Independent School District No. 578
Pine City, Minnesota

Basic Financial Statements

June 30, 2023

Independent School District No. 578
Table of Contents

Board of Education and Administration 1

Independent Auditor's Report 2

Management's Discussion and Analysis 5

Basic Financial Statements
- Government-Wide Financial Statements
  - Statement of Net Position 16
  - Statement of Activities 17
- Fund Financial Statements
  - Balance Sheet – Governmental Funds 18
  - Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds 19
  - Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 20
  - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds 21
  - Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund 22
  - Statement of Fiduciary Net Position 23
  - Statement of Changes in Fiduciary Net Position 23
- Notes to Basic Financial Statements 25

Required Supplementary Information
- Schedule of Changes in Total OPEB Liability and Related Ratios 62
- Schedule of Investment Returns 64
- Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability General Employees Retirement Fund 66
- Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability TRA Retirement Fund 66
- Schedule of District Contributions General Employees Retirement Fund 67
- Schedule of District Contributions TRA Retirement Fund 67
- Notes to the Required Supplementary Information 68

Supplementary Information
- Combining Balance Sheet – Nonmajor Governmental Funds 78
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds 79
- Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual –Food Service Fund 80

Independent School District No. 578
Table of Contents

Supplementary Information (Continued)
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Community Service Fund 81
Uniform Financial Accounting and Reporting Standards Compliance Table 82
Schedule of Expenditures of Federal Awards 83
Notes to the Schedule of Expenditures of Federal Awards 84

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with *Government Auditing Standards* 85

Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance 87

Schedule of Findings and Questioned Costs in Accordance With the Uniform Guidance 90

Minnesota Legal Compliance 93

Independent School District No. 578
Board of Education and Administration
June 30, 2023

Board of Education	Position	Term Expires
James Foster	Chairperson	January 2027
Lezlie Sauter	Vice Chairperson	January 2027
Cami Babolik	Treasurer	January 2027
Becci Palmblade	Clerk	January 2025
Dan Peterson	Director	January 2025
Tim Geisler	Director	January 2025
Shaune Macho	Director	January 2025

Administration	
Cindy Stolp	Superintendent
Jill Nolan	Business Manager

Independent Auditor's Report

To the School Board
Independent School District No. 578
Pine City, Minnesota

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 578, Pine City, Minnesota, as of and for the year ended June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 578, as of June 30, 2023, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independent School District No. 578 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The management of Independent School District No. 578, Pine City, Minnesota is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management′s Discussion and Analysis, which follows this report letter, and Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management′s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



St. Cloud, Minnesota
March 18, 2024

pThis section of Independent School District No. 578's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2023. Please read it in conjunction with the District's financial statements, which immediately follows this section.

Financial Highlights

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

- Total General Fund revenues were $21,884,847 and total General Fund expenditures were $22,535,603 for the fiscal year ended June 30, 2023. Total revenues and expenditures for all governmental funds combined were $24,910,854 and $25,479,664, respectively.
- The total fund balance in the General Fund decreased by $306,893 to $4,934,103. The unassigned fund balance in the General Fund decreased by $776,541 to $2,496,793. Total General Fund revenues were 1.1% higher than the final budget, and total General Fund expenditures were 3.0% higher than the final budget.
- The total fund balance in the Food Service Fund increased by $12,387 to $573,923 with revenue of $1,060,479 and expenditures of $1,048,092.
- Community Service programs offered by the District generated revenue of $474,535 and expenditures of $395,080 for the fiscal year. The total fund balance in the Community Services fund is $179,384.
- The District has general obligation bonded debt and financed purchase principal outstanding in the amount of $12,438,798 as of June 30, 2023. This is a decrease of $1,358,295 from the previous fiscal year end.
- Net position of governmental activities increased by $4,191,463 for the fiscal year. The total expense of governmental activities was $20,777,088. Program revenues totaled $8,342,618 and general revenues totaled $16,625,853.

Overview of the Financial Statements

The financial section of the annual report consists of four parts - Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and single audit and other required reports. 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 fiduciary fund statements offer short-term and long-term financial information about resources the School District holds related to the Other Post-Employment Benefits (OPEB).

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

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements the District's activities are shown as Governmental activities:

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

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes.

The District has two kinds of funds:

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

Fund Financial Statements (Continued)

- **Fiduciary Funds –** The District is the trustee, or fiduciary, for assets that belong to others, such as the Custodial Fund for OPEB. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Financial Analysis of the District as A Whole

Net position

The District's combined net position from Governmental activities was $2,607,974 on June 30, 2023 (See Table A-1). Total assets and deferred outflows of resources decreased by $1,144,523 or 2.7%. Capital assets decreased $639,298 as the District's capital outlay expense was lower than depreciation expense in the current fiscal year. Total liabilities decreased by $4,988,967 or 15.0%.

Table A-1
Net Position - Governmental Activities

	Year Ended 2023	Year Ended 2022
Assets		
Current and other assets	$ 11,428,820	$ 11,631,256
Capital assets	26,941,944	27,581,242
Total assets	38,370,764	39,212,498
Deferred Outflows of Resources	4,631,962	4,934,751
Total assets and deferred outflows of resources	$ 43,002,726	$ 44,147,249
Liabilities		
Other liabilities	$ 3,188,786	$ 1,788,476
Long-term liabilities	29,992,715	26,404,058
Total liabilities	$ 33,181,501	$ 28,192,534
Deferred Inflows of Resources	$ 7,213,251	$ 17,538,204
Net Position		
Net investment in capital assets	$ 10,938,146	$ 10,064,149
Restricted	3,363,497	2,793,508
Unrestricted	(11,693,669)	(14,441,146)
Total net position	$ 2,607,974	$ (1,583,489)

Financial Analysis of the District as A Whole (Continued)

Changes in net position

The District's total revenues were $24,968,471 for the year ended June 30, 2023. Property taxes and state formula aid accounted for 66% of total revenue for the year (See Figure A-1). 34% of total revenue came from program and other revenues.

The total cost of all programs and services was $20,777,008. The District's expenses are predominantly related to educating and caring for students (See Figure A-2). The purely administrative activities of the District accounted for just 4.2% of total costs.

Table A-2
Change in Net Position

	Year Ended 2023	Year Ended 2022
Revenues		
Program revenues		
Charges for services	$ 1,979,174	$ 1,447,289
Operating grants and contributions	5,813,498	8,675,414
Capital grants and contributions	549,946	290,362
General revenues		
Property taxes	3,869,846	3,713,410
State aid-formula grants	12,485,059	11,700,389
Investment earnings	126,245	(89,209)
Other	144,703	192,574
Total revenues	24,968,471	25,930,229
Expenses		
Administration	877,290	854,364
District support services	489,132	567,321
Elementary and secondary regular instruction	7,712,467	8,946,936
Vocational education instruction	128,568	139,131
Special education instruction	4,445,478	4,700,578
Instructional support services	1,041,607	1,976,900
Pupil support services	2,029,770	1,922,544
Sites and buildings	2,234,022	2,276,218
Fiscal and other fixed cost programs	151,198	137,823
Food service	983,824	860,637
Community education and services	391,592	464,929
Interest and fiscal charges on long-term debt	292,060	356,631
Total expenses	20,777,008	23,204,012
Increase (decrease) in net position	4,191,463	2,726,217
Net Position		
Net position - beginning	(1,583,489)	(4,309,706)
End of year	$ 2,607,974	$ (1,583,489)

Financial Analysis of the District as A Whole (Continued)

Figure A-1
Source of Revenues for Fiscal Year 2023

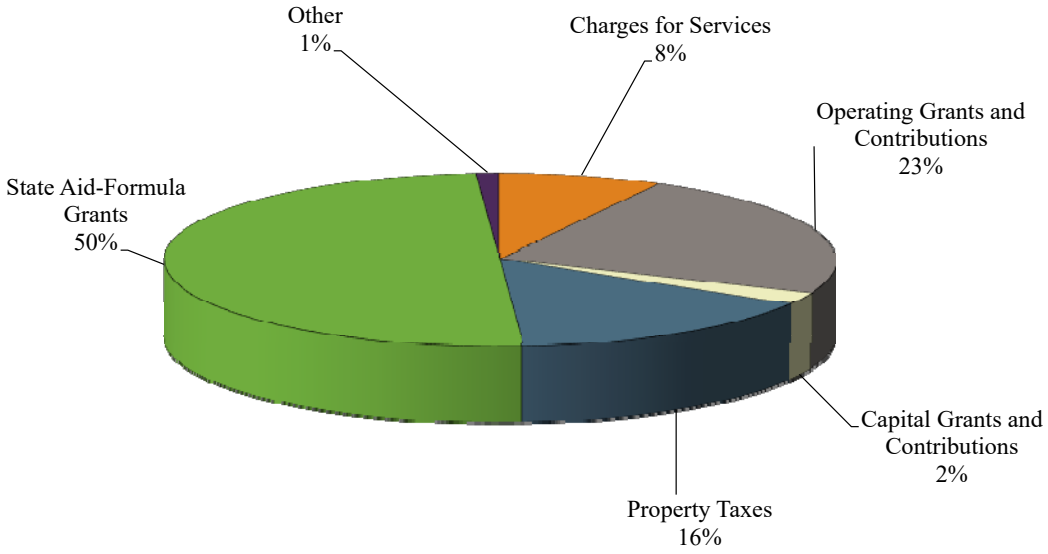
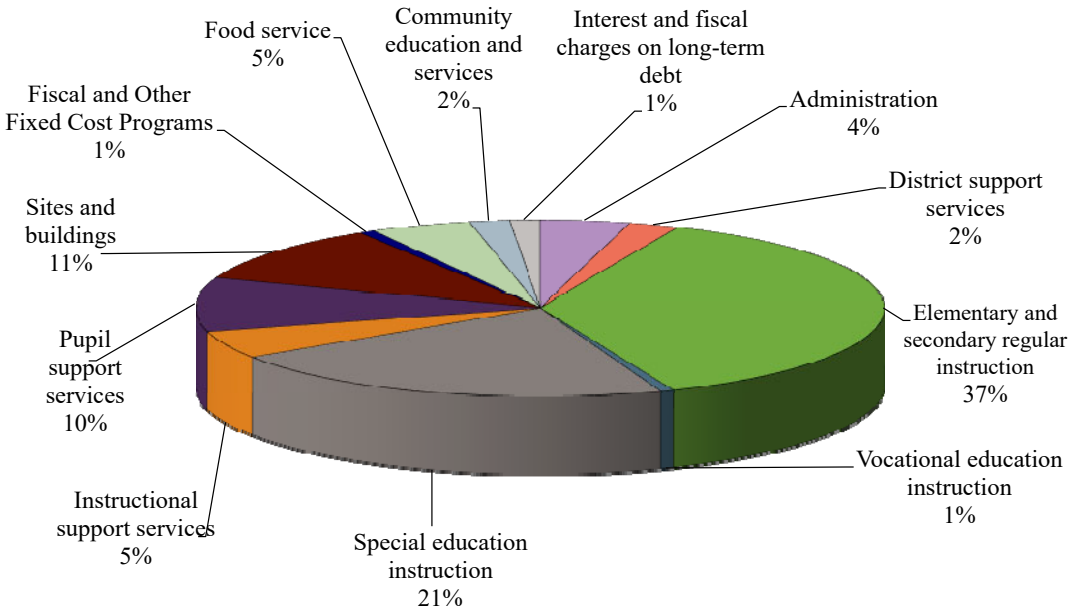


Figure A-2
Expenses for Fiscal Year 2023



Financial Analysis of the District as A Whole (Continued)

- The cost of all governmental activities was $20,777,008. This was a decrease of $2,427,004 when compared to the previous year.
- The federal and state governments subsidized certain programs with grants and contributions of $8,342,618.
- A good portion of the District's costs, $16,354,905, were paid for by District taxpayers and state aid formula grants from the State of Minnesota.

Table A-3
Program Expenses and Net Cost of Services

	Total Cost of Services		Net Cost of Services	
	2023	2022	2023	2022
Administrative	$ 877,290	$ 854,364	$ (877,290)	$ (854,364)
District support services	489,132	567,321	(488,504)	(560,373)
Elementary and secondary regular instruction	7,712,467	8,946,936	(6,061,242)	(6,258,928)
Vocational education instruction	128,568	139,131	(116,739)	(128,111)
Special education instruction	4,445,478	4,700,578	(84,191)	(569,904)
Instructional support services	1,041,607	1,976,900	(941,256)	(1,149,824)
Pupil support services	2,029,770	1,922,544	(1,952,511)	(1,259,766)
Sites and buildings	2,234,022	2,276,218	(1,684,076)	(1,985,856)
Fiscal and other fixed cost programs	151,198	137,823	(151,198)	(137,823)
Food service	983,824	860,637	67,612	365,899
Community education and services	391,592	464,929	147,065	104,734
Interest and fiscal charges on long-term debt	292,060	356,631	(292,060)	(356,631)
Total	$ 20,777,008	$ 23,204,012	$ (12,434,390)	$ (12,790,947)

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $6,077,928, which is a decrease of $224,947 from the prior year ending fund balance. Revenues for the District's governmental funds were $24,910,854, total expenditures were $24,479,664, and other sources and uses provided $343,863.

The fund balance of the General fund decreased by $306,893 based on current year operations. The operations of the other governmental funds: Capital Projects, Food Service, Community Service, and Debt Service funds resulted in an increase in fund balance of $81,946.

General Fund

The General Fund includes the primary operations of the District in providing educational services to students from early childhood through grade 12 including pupil transportation activities and operating capital expenditures.

General Fund (Continued)
The following schedule presents a summary of General Fund Revenues.

Table A-4
General Fund Revenues

	Year Ended		
	June 30, 2023	June 30, 2022	Increase (Decrease)
Local property taxes	$ 2,644,885	$ 2,433,024	$ 211,861
Revenue from state sources	16,847,047	16,605,919	241,128
Revenue from federal sources	707,559	2,504,250	(1,796,691)
Other	1,685,356	1,274,230	411,126
Total	$ 21,884,847	$ 22,817,423	$ (932,576)

Total General Fund revenue of $21,884,847 decreased by $932,579, or 4.1%, compared to the previous year. Basic general education revenue is determined by the state per student funding formula and consists of state aid revenue. Other state-authorized revenue including excess levy referendum and operating capital involve an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change of revenue.

The following schedule presents a summary of General Fund expenditures.

Table A-5
General Fund Expenditures

	Year Ended		
	June 30, 2023	June 30, 2022	Increase (Decrease)
Salaries	$ 11,737,075	$ 11,362,892	$ 374,183
Employee benefits	4,253,929	4,342,315	(88,386)
Purchased services	4,829,068	4,377,812	451,256
Supplies and materials	774,309	1,590,932	(816,623)
Capital expenditures	829,658	1,126,425	(296,767)
Other capital expenditures	1,500	1,500	-
Other expenditures	110,064	142,893	(32,829)
Total	$ 22,535,603	$ 22,944,769	$ (409,166)

General Fund (Continued)
The total General Fund expenditures of $22,535,603 was an decrease of $409,163 or 1.8% from the prior year. Capital expenditure costs decreased by $296,767 or 26.3%, from the prior year based on the amount of building and construction expenditures.

In 2022-2023, General Fund revenues were less than expenditures by $650,756, which was $408,425 less than the final budget. Revenue received was $240,169 higher than budgeted and expenditures were $648,594 higher than budgeted. Expenditures were greater than budgeted in several areas, in part in Capital Outlay for Special education instruction.

Food Service Fund
The Food Service Fund accounts for the activities related to providing nutrition services to the K-12 academic program. The fund operates on the principle of revenues exceeding expenditures on day-to-day operations so that the excess can be used to systematically replace and upgrade kitchen equipment around the District. By operating in this manner, the Student Nutrition Services program is self-contained and does not pull resources away from direct K-12 instruction.

The fund balance increased by $12,387 in 202 -2023. Food Service Fund revenue for 2022-2023 totaled $1,060,479, which is a decrease of $169,878 from 2021-2022. Food Service Fund expenditures for 2022-2023 totaled $1,048,092, an increase of $166,116 from 2021-2022.

Community Service Fund
The Community Service Fund accounts for the activities related to providing education services for Pre-Kindergarten students. The fund operates on a principle of breaking even on a year-to-year basis so that it does not pull resources away from K-12 instruction.

The fund balance increased by $79,455 in 2022-2023. Community Service Fund revenues for 2022-2023 totaled $474,535. This was an increase of $61,687 from 2021-2022. Community Service Fund expenditures for 2022-2023 totaled $395,080. This was a decrease of $81,357 from 2021-2022.

The entire fund balance is restricted to be used for specific purposes based on state requirements.

Debt Service Fund
The Debt Service Fund exists to service the principal and interest payments on long-term debt issued by the District to construct school facilities or acquire school equipment. Annual levies will provide revenue at a rate of 105% of pending debt service payments for a fiscal year. This rate is specified in statute to ensure that principal and interest payments can be made as scheduled even if there are late property tax payments or delinquencies that may arise.

Debt service revenue was $1,490,993 for 2022-2023, 75% of which came from property tax revenue. Debt service expenditures were $1,500,889. The District made principal payments in the amount of $1,220,000 and interest and fiscal charge payments of $280,889. The Debt Service Fund has a fund balance of $390,518 as of June 30, 2023, which is restricted to be used for future debt payments.

The Minnesota Department of Education monitors fund balances in the Debt Service Fund and limits the amount of funds that can be carried forward. If the fund balance gets too high, future levy authority will be reduced in order to reduce the debt service fund balance to a reasonable level. Fund balance and collection of tax levies will provide adequate cash flow for timely payment of principal and interest.

Capital Assets and Debt Administration

Capital Assets

By the end of 2023, the District had invested $48,823,645 in a broad range of capital assets including: school buildings, land, and other equipment for various instructional programs (see Table A-6). Accumulated depreciation as of June 30, 2023, was $21,881,701, with current year depreciation expense for governmental activities totaling $1,136,450. See Note 3 to the financial statements for additional information.

Table A-6
Capital Assets

	Year Ended 2023	Year Ended 2022	Percent Change
Land	$ 191,251	$ 191,251	0.0%
Construction in progress	160,289	3,134,582	-94.9%
Land improvements	2,176,205	2,112,620	3.0%
Buildings and improvements	43,403,943	40,195,122	8.0%
Machinery and equipment	2,891,957	2,692,918	7.4%
Less accumulated depreciation/amortization	(21,881,701)	(20,745,251)	5.5%
Total capital assets	$ 26,941,944	$ 27,581,242	-2.3%

Long-Term Liabilities

For the fiscal year ended June 30, 2022, the District had $31,315,912 in long-term liabilities outstanding, including $11,530,000 in General Obligation Bonds. The decrease in total bonds payable was $1,220,000 or 9.6% from last year (see Table A-7). See Notes 4, 6 and 7 for additional information.

Table A-7
Long-Term Liabilities

	Year Ended 2023	Year Ended 2022
General obligation bonds	$ 11,530,000	$ 12,750,000
Net bond premium and discount	450,887	526,210
Certificates of participation payable	3,565,000	3,720,000
Financed purchases payable	457,911	520,883
Net pension liability	14,646,304	7,977,368
Total OPEB liability	777,056	818,038
Compensated absences payable	88,754	91,559
Total long-term liabilities	$ 31,515,912	$ 26,404,058
Long-term liabilities		
Due within one year	$ 1,523,197	$ 1,496,240
Due in more than one year	29,992,715	30,019,672
Total	$ 31,515,912	$ 31,515,912

Factors Bearing on the District's Future

- With the exception of the voter-approved operating referendum, the District is heavily dependent on the state of Minnesota for a majority of its revenue authority. During the 2023 State legislative session, the basic general education formula was increased by 4.00% and 2.00% for fiscal years 2024 and 2025, respectively. The legislative revenue increases have not been sufficient to meet instructional program needs, due to increased costs from inflation and required mandates. The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.
- Because many of the funding formulas for Minnesota school districts are heavily driven by enrollment, school districts receive less revenue when enrollment declines. Currently enrollment is relatively flat with the potential of declining enrollment as smaller Kindergarten classes are replacing the senior classes existing the school system. The amount of funding a district receives is dependent on the number of students it serves, so attracting and retaining students is critical to the District's financial well-being.
- The District has received additional federal funds as a result of the pandemic which has helped the District's short-term financial position. The District's financial position will be impacted by a reduction in Federal pandemic funds in future years.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 578, 1400 Main St. S, Pine City, Minnesota 55063.

BASIC FINANCIAL STATEMENTS

Independent School District No. 578
Statement of Net Position
June 30, 2023

	Governmental Activities
Assets	
Cash and investments	$ 6,263,741
Receivables	
Property taxes	1,890,212
Other governments	3,030,263
Other	21,228
Prepaid items	205,026
Inventory	18,350
Capital assets not being depreciated	
Land	191,251
Construction in progress	160,289
Capital assets (net of accumulated depreciation)	
Land improvements	813,898
Buildings	24,762,604
Equipment and transportation	1,013,902
Total assets	38,370,764
Deferred Outflows of Resources	
Deferred outflows related to pensions	4,190,895
Deferred outflows related to OPEB	441,067
Total deferred outflows of resources	4,631,962
Total assets and deferred outflows of resources	$ 43,002,726
Liabilities	
Accounts payable	$ 126,695
Salaries and benefits payable	1,338,709
Interest payable	140,368
Due to other Minnesota school districts	42,287
Unearned revenue	17,530
Bond principal payable (net)	
Payable within one year	1,260,000
Payable after one year	10,720,887
Certificate of participation payable	
Payable within one year	160,000
Payable after one year	3,405,000
Financed purchases payable	
Payable within one year	65,228
Payable after one year	392,683
Compensated absences payable	
Payable within one year	37,969
Payable after one year	50,785
Net other post employment benefits (OPEB) payable	777,056
Net pension liability	14,646,304
Total liabilities	33,181,501
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	3,792,404
Deferred inflows related to OPEB	442,017
Deferred inflows related to pensions	2,978,830
Total deferred inflows of resources	7,213,251
Net Position	
Net investment in capital assets	10,938,146
Restricted	
Debt service	259,884
State-mandated restrictions	3,103,613
Unrestricted	(11,693,669)
Total net position	2,607,974
Total liabilities, deferred inflows of resources, and net position	$ 43,002,726

See notes to basic financial statements.

Independent School District No. 578
Statement of Activities
Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 877,290	$ -	$ -	$ -	$ (877,290)
District support services	489,132	-	628	-	(488,504)
Elementary and secondary regular instruction	7,712,467	200,144	1,451,081	-	(6,061,242)
Vocational education instruction	128,568	-	11,829	-	(116,739)
Special education instruction	4,445,478	1,056,547	3,304,740	-	(84,191)
Instructional support services	1,041,607	2,936	97,415	-	(941,256)
Pupil support services	2,029,770	360	76,899	-	(1,952,511)
Sites and buildings	2,234,022	-	-	549,946	(1,684,076)
Fiscal and other fixed cost programs	151,198	-	-	-	(151,198)
Food service	983,824	356,709	694,727	-	67,612
Community education and services	391,592	362,478	176,179	-	147,065
Interest and fiscal charges on long-term debt	292,060	-	-	-	(292,060)
Total governmental activities	$ 20,777,008	$ 1,979,174	$ 5,813,498	$ 549,946	(12,434,390)
General revenues					
Taxes					
Property taxes, levied for general purposes					2,637,831
Property taxes, levied for community service					120,734
Property taxes, levied for debt service					1,111,281
State aid-formula grants					12,485,059
Other general revenues					144,703
Investment income					126,245
Total general revenues					16,625,853
Change in net position					4,191,463
Net position - beginning					(1,583,489)
Net position - ending					$ 2,607,974

See notes to basic financial statements.

Independent School District No. 578
Balance Sheet - Governmental Funds
June 30, 2023

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments	$ 4,440,273	$ 982,004	$ 841,464	$ 6,263,741
Current property taxes receivable	1,189,436	609,850	57,659	1,856,945
Delinquent property taxes receivable	22,430	9,734	1,103	33,267
Due from other Minnesota school districts	371,819	-	3,226	375,045
Due from Department of Education	1,994,639	35,459	13,670	2,043,768
Due from federal government through Department of Education	588,123	-	20,378	608,501
Due from other governmental units	2,949	-	-	2,949
Interest receivable	21,158	-	70	21,228
Prepaid items	205,026	-	-	205,026
Inventory	-	-	18,350	18,350
Total assets	$ 8,835,853	$ 1,637,047	$ 955,920	$ 11,428,820
Liabilities				
Accounts payable	$ 116,536	$ -	$ 10,159	$ 126,695
Salaries and benefits payable	1,290,227	-	48,482	1,338,709
Due to other Minnesota school districts	42,287	-	-	42,287
Unearned revenue	-	-	17,530	17,530
Total liabilities	1,449,050	-	76,171	1,525,221
Deferred Inflows of Resources				
Property taxes levied for subsequent year's expenditures	2,430,270	1,236,795	125,339	3,792,404
Unavailable revenue - delinquent property taxes	22,430	9,734	1,103	33,267
Total deferred inflows of resources	2,452,700	1,246,529	126,442	3,825,671
Fund Balances				
Nonspendable				
Prepaid items	205,026	-	-	205,026
Inventory	-	-	18,350	18,350
Restricted				
Scholarships	272,729	-	-	272,729
Student Activities	60,587	-	-	60,587
Gifted and talented	3,307	-	-	3,307
Achievement and Integration	4,634	-	-	4,634
Long term facility maintenance	711,442	-	-	711,442
Operating capital	1,296,504	-	-	1,296,504
Debt service	-	390,518	-	390,518
Community education	-	-	90,424	90,424
Early childhood and family education	-	-	64,842	64,842
School readiness	-	-	24,118	24,118
Food service	-	-	555,573	555,573
Assigned	88,107	-	-	88,107
Unassigned	2,291,767	-	-	2,291,767
Total fund balances	4,934,103	390,518	753,307	6,077,928
Total liabilities, deferred inflows of resources, and fund balances	$ 8,835,853	$ 1,637,047	$ 955,920	$ 11,428,820

See notes to basic financial statements.

Independent School District No. 578
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2023

Total fund balances - governmental funds	$	6,077,928
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.		
Cost of capital assets		48,823,645
Less accumulated depreciation		(21,881,701)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Bond principal payable		(11,530,000)
Certificates of participation payable		(3,565,000)
Financed purchase payable		(457,911)
Compensated absences payable		(88,754)
Net pension liability		(14,646,304)
Net OPEB obligation		(777,056)
Government funds report debt issuance premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported as an unamortized adjustment to total debt in the government-wide financial statements.		(450,887)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions and OPEB that are not recognized in the governmental funds.		
Deferred outflows of resources related to pensions		4,190,895
Deferred outflows of resources related to OPEB		441,067
Deferred inflows of resources related to pensions		(2,978,830)
Deferred inflows of resources related to OPEB		(442,017)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		33,267
Governmental funds do not report a liability for accrued interest on bonds and financed purchases until due and payable.		(140,368)
Total net position - governmental activities	$	2,607,974

See notes to basic financial statements.

Independent School District No. 578
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2023

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Revenues				
Local Sources				
Property taxes	$ 2,644,885	$ 1,116,720	$ 121,182	$ 3,882,787
Earnings on investments	88,965	19,470	17,810	126,245
Other	1,595,220	-	228,672	1,823,892
State sources	16,847,047	354,803	184,244	17,386,094
Federal sources	707,559	-	654,799	1,362,358
Sales and other conversion of assets	1,171	-	328,307	329,478
Total revenues	21,884,847	1,490,993	1,535,014	24,910,854
Expenditures				
Current				
Administration	1,029,640	-	-	1,029,640
District support services	482,694	-	-	482,694
Elementary and secondary regular instruction	9,899,390	-	-	9,899,390
Vocational education instruction	167,155	-	-	167,155
Special education instruction	5,093,115	-	-	5,093,115
Instructional support services	1,175,929	-	-	1,175,929
Pupil support services	2,072,723	-	-	2,072,723
Sites and buildings	1,632,599	-	-	1,632,599
Fiscal and other fixed cost programs	151,198	-	-	151,198
Food service	-	-	950,308	950,308
Community service	-	-	395,080	395,080
Capital outlay				
District support services	3,348	-	-	3,348
Vocational education instruction	4,299	-	-	4,299
Elementary and secondary regular instruction	64,930	-	-	64,930
Special education instruction	132,820	-	-	132,820
Instructional support services	49,660	-	-	49,660
Pupil support services	11,232	-	-	11,232
Sites and buildings	242,903	-	-	242,903
Food service	-	-	97,784	97,784
Debt service				
Principal	217,972	1,220,000	-	1,437,972
Interest and fiscal charges	103,996	280,889	-	384,885
Total expenditures	22,535,603	1,500,889	1,443,172	25,479,664
Excess of revenues over (under) expenditures	(650,756)	(9,896)	91,842	(568,810)
Other Financing Sources (Uses)				
Insurance recovery	343,863	-	-	343,863
Net change in fund balances	(306,893)	(9,896)	91,842	(224,947)
Fund Balances				
Beginning of year	5,240,996	400,414	661,465	6,302,875
End of year	$ 4,934,103	$ 390,518	$ 753,307	$ 6,077,928

See notes to basic financial statements.

Independent School District No. 578
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended June 30, 2023

Net change in fund balances - total governmental funds	$ (224,947)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	497,152
Depreciation expense	(1,136,450)
Compensated absences and severance payable are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	2,805
Governmental funds recognize OPEB contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to OPEB on a full accrual perspective.	64,471
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	3,470,576
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no impact on net position in the Statement of Activities.	1,437,972
Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	17,502
Governmental funds report bond premiums and discounts as other financing sources and uses at the time of issuance. Net premiums and discounts are reported as a liability and deferred charges on refundings are presented as a deferred inflow of resources in the government-wide financial statements and are amortized over the life of the bond.	75,323
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(12,941)
Change in net position - governmental activities	$ 4,191,463

Independent School District No. 578
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Revenues from local sources				
Property taxes	$ 2,590,149	$ 2,575,055	$ 2,644,885	$ 69,830
Earnings on investments	15,000	85,000	88,965	3,965
Other local and county revenues	1,146,400	1,494,692	1,595,220	100,528
Revenues from state sources	16,442,493	16,706,722	16,847,047	140,325
Revenues from federal sources	763,038	782,209	707,559	(74,650)
Sales and other conversion of assets	-	1,000	1,171	171
Total revenues	20,957,080	21,644,678	21,884,847	240,169
Expenditures				
Current				
Administration	970,910	1,080,954	1,029,640	(51,314)
District support services	517,585	483,576	482,694	(882)
Elementary and secondary regular instruction	9,585,338	9,842,516	9,899,390	56,874
Vocational education instruction	214,683	154,902	167,155	12,253
Special education instruction	4,678,649	5,018,771	5,093,115	74,344
Instructional support services	1,087,190	933,961	1,175,929	241,968
Pupil support services	1,676,352	2,037,253	2,072,723	35,470
Sites and buildings	1,444,103	1,647,147	1,632,599	(14,548)
Fiscal and other fixed cost programs	138,189	148,665	151,198	2,533
Capital outlay				
District support services	-	3,348	3,348	-
Elementary and secondary regular instruction	155,769	59,619	64,930	5,311
Vocational education instruction	4,648	9,388	4,299	(5,089)
Special education instruction	-	14,286	132,820	118,534
Instructional support services	55,242	40,451	49,660	9,209
Pupil support services	-	-	11,232	11,232
Sites and buildings	125,200	133,355	242,903	109,548
Debt service				
Principal	100,422	217,134	217,972	838
Interest and fiscal charges	56,114	61,683	103,996	42,313
Total expenditures	20,810,394	21,887,009	22,535,603	648,594
Excess of revenues over (under) expenditures	146,686	(242,331)	(650,756)	(408,425)
Other Financing Sources (Uses)				
Insurance recovery	-	304,816	343,863	39,047
Net change in fund balance	$ 146,686	$ 62,485	(306,893)	$ (369,378)
Fund Balance				
Beginning of year			5,240,996	
End of year			$ 4,934,103	

Independent School District No. 578
Statement of Fiduciary Net Position
June 30, 2023

	OPEB Irrevocable Trust Fund
Assets	
Current	
Cash and investments (including cash equivalents)	$ 977,232
Net Position	
Held in trust for OPEB	$ 977,232

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2023

	OPEB Irrevocable Trust Fund
Additions	
Interest revenue	$ 12,975
Change in net position	12,975
Net Position	
Beginning of year	964,257
End of year	$ 977,232

(THIS PAGE LEFT BLANK INTENTIONALLY)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

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

B. Basic Financial Statement Information

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

Separate fund financial statements are provided for governmental funds, and fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The OPEB Irrevocable Trust Fund is presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, this fund is not incorporated into the government-wide statements.

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

2. Recording of Expenditures

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

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds:

Major Funds:

General Fund – This fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects – Building Construction Fund – This fund is used to account for financial resources used for the acquisition, construction, or improvement of capital facilities authorized by bond or other debt issue.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond principal, interest, and related costs.

Nonmajor Funds:

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures. Local, state, and federal revenues are received in this Fund to specifically support the food service program.

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education, aquatic center, or other similar services. The District receipts property tax and local and state revenues in this fund that were received for these specific purposes.

Fiduciary Fund:

Post-Employment Benefits Irrevocable Trust Fund – The Post-Employment Benefits Irrevocable Trust Fund is used to administer resources received and held by the District as the trustee for others. The Post-Employment Benefits Irrevocable Trust Fund includes assets held in an irrevocable trust to fund post-employment insurance benefits of eligible employees.

D. Deposits and Investments

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

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments held by investment pools are measured at amortized cost.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

Cash and investments at June 30, 2023, were comprised of deposits, and investments as outlined in Note 2. MNTrust and the Minnesota School District Liquid Asset Fund (MSDLAF) are external investment pools regulated by *Minnesota Statutes* not registered with the Securities and Exchange Commission. The District's investments in these investment pools are measured at the net asset value per share provided by the pools, which are based on amortized cost methods that approximate fair value.

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

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

In accordance with GASB Statement No. 79 the money market accounts are valued at amortized cost which approximates fair value. There are no restrictions or limitations on withdrawals from the MNTrust Investment Shares Portfolio or MSDLAF Liquid Class investment pools. Investments in the MSDLAF MAX Class must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the state of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24-hour hold on all requests for redemptions.

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Prepaid Items

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

H. Inventories

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

I. Property Taxes

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

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

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at its acquisition value at the date of donation.

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 25 years for equipment, and transportation.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate basic financial statement element represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has two items that qualify for reporting in this category. Deferred outflows related to pension activity and deferred outflows related to OPEB activity are reported in the government-wide Statement of Net Position. Deferred outflows of resources related to pensions and OPEB are recorded for various estimate differences that will be amortized and recognized over future years.

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

L. Unearned Revenue

Unearned revenue represents monies received prior to June 30, 2023, but earned subsequent to year end.

M. Long-Term Obligations

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Accrued Employee Benefits

Compensated Absences Payable
Under the terms of collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for unused, accrued vacation to the limit specified in their labor contract or School Board policy upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued when earned in the government-wide financial statements. Compensated absences are accrued in governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end, due to employee termination or similar circumstances.

Other Post Employment Benefits
For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources, and OPEB expense, information about the fiduciary net position of the District's OPEB Plan and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and certain investments that have a maturity at the time of purchase of one year or less, which may also be reported at amortized cost. Guaranteed investment contract investments are valued on a cost-basis measure.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Equity

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

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include inventory and prepaid items.

- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.

- Committed Fund Balances – These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action (majority vote) of the School Board that remain binding unless removed by the School Board by subsequent formal action.

- Assigned Fund Balances – These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to policy, the District's superintendent and business manager are authorized to establish assignments of fund balance.

- Unassigned Fund Balances – These are amounts that have not been restricted, committed, or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

- Minimum Fund Balance Policy – The District's annual budget will be developed to maintain a minimum unassigned General Fund balance of 25% of General Fund expenditures.

R. Use of Estimates

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Budgetary Information

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

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Legal budgetary control is at the fund level.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Capital Project, and Debt Service Funds.
4. Budgets for the General, Special Revenue, Capital Project, and Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy which requires deposits in excess of federal deposit coverage to be collateralized as required by *Minnesota Statutes* § 118A.03.

As of June 30, 2023, the District's bank balances were not exposed to custodial credit risk as they were insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

At June 30, 2023, the District had the following deposits:

Total checking, savings, and certificates of deposit	$ 757,130

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

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

Investment	Fair Value	Level	Maturity 12 Months or Less	Maturity 1 to 3 Years	Maturity 3 to 5 Years
MSDLAF	$ 205,582	NAV	205,582	-	-
MSDMAX	3	NAV	3	-	-
MNTrust Investment Shares Portfolio	4,267,835	NAV	4,267,835	-	-
Negotiable Certificates of Deposit	857,000	2	$ 440,450	$ 214,554	$ 201,996
Municpal Obligations	175,399	2	-	175,399	-
AUL Fixed Income (OPEB)	977,232	1	977,232	-	-
Total	$ 6,483,051		$ 5,891,102	$ 389,953	$ 201,996

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the district manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities to meet cash requirements for ongoing operations. Information about the sensitivity of the fair values of the district's investments to market interest rate risk fluctuations is provided by the table above that shows the distribution of the district's investments by maturity.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* §§ 118A.04 and 118A.05 limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. For assets held in the Post-Employment Benefits Trust Fund, the investment options available to the District are expanded to include the investment types specified in *Minnesota Statutes* § 356A.06, Subd. 7. The District's investment policies do not further restrict investing in specific financial instruments.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policies do not address concentration risk. At June 30, 2023, the District had investments greater than 5% of the portfolio. The OPEB Trust had 100% of investments in the Mid-American guaranteed investment contract.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Following is a summary of deposits and investments at June 30, 2023:

Deposits (Note 3.A)	$	757,130
Petty cash		792
Investments		6,483,051
Total deposits and investments	$	7,240,973

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

Statement of Net Position		
Cash and investments	$	6,263,741
Statement of Fiduciary Net Position		
Cash and investments		977,232
Total	$	7,240,973

NOTE 3 – CAPITAL ASSETS

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

	Balance 06/30/22	Additions	Disposals	Balance 06/30/23
Capital assets not being depreciated:				
Land	$ 191,251	$ -	$ -	$ 191,251
CIP	3,134,582	386,550	3,360,843	160,289
Total capital assets, not being depreciated	3,325,833	386,550	3,360,843	351,540
Capital assets, being depreciated				
Land Improvements	2,112,620	63,585	-	2,176,205
Buildings	40,195,122	3,208,821	-	43,403,943
Equipment	2,692,918	199,039	-	2,891,957
Total capital assets being depreciated	45,000,660	3,471,445	-	48,472,105
Less: Accumulated Depreciation				
Land Improvements	(1,282,894)	(79,413)	-	(1,362,307)
Buildings	(17,701,497)	(939,842)	-	(18,641,339)
Equipment	(1,760,860)	(117,195)	-	(1,878,055)
Total accumulated depreciation	(20,745,251)	(1,136,450)	-	(21,881,701)
Total capital assets being depreciated, net	24,255,409	2,334,995	-	26,590,404
Governmental activities, capital assets, net	$ 27,581,242	$ 2,721,545	$ 3,360,843	$ 26,941,944

Depreciation expense of $1,136,450 for the year ended June 30, 2023, was charged to the following governmental functions:

Administration	$ 1,765
District support services	27
Elementary and secondary regular instruction	99,123
Vocational education instruction	701
Special education instruction	43,946
Instructional support services	10,200
Pupil support services	3,693
Sites and buildings	951,848
Food service	10,219
Community education and services	14,928
Total depreciation expense	$ 1,136,450

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Debt

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One year
Long-term debt						
G.O. bonds						
including refunding bonds						
2010A Alternative Facilities Bond	12/01/10	2.00%-3.60%	$ 1,605,000	02/01/24	$ 155,000	$ 155,000
2016A Alternative Facilities Refunding Bonds	03/09/16	2.00%-3.00%	5,945,000	02/01/28	3,330,000	505,000
2016B Facilities Maintenance Bonds	05/05/16	2.00%	1,385,000	02/01/26	490,000	160,000
G.O. School Building Refunding Bonds Series 2017A	05/04/17	3.00%-4.00%	4,365,000	02/01/28	2,365,000	440,000
G.O. School Building Refunding Bonds Series 2020A	11/04/20	1.00%-2.00%	5,190,000	02/01/32	5,190,000	-
Total G.O. bonds					11,530,000	1,260,000
Certificates of Participation						
2021A Certificates of participation	05/06/21	2.00%-3.00%	3,875,000	04/01/41	3,565,000	160,000
Unamortized bond premium					502,510	-
Financed purchases					457,911	65,228
Compensated absences payable					88,754	37,969
Total long term-debt					$ 16,144,175	$ 1,523,197

The long-term bond, certificate, and financed purchase liabilities listed above were issued to finance acquisition and construction of capital facilities, equipment, and to refinance (refund) previous bond issues. Other long-term liabilities such as compensated absences payable, are typically liquidated through the General Fund.

B. Minimum Debt Payments for Bonds, Certificates, and Financed Purchases

Minimum annual principal and interest payments required to retire long term debt are as follows:

Year Ending June 30,	G.O. Bonds and Certificates		
	Principal	Interest	Total
2024	$ 1,260,000	$ 243,365	$ 1,503,365
2025	1,305,000	206,885	1,511,885
2026	1,335,000	171,685	1,506,685
2027	1,205,000	135,585	1,340,585
2028	1,235,000	101,685	1,336,685
2029-2032	5,190,000	154,080	5,344,080
Total	$ 11,530,000	$ 1,013,285	$ 12,543,285

NOTE 4 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds, Certificates, and Financed Purchases (Continued)

Year Ending June 30,	Financed Purchases Principal	Interest	Total
2024	$ 65,228	$ 15,439	$ 80,667
2025	67,566	13,102	80,668
2026	69,988	10,679	80,667
2027	72,498	8,170	80,668
2028	75,099	5,569	80,668
2029-2031	107,532	4,537	112,069
Total	$ 457,911	$ 57,496	$ 515,407

Year Ending June 30,	Certificates of Participation Principal	Interest	Total
2024	$ 160,000	$ 81,650	$ 241,650
2025	165,000	76,850	241,850
2026	170,000	71,900	241,900
2027	175,000	66,800	241,800
2028	180,000	61,550	241,550
2029-2033	960,000	235,650	1,195,650
2034-2038	1,065,000	133,600	1,198,600
2039-2041	690,000	27,800	717,800
Total	$ 3,565,000	$ 755,800	$ 4,320,800

C. Changes in Long-Term Debt

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term debt				
G.O. Bonds and Certificates	$ 12,750,000	$ -	$ 1,220,000	$ 11,530,000
Unamortized bond premium	526,210	-	75,323	450,887
Certificates of participation	3,720,000	-	155,000	3,565,000
Financed purchases	520,883	-	62,972	457,911
Compensated absences payable	91,559	-	2,805	88,754
Total long-term debt	$ 17,608,652	$ -	$ 1,516,100	$ 16,092,552

NOTE 5 – FUND BALANCES AND NET POSITION

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

A. Fund Equity

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

Nonspendable for Inventory and Prepaid Items – This balance represents a portion of the fund balance that is not available since the amounts have been spent by the District on inventory and prepaid items for subsequent fiscal years.

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

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

Restricted/Reserved for Gifted and Talented – The part of General Education Aid revenue for the gifted and talented program that is unspent at year end must be restricted in this Balance Sheet account

Restricted/Reserved for Achievement and Integration Revenue – The unspent resources available from the Achievement and Integration program must be restricted in this account for use within the fiscal year.

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* § 123B.595, subd. 12).

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

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the debt service funds.

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

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

NOTE 5 – FUND BALANCES AND NET POSITION (CONTINUED)

A. Fund Equity (Continued)

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

Restricted for Food Service – This balance represents the positive fund balance of the Food Service Fund.

B. Net Position

Restricted for State mandated restrictions net position is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service, and Community Service funds, and the effects of the conversion to the government-wide statements.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2023, was ($2,354,840). The components of pension expense are noted in the following plan summaries.

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

Teachers' Retirement Association

A. Plan Description

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

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

B. Benefits Provided

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

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

Tier 1 Benefits

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

With these provisions:

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

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members is applied. For years of service July 1, 2006, and after, a level formula of 1.9% per year for Coordinated members and 2.7% for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under *Minnesota Statute*. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

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

B. Benefits Provided (Continued)

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

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

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2021, June 30, 2022, and June 30, 2023, were:

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

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

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

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

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

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

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

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

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

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

Changes in actuarial assumptions and methods for the 2021 valuation:

- None

E. Discount Rate

The discount rate used to measure the total pension liability was 7.0%. There was no change in the discount rate since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2022 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability

On June 30, 2023, the District reported a liability of $11,803,012 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.1474% at the end of the measurement period and 0.1454% 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	$ 11,803,012
State's proportionate share of the net pension liability associated with the District	875,560

For the year ended June 30, 2023, the District recognized pension expense of ($2,689,676). Included in this amount, the District recognized $120,392 as pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 173,268	$ 103,174
Net collective difference between projected and actual earnings on plan investments	392,123	-
Changes of assumptions	1,865,248	2,540,120
Changes in proportion	72,938	206,078
Contributions to TRA subsequent to the measurement date	759,918	-
Total	$ 3,263,495	$ 2,849,372

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

The $759,918 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts of deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2024	$ (2,271,109)
2025	285,841
2026	98,843
2027	1,517,721
2028	22,909
Total	$ (345,795)

G. Pension Liability Sensitivity

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

District proportionate share of NPL		
1% Decrease in Discount Rate (6.00%)	Current Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
$ 18,606,806	$ 11,803,012	$ 6,226,023

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

H. Pension Plan Fiduciary Net Position

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

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

Public Employees' Retirement Association

A. Plan Description

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by 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.

B. Benefits Provided

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

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1 the annuity accrual rate for a Coordinated Plan member is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

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

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2023 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2023, were $222,988. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2023, the District reported a liability of $2,843,292 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $83,238.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

The net pension liability was measured as of June 30, 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 0.0359% at the end of the measurement period and 0.0378% for the beginning of the period.

School's proportionate share of net pension liability	$ 2,843,292
State of Minnesota's proportionate share of the net pension liability associated with the School	83,238
Total	$ 2,926,530

For the year ended June 30, 2023, the District recognized pension expense of $334,836 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $12,438 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 23,749	$ 32,041
Changes in actuarial assumptions	676,516	12,434
Net collective difference between projected and actual investments earnings	-	146
Change in proportion	4,147	84,837
Contributions paid to PERA subsequent to the measurement date	222,988	-
Total	$ 927,400	$ 129,458

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

The $222,988 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2024	$ 220,045
2025	227,840
2026	(130,064)
2027	257,133
Total	$ 574,954

E. Long-Term Expected Return on Investment

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

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

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

Public Employees′ Retirement Association (Continued)

F. Actuarial Methods and Assumptions

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

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

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

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

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

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

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

G. Discount Rates

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

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

Public Employees′ Retirement Association (Continued)

H. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (5.5%)	Current Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
District's proportionate share of the PERA net pension liability	$ 4,491,128	$ 2,843,292	$ 1,491,812

I. Pension Plan Fiduciary Net Position

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

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through the OPEB Plan, a single-employer defined benefit plan administered by the District. Management of the plan is vested with the School Board of the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements.

The District administers a defined benefit Post-Employment Benefits Trust Fund. The assets of the plan are reported in the District's financial report in the Post-Employment Benefits Trust Fund, established by the District to finance these obligations. The plan assets may be used only for the payment of benefits of the plan, in accordance with the terms of the plan. The plan does not issue a publicly available financial report.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

B. Benefits Paid

All retirees of the District upon retirement have the option under state law to continue their medical insurance coverage through the District. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these District-paid premium benefits must pay the full district premium rate for their coverage.

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees until the retiree reaches Medicare eligibility, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District's younger and statistically healthier active employees.

The General Fund, Food Service Fund and Community Service Fund typically liquidate the liability related to OPEB.

C. Contributions

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District. The required contributions are based on projected pay-as-you-go financing requirements. For the fiscal year 2023, the District contributed $217,514 to the plan.

D. Members

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

Inactive employees or beneficiaries currently receiving benefits	26
Active employees	198
Total	224

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2023, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Investment rate of return	2.00%
Inflation	2.50%
Healthcare cost trend increases	6.7%, gradually decreasing over several decades to an ultimate rate of 3.9% in FY2076 and later years.
Mortality Assumption	RP-2014 mortality tables with projected mortality improvements based on MP-2015 and other adjustment (Teachers) and Pub-2010 General mortality tables with projected mortality improvements based on MP-2020 and other adjustments (Non-Teachers).

The actuarial assumptions used in the June 30, 2021, valuation.

Changes in Actuarial Assumptions

- The discount rate was changed from 3.04% to 3.10% based on updated investment return assumptions, 20-year municipal bond rates, and updated asset sufficiency projections
- Healthcare trend rates were reset to reflect updated cost increase expectations.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

The long-term expected rate of return on OPEB 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 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 arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target	Long-Term Expected Real Rate of Return
Domestic equity	0 %	6.60 %
International equity	0	7.14
Fixed income	0	3.55
Real estate alternatives	0	6.04
Cash and equivalents	100	2.05
Total	100 %	

The details of the investments and the investment policy are described in Note 3 of the District's financial statements. For the year ended June 30, 2023, the annual money-weighted rate of return on investments, net of investment expense, was 1.35%. The money-weighted rate of return expenses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

F. Discount Rate

The discount rate used to measure the total OPEB liability was 3.10%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

G. Total OPEB Liability

The District's total OPEB liability of $1,754,289 was measured as of June 30, 2023, and was determined by an actuarial valuation as of June 30, 2021.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. Total OPEB Liability (Continued)

Changes in the total OPEB liability are as follows:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at June 30, 2021	$ 1,782,295	$ 964,257	$ 818,038
Changes for the year			
Service cost	112,112	-	112,112
Interest	54,284	-	54,284
Differences between expected and actual economic experience	28,845	-	28,845
Changes in assumptions	(5,733)	-	(5,733)
Employer contributions	-	217,514	(217,514)
Net investment income	-	12,976	(12,976)
Benefit payments	(217,514)	(217,514)	-
Net changes	(28,006)	12,976	(40,982)
Balances at June 30, 2022	$ 1,754,289	$ 977,233	$ 777,056

H. OPEB Liability Sensitivity

The following presents the District's net OPEB liability calculated using the discount rate of 3.10% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% Decrease in Discount Rate (2.10%)	Current Discount Rate (3.10%)	1% Increase in Discount Rate (4.10%)
Net OPEB Liability	$ 872,921	$ 777,056	$ 682,321

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

	1% Decrease in Trend Rate	Current Trend Rate	1% Increase in Trend Rate
Net OPEB Liability	$ 617,449	$ 777,056	$ 967,088

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

I. 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 $142,141. At June 30, 2023, the District reported deferred outflows of resources related to OPEB from the following source:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual liability	$ 288,785	$ 94,364
Change of assumptions	20,409	347,653
Net difference between projected and actual investment earnings	22,675	-
Contributions between measurement date and reporting date	109,198	-
Total	$ 441,067	$ 442,017

$109,198 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2024.

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

Year Ended June 30,	Total
2024	$ (8,052)
2025	(10,704)
2026	(13,416)
2027	(14,746)
2028	(14,066)
Thereafter	(49,164)
Total	$ (110,148)

NOTE 8 – FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan, which is classified as a cafeteria plan (the Plan) under § 125 of the IRC. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pretax dollars withheld from payroll checks to the Plan for healthcare and dependent care benefits. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant.

Before the beginning of the Plan year, each participant designates a total amount of pretax dollars to be contributed to the Plan during the year. At June 30, the District is contingently liable for total contributions to the medical reimbursement portion of the Plan, whether or not such contributions have been made.

Payments of insurance premiums (health, dental, life, and disability) are made by the District directly to the designated insurance companies. These payments are accounted for in the General Fund. Amounts withheld for medical reimbursement and dependent care are deposited into a separate district checking account. Payments are made by the District to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the employee. The medical reimbursement and dependent care activity are included in the financial statements of the General Fund.

All plan property and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the Plan are equal to those of general creditors of the District in an amount equal to the eligible healthcare and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 9 – RISK MANAGEMENT

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

(THIS PAGE LEFT BLANK INTENTIONALLY)

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 578
Schedule of Changes in Net OPEB Liability
and Related Ratios

	June 30, 2017	June 30, 2018	June 30, 2019
Total OPEB Liability (TPL)			
Service cost	$ 144,119	$ 140,652	$ 115,975
Interest	67,260	74,697	68,099
Differenced between expected and actual experience	-	77,753	-
Changes of assumptions	(39,901)	(277,969)	35,029
Plan changes	-	(3,121)	(205,828)
Benefit Payments	(187,823)	(174,511)	(152,942)
Projected investment return	-	-	-
Other changes	-	-	-
Net change in total OPEB liability	(16,345)	(162,499)	(139,667)
Beginning of year	2,085,034	2,068,689	1,906,190
End of year	$ 2,068,689	$ 1,906,190	$ 1,766,523
Plan Fiduciary Net Pension (FNP)			
Employer contributions	$ 187,823	$ 174,511	$ 152,942
Projected investment return	14,678	12,862	13,928
Differences beetween expected and actual experience	-	-	-
Benefit payments	(187,823)	(174,511)	(152,942)
Administrative expense	-	-	-
Other changes	-	-	-
Net change in plan fiduciary net position	14,678	12,862	13,928
Beginning of year	874,601	889,279	902,141
End of year	$ 889,279	$ 902,141	$ 916,069
Net OPEB liability	$ 1,179,410	$ 1,004,049	$ 850,454
Plan FNP as a percentage of the total OPEB liability	42.99%	47.33%	51.86%
Covered-employee payroll	$ 11,025,000	$ 11,190,075	$ 11,435,026
Net OPEB liability as a percentage of covered-employee payroll	10.70%	8.97%	7.44%

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

See notes to required supplementary information.

June 30, 2020	June 30, 2021	June 30, 2022	June 30, 2023
$ 105,734	$ 124,756	$ 132,970	$ 112,112
56,489	59,321	50,686	54,284
331,355	2,143	(112,270)	28,845
(116,590)	(39,330)	(98,357)	(5,733)
135,905	10,436	-	-
(191,717)	(232,626)	(203,133)	(217,514)
-	-	-	-
-	-	-	-
321,176	(75,300)	(230,104)	(28,006)
1,766,523	2,087,699	2,012,399	1,782,295
$ 2,087,699	$ 2,012,399	$ 1,782,295	$ 1,754,289
$ 191,717	$ 232,626	$ 203,133	$ 217,514
16,509	16,750	14,929	12,976
-	-	-	-
(191,717)	(232,626)	(203,133)	(217,514)
-	-	-	-
-	-	-	-
16,509	16,750	14,929	12,976
916,069	932,578	949,328	964,257
$ 932,578	$ 949,328	$ 964,257	$ 977,233
$ 1,155,121	$ 1,063,071	$ 818,038	$ 777,056
44.67%	47.17%	54.10%	55.71%
$ 11,696,544	$ 11,754,258	$ 10,414,482	$ 12,212,000
9.88%	9.04%	7.85%	6.36%

Independent School District No. 578
Schedule of Investment Returns

	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020	June 30, 2021
Annual money-weighted rate of return, net of investment expense	1.67%	1.45%	1.54%	1.80%	1.80%

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

June 30, 2022	June 30, 2023
1.57%	1.35%

Independent School District No. 578
Schedule of District's and Non-Employer Proportionate Share
(if Applicable) of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0454%	$ 2,132,665	$ -	$ 2,132,665	$ 2,393,711	89.09%	78.75%
2015	0.0430%	2,228,484	-	2,228,484	2,495,413	89.30%	78.19%
2016	0.0421%	3,418,312	44,592	3,462,904	2,621,373	130.40%	68.91%
2017	0.0404%	2,579,109	32,442	2,611,551	2,603,667	99.06%	75.90%
2018	0.0395%	2,191,297	71,886	2,263,183	2,660,800	82.35%	79.53%
2019	0.0383%	2,117,522	65,830	2,183,352	2,660,787	79.58%	80.23%
2020	0.0386%	2,314,246	71,201	2,385,447	2,749,227	84.18%	79.06%
2021	0.0378%	1,614,229	49,353	1,663,582	2,723,080	59.28%	87.00%
2022	0.0359%	2,843,292	83,238	2,926,530	2,687,507	105.80%	76.67%

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

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

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1693%	$ 7,801,222	$ 548,775	$ 8,349,997	$ 7,728,319	100.94%	81.50%
2015	0.1586%	9,810,979	1,203,722	11,014,701	8,049,040	121.89%	76.77%
2016	0.1542%	36,780,380	3,692,277	40,472,657	8,094,867	454.37%	44.88%
2017	0.1508%	30,102,416	2,910,302	33,012,718	8,118,347	370.79%	51.57%
2018	0.1499%	9,415,123	884,668	10,299,791	8,283,840	113.66%	78.07%
2019	0.1486%	9,471,795	838,481	10,310,276	8,428,781	112.37%	78.21%
2020	0.1481%	10,941,826	916,893	11,858,719	8,606,288	127.14%	75.48%
2021	0.1454%	6,363,139	536,786	6,899,925	8,700,160	73.14%	86.63%
2022	0.1474%	11,803,012	875,560	12,678,572	9,016,655	130.90%	76.17%

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

Independent School District No. 578
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 172,930	$ 172,930	$ -	$ 2,385,241	7.25%
2015	187,156	187,156	-	2,495,413	7.50%
2016	196,603	196,603	-	2,621,373	7.50%
2017	195,275	195,275	-	2,603,667	7.50%
2018	199,560	199,560	-	2,660,800	7.50%
2019	199,559	199,559	-	2,660,787	7.50%
2020	206,192	206,192	-	2,749,227	7.50%
2021	204,231	204,231	-	2,723,080	7.50%
2022	201,563	201,563	-	2,687,507	7.50%
2023	222,988	222,988	-	2,973,173	7.50%

Schedule of District Contributions
TRA Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 796,971	$ 796,971	$ -	$ 11,385,300	7.00%
2015	603,678	603,678	-	8,049,040	7.50%
2016	607,115	607,115	-	8,094,867	7.50%
2017	608,876	608,876	-	8,118,347	7.50%
2018	621,288	621,288	-	8,283,840	7.50%
2019	649,859	649,859	-	8,428,781	7.71%
2020	681,618	681,618	-	8,606,288	7.92%
2021	707,323	707,323	-	8,700,160	8.13%
2022	760,104	760,104	-	9,016,655	8.43%
2023	759,918	759,918	-	8,887,930	8.55%

TRA Retirement Fund

2022 Changes

Changes in Actuarial Assumptions

- None

2021 Changes

Changes in Actuarial Assumptions

- The investment return assumption was changed from 7.5% to 7.0%.

2020 Changes

Changes in Actuarial Assumptions

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

2019 Changes

Changes in Actuarial Assumptions

- None

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was increased to 7.5% from 5.12%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

TRA Retirement Fund (Continued)

2017 Changes

Changes in Actuarial Assumptions

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

2016 Changes

Changes in Actuarial Assumptions

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

TRA Retirement Fund (Continued)

2015 Changes

Changes of Benefit Terms

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

Changes in Actuarial Assumptions

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

General Employees Fund

2022 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2021 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

General Employees Fund (Continued)

2019 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2018 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2017 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

General Employees Fund (Continued)

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

Changes in Plan Provisions

- There have been no changes since the prior valuation.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

Post Employment Health Care Plan

2023 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 3.04% to 3.10% based on updated investment return assumptions, 20-year municipal bond rates, and updated asset sufficiency projections
- Healthcare trend rates were reset to reflect updated cost increase expectations.

2022 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 2.48% to 3.04% based on updated investment return assumptions, 20-year municipal bond rates, and updated asset sufficiency projections
- The long-term investment return assumption was changed from 3.25% to 2.00% based on updated capital market assumptions
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience.
- Withdrawal, retirement, mortality, and salary increase rates were updated from the rates used in the 7/1/2019 PERA General Employees Plan and 7/1/2019 Teachers Retirement Association valuations to the rates used in the 7/1/2021 valuations.
- The percent of future retirees assumed to elect spouse coverage at retirement changed from 20% to 30% to reflect recent plan experience.
- The percent of future non Medicare eligible retirees electing each medical plan changed to reflect recent plan experience

2021 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 2.83 percent to 2.48 percent.
- The index rate for 20-year, tax-exempt municipal bonds was changed from 2.45 percent to 1.92 percent.

Changes in Plan Provisions

- Retiree premiums and explicit subsidy benefits were updated to match updated contract language.

2020 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 3.18 percent to 2.83 percent.
- The index rate for 20-year, tax-exempt municipal bonds was changed from 3.13 percent to 2.45 percent.
- The inflation assumption was changed from 2.75 percent to 2.50 percent
- Healthcare trend rates were reset and claims costs were adjusted to reflect recent experience.
- Mortality and salary increases were updated to rates used in the July 1, 2019, PERA and TRA valuations
- Assumptions for retirees electing coverage were updated for recent plan experience

Changes in Plan Provisions

- Retiree premiums and explicit subsidy benefits were updated to match updated contract language

Post Employment Health Care Plan

2019 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 3.50 percent to 3.18 percent

Changes in Actuarial Assumptions (Continued)

- The index rate for 20-year, tax-exempt municipal bonds was changed from 3.62 percent to 3.13 percent
- The percentage of future retirees eligible for a direct subsidy assumed to elect coverage at retirement changed from 85.00 percent to 100.00 percent

Changes in Plan Provisions

- The direct subsidy benefits for certain individual contracts were updated from receiving the single medical premium for one year to a one-time flat dollar contribution amount
- The direct subsidy benefits for the classified contract were updated from a $6,200 contribution amount to a $7,200 contribution amount

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 3.52 percent to 3.50 percent
- The index rate for 20-year, tax-exempt municipal bonds was changed from 3.53 percent to 3.62 percent.
- Healthcare trend rates were reset to reflect updated cost increase expectations and the impact of the Affordable Care Act's excise tax on high-cost health insurance plans
- Medical per capita claims costs were updated to reflect recent experience.
- Withdrawal, retirement, and mortality rates were updated to reflect updated PERA and TRA plan valuation rates.
- Future retiree assumptions to elect coverage were updated to reflect recent plan experience.

Changes in Plan Provisions

- Retiree premiums were updated to current levels
- Direct subsidy benefits were removed for the assistant elementary principal, director of curriculum, and director of technology

(THIS PAGE LEFT BLANK INTENTIONALLY)

SUPPLEMENTARY INFORMATION

Independent School District No. 578
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2023

	Special Revenue Funds		
	Food Service	Community Service	Total Nonmajor Funds
Assets			
Cash and investments	$ 598,873	$ 242,591	$ 841,464
Current property taxes receivable	-	57,659	57,659
Delinquent property taxes receivable	-	1,103	1,103
Accounts receivable	70	-	70
Due from Department of Education	1,088	12,582	13,670
Due from other Minnesota school districts	3,226	-	3,226
Due from federal government through department of education	13,503	6,875	20,378
Inventory	18,350	-	18,350
Total assets	$ 635,110	$ 320,810	$ 955,920
Liabilities			
Accounts payable	$ 7,471	$ 2,688	10,159
Salaries and benefits payable	36,186	12,296	48,482
Unearned revenue	17,530	-	17,530
Total liabilities	61,187	14,984	76,171
Deferred Inflows of Resources			
Unavailable revenue - delinquent property taxes	-	1,103	1,103
Property taxes levied for subsequent year's expenditures	-	125,339	125,339
Total deferred inflows of resources	-	126,442	126,442
Fund Balances			
Nonspendable			
Inventory	18,350	-	18,350
Restricted			
Community education programs	-	90,424	90,424
Early childhood and family education programs	-	64,842	64,842
School readiness	-	24,118	24,118
Food service	555,573	-	555,573
Total fund balances	573,923	179,384	753,307
Total liabilities, deferred inflows of resources, and fund balances	$ 635,110	$ 320,810	$ 955,920

Independent School District No. 578
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2023

	Special Revenue Funds		
	Food Service	Community Service	Total Nonmajor Funds
Revenues			
Revenue from local sources			
Property taxes	$ -	$ 121,182	$ 121,182
Earnings on investments	13,402	4,408	17,810
Other local and county revenues	26,770	201,902	228,672
Revenue from state sources	44,076	140,168	184,244
Revenue from federal sources	647,924	6,875	654,799
Sales and other conversion of assets	328,307	-	328,307
Total revenues	1,060,479	474,535	1,535,014
Expenditures			
Current			
Food service	950,308	-	950,308
Community education and services	-	395,080	395,080
Capital outlay			
Food service	97,784	-	97,784
Total expenditures	1,048,092	395,080	1,443,172
Net change in fund balances	12,387	79,455	91,842
Fund Balances			
Beginning of year	561,536	99,929	661,465
End of year	$ 573,923	$ 179,384	$ 753,307

Independent School District No. 578
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget-
	Original	Final	Amounts	Over (Under)
Revenues				
Revenues from local sources				
Earnings on investments	$ -	$ 12,775	$ 13,402	$ 627
Other local and county revenues	-	4,900	26,770	21,870
Revenues from state sources	49,000	60,500	44,076	(16,424)
Revenues from federal sources	652,000	617,421	647,924	30,503
Sales and other conversion of assets	185,200	375,000	328,307	(46,693)
Total revenues	886,200	1,070,596	1,060,479	(10,117)
Expenditures				
Current				
Food service	871,401	958,373	950,308	(8,065)
Capital outlay				
Food service	-	90,000	97,784	7,784
Total expenditures	871,401	1,048,373	1,048,092	(281)
Net change in fund balances	$ 14,799	$ 22,223	12,387	$ (9,836)
Fund Balance				
Beginning of year			561,536	
End of year			$ 573,923	

Independent School District No. 578
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget-
	Original	Final	Amounts	Over (Under)
Revenues				
Revenues from local sources				
Property taxes	$ 122,291	$ 120,564	$ 121,182	$ 618
Earnings on investments	5,000	5,000	4,408	(592)
Other local and county revenues	114,400	159,455	201,902	42,447
Revenues from state sources	151,400	138,890	140,168	1,278
Revenue from federal sources	-	(6,875)	6,875	13,750
Total revenues	393,091	417,034	474,535	57,501
Expenditures				
Current				
Community education and services	409,759	416,636	395,080	(21,556)
Capital outlay				
Community education and services	-	-	-	-
Total expenditures	409,759	416,636	395,080	(21,556)
Net change in fund balances	$ (16,668)	$ 398	79,455	$ 79,057
Fund Balance				
Beginning of year			99,929	
End of year			$ 179,384	

Independent School District No. 578
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2023

		Audit	UFARS	Audit-UFARS	
01 General Fund					
Total revenue		$ 21,884,847	$ 21,884,847	$ -	
Total expenditures		22,535,603	22,535,600	3	
Nonspendable:					
4.60	Nonspendable fund balance	205,026	-	205,026	*
Restricted/reserved:					
4.01	Student Activities	60,587	60,586	1	
4.02	Scholarships	272,729	272,729	-	
4.03	Staff Development	-	-	-	
4.07	Capital Projects Levy	-	-	-	
4.09	Alternative Facility Program	-	-	-	
4.13	Building Projects Funded by COP/LP	-	-	-	
4.14	Operating Debt	-	-	-	
4.16	Levy Reduction	-	-	-	
4.17	Taconite Building Maintenance	-	-	-	
4.24	Operating Capital	1,296,504	1,296,504	-	
4.26	$25 Taconite	-	-	-	
4.27	Disabled Accessibility	-	-	-	
4.28	Learning and Development	-	-	-	
4.34	Area Learning Center	-	-	-	
4.35	Contracted Alternative Programs	-	-	-	
4.36	State Approved Alternative Program	-	-	-	
4.38	Gifted and Talented	3,307	3,307	-	
4.40	Teacher Development and Evaluation	-	-	-	
4.41	Basic Skills Programs	-	-	-	
4.45	Career Technical Programs	-	-	-	
4.48	Achievement and Integration	4,634	4,634	-	
4.49	Safe School Crime Levy	-	-	-	
4.51	QZAB Payments	-	-	-	
4.52	OPEB Liabilities not Held in Trust	-	-	-	
4.53	Unfunded Severance and Retirement Levy	-	-	-	
4.59	Basic Skills Extended Time	-	-	-	
4.67	Long-Term Facilities Maintenance	711,442	711,442	-	
4.72	Medical Assistance	-	-	-	
Restricted:					
4.72	Medical Assistance	-	-	-	
4.64	Restricted fund balance	-	-	-	
4.75	Title VII - Impact Aid	-	-	-	
4.76	Payments in Lieu of Taxes	-	-	-	
Committed:					
4.18	Committed for separation/ Retirement benefits	-	-	-	
4.61	Committed for separation/	-	-	-	
Assigned:					
4.62	Assigned fund balance	88,107	88,107	-	
Unassigned:					
4.22	Unassigned fund balance	2,291,767	2,496,797	(205,030)	*
02 Food Service Fund					
Total revenue		$ 1,060,479	$ 1,060,481	$ (2)	
Total expenditures		1,048,092	1,048,096	(4)	
Nonspendable:					
4.60	Nonspendable fund balance	18,350	18,350	-	
Restricted/reserved:					
4.52	OPEB liabilities not held in trust	-	-	-	
Restricted:					
4.64	Restricted fund balance	555,573	555,573	-	
Unassigned:					
4.63	Unassigned fund balance	-	-	-	
04 Community Service Fund					
Total revenue		$ 474,535	$ 474,538	$ (3)	
Total expenditures		395,080	395,081	(1)	
Nonspendable:					
4.60	Nonspendable fund balance	-	-	-	
Restricted/reserved:					
4.26	$25 Taconite	-	-	-	
4.31	Community Education	90,424	90,426	(2)	
4.32	ECFE	64,842	64,842	-	
4.40	Teacher Development and Evaluation	-	-	-	
4.44	School Readiness	24,118	24,118	-	
4.47	Adult Basic Education	-	-	-	
4.52	OPEB Liabilities not Held in Trust	-	-	-	
Restricted:					
4.64	Restricted fund balance		-	-	
Unassigned:					
4.63	Unassigned fund balance	-	-	-	

		Audit	UFARS	Audit-UFARS	
06 Building Construction Fund					
Total revenue		$ -	$ -	$ -	
Total expenditures		-	-	-	
Nonspendable:					
4.60	Nonspendable fund balance	-	-	-	
Restricted/reserved:					
4.07	Capital Projects Levy	-	-	-	
4.09	Alternative Facility Program	-	-	-	
4.13	Building Projects Funded by COP/LP	-	-	-	
Restricted:					
4.64	Restricted fund balance	-	-	-	
Unassigned:					
4.63	Unassigned fund balance	-	-	-	
07 Debt Service Fund					
Total revenue		$ 1,490,993	$ 1,490,993	$ -	
Total expenditures		1,500,889	1,500,890	(1)	
Nonspendable:					
4.60	Nonspendable fund balance	-	-	-	
Restricted/reserved:					
4.25	Bond refunding	-	-	-	
4.33	Maximum effort loan aid				
4.51	QZAB payments	-	-	-	
4.67	LTFM	-	-	-	
Restricted:					
4.64	Restricted fund balance	390,518	390,518	-	
Unassigned:					
4.63	Unassigned fund balance	-	-	-	
08 Trust Fund					
Total revenue		$ -	$ -	$ -	
Total expenditures		-	-	-	
Unassigned:					
4.01	Student Activities	-	-	-	
4.02	Scholarships	-	-	-	
4.22	Net Assets	-	-	-	
18 Custodial Fund					
Total revenue		$ -	-	-	
Total expenditures		-	-	-	
Unassigned:					
4.01	Student Activities	-	-	-	
4.02	Scholarships	-	-	-	
4.22	Achievement & Integration	-	-	-	
4.64	Restricted	-	-	-	
20 Internal Service Fund					
Total revenue		$ -	$ -	$ -	
Total expenditures		-	-	-	
Unassigned:					
4.22	Net position	-	-	-	
25 OPEB Revocable Trust					
Total revenue		$ -	$ -	$ -	
Total expenditures			-	-	
Unassigned:					
4.22	Net position	-	-	-	
45 OPEB Irrevocable Trust					
Total revenue		$ 12,975	$ 12,975	$ -	
Total expenditures		-	-	-	
Unassigned:					
4.22	Net position	977,232	977,232	-	
47 OPEB Debt Service					
Total revenue		$ -	$ -	$ -	
Total expenditures		-	-	-	
Nonspendable:					
4.60	Nonspendable fund balance	-	-	-	
Restricted:					
4.64	Restricted fund balance	-	-	-	
Unassigned:					
4.63	Unassigned fund balance	-	-	-	

* Difference due to entry made to allocate nonspendable fund balance after final UFARS submission.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Funding Source	Federal Assistance Listing Number	Expenditures
Through Minnesota Department of Education		
U.S. Department of Agriculture		
Commodities Program (cluster)	10.555	$ 74,317
School Breakfast Program (cluster)	10.553	100,391
National School Lunch Program (cluster)	10.555	463,200
Summer food service program (cluster)	10.559	10,016
Total Child Nutrition Cluster		647,924
U.S. Department of Treasury		
COVID-19 American Rescue Plan Summer Academic Enrichment and Mental Health	21.027	31,911
COVID-19 Summer Preschool Program	21.027	6,874
Total Coronavirus Relief Fund		38,785
U.S. Department of Education		
Title I, Part A	84.010	229,361
Special Education (cluster)	84.027	35,221
Title II, Part A - Improving Teacher Quality	84.367	35,879
COVID-19 ESSER III - 90% Formula Allocation	84.425U	292,295
COVID-19 ESSER III - 90% Learning Loss	84.425U	34,555
Total Education Stabilization Fund		326,850
Carl Perkins	84.048	9,264
U.S Department of Health and Human Services		
COVID-19 Minnesota COVID-19 Testing Program	93.323	37,744
Total Federal Expenditures		$ 1,361,028

See notes to schedule of expenditures of federal awards.

Independent School District No. 578
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 – PASS-THROUGH GRANT NUMBERS

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

NOTE 4 – INVENTORY

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

NOTE 5 – INDIRECT COST RATE

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

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

Independent Auditor's Report

To the School Board
Independent School District No. 578
Pine City, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 578, Pine City, Minnesota, as of and for the year ending June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 18, 2024.

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

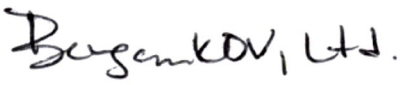
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination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

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

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

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

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



St. Cloud, Minnesota
March 18, 2024

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

Independent Auditor's Report

To the School Board
Independent School District No. 578
Pine City, Minnesota

Report on Compliance for each Major Federal Program

Opinion on Each Major Federal Program

We have audited Independent School District No. 578's, Pine City, Minnesota compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal programs for the year ended June 30, 2023. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

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

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

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

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

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

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

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

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



St. Cloud, Minnesota
March 18, 2024

Independent School District No. 578
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 2023-001
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

Assistance Listing No:	10.553/10.555/10.556/10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
Auditee qualified as low risk auditee?	No

Independent School District No. 578
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2023-001

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

Condition:
During the year ended June 30, 2023, the District had a lack of segregation of accounting duties due to a limited number of office employees. This condition increases the risk that errors could occur which would not be prevented or detected and corrected in a timely manner.

As a result of this lack of segregation a material audit adjustment was required to correctly report health insurance payable, compensated absences payable and the expenditures related to the Certificate of Participation principal and interest payment.

Questioned Costs:
None

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

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

Cause:
There are a limited number of office employees.

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

Independent School District No. 578
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2023-001 (Continued)

Responsible Official's Response:

CORRECTIVE ACTION PLAN (CAP):

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

2. Actions Planned in Response to Finding
   The District will take the necessary corrective action to address the lack of segregation of duties identified as an audit finding. The District will also evaluate other key accounting processes and procedures to ensure adequate segregation of duties is achieved.

3. Official Responsible for Ensuring CAP
   Jill Nolan, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The planned completion date for the CAP is June 30, 2023.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – PRIOR YEAR FEDERAL AWARD FINDING

None

Minnesota Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 578
Pine City, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 578, Pine City, Minnesota, as of and for the year ended June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 18, 2024.

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

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

BergenKDV, Ltd.

St. Cloud, Minnesota
March 18, 2024