Readiness							
447 Adult Basic Education							
452 OPEB Liab Not In Trust							
<i>Restricted</i>							
464 Restricted Fund Balance	7,094	7,091	3				
<i>Unassigned</i>							
463 Unassigned Fund Balance							
Reconciliation of Community Service	<u>155,617</u>	<u>155,613</u>	<u>4</u>				