# Independent School District No. 578
# Pine City, Minnesota

## Basic Financial Statements

## June 30, 2022

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**Independent School District No. 578**
**Board of Education and Administration**
**June 30, 2022**

| Board of Education | Position | Term Expires |
|---|---|---|
| Dan Peterson | Chairperson | December 31, 2024 |
| Tim Geisler | Vice Chairperson | December 31, 2024 |
| Dr. Candice Ames | Treasurer | December 31, 2024 |
| JacLynn Cavallin | Clerk | December 31, 2022 |
| Becci Palmblade | Director | December 31, 2024 |
| Lezlie Sauter | Director | December 31, 2022 |
| Billy Head | Director | December 31, 2022 |

| 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, 2022, 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, 2022, 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.

### Emphasis of Matter – Implementation of GASB 87

The District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

### 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 one year 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 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 January 31, 2023, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV, Ltd.

St. Cloud, Minnesota
January 31, 2023

**Independent School District No. 578**
**Management Discussion and Analysis**

This 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, 2022. Please read it in conjunction with the District's financial statements, which immediately follows this section.

## Financial Highlights

Key financial highlights for fiscal year 2021-2022 include the following:

- Total General Fund revenues were $22,817,423 and total General Fund expenditures were $22,944,766 for the fiscal year ended June 30, 2022. Total revenues and expenditures for all governmental funds combined were $26,000,518 and $28,790,989, respectively.
- The total fund balance in the General Fund decreased by $108,166 to $5,240,996. The unassigned fund balance in the General Fund decreased by $173,702 to $3,273,334. Total General Fund revenues were 2.2% lower than the final budget, and total General Fund expenditures were 0.9% higher than the final budget.
- The total fund balance in the Food Service Fund increased by $348,381 to $561,536 with revenue of $1,230,357 and expenditures of $881,976.
- Community Service programs offered by the District generated revenue of $412,848 and expenditures of $476,437 for the fiscal year. The total fund balance in the Community Services fund is $99,929.
- The District has general obligation bonded debt and financed purchase principal outstanding in the amount of $13,270,883 as of June 30, 2022. This is a decrease of $1,255,795 from the previous fiscal year end.
- Net position of governmental activities increased by $2,726,217 for the fiscal year. The total expense of governmental activities was $23,204,012. Program revenues totaled $10,413,065 and general revenues totaled $15,517,164.

## 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 ($1,583,489) on June 30, 2022 (See Table A-1). Total assets and deferred outflows of resources increased by $1,493,880 or 3.4%. Capital assets increased $2,361,899 as the District's capital outlay expense exceeded depreciation expense in the current fiscal year. Total liabilities decreased by $7,792,341 or 27.6%.

**Table A-1**
**Net Position - Governmental Activities**

| | Year Ended 2022 | Year Ended 2021 |
|---|---|---|
| **Assets** | | |
| Current and other assets | $ 11,631,256 | $ 14,513,546 |
| Capital assets | 27,581,242 | 25,219,343 |
| Total assets | 39,212,498 | 39,732,889 |
| **Deferred Outflows of Resources** | 4,934,751 | 5,908,240 |
| Total assets and deferred outflows of resources | $ 44,147,249 | $ 45,641,129 |
| **Liabilities** | | |
| Other liabilities | $ 1,788,476 | $ 2,026,896 |
| Long-term liabilities | 26,404,058 | 33,957,979 |
| Total liabilities | $ 28,192,534 | $ 35,984,875 |
| **Deferred Inflows of Resources** | $ 17,538,204 | $ 13,965,960 |
| **Net Position** | | |
| Net investment in capital assets | $ 10,064,149 | $ 9,176,290 |
| Restricted | 2,793,508 | 2,467,412 |
| Unrestricted | (14,441,146) | (15,953,408) |
| Total net position | $ (1,583,489) | $ (4,309,706) |

## Financial Analysis of the District as A Whole (Continued)

### *Changes in net position*

The District's total revenues were $25,930,229 for the year ended June 30, 2022. Property taxes and state formula aid accounted for 59% of total revenue for the year (See Figure A-1). 41% of total revenue came from program and other revenues.

The total cost of all programs and services was $23,204,012. 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 3.7% of total costs.

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

| | Year Ended 2022 | Year Ended 2021 |
|---|---|---|
| **Revenues** | | |
| Program revenues | | |
| Charges for services | $ 1,447,289 | $ 157,017 |
| Operating grants and contributions | 8,675,414 | 4,442,223 |
| Capital grants and contributions | 290,362 | - |
| General revenues | | |
| Property taxes | 3,713,410 | 3,627,737 |
| State aid-formula grants | 11,700,389 | 14,232,289 |
| Investment earnings | (89,209) | 21,847 |
| Other | 192,574 | 1,375,569 |
| Total revenues | 25,930,229 | 23,856,682 |
| **Expenses** | | |
| Administration | 854,364 | 923,245 |
| District support services | 567,321 | 439,962 |
| Elementary and secondary regular instruction | 8,946,936 | 9,696,603 |
| Vocational education instruction | 139,131 | 231,949 |
| Special education instruction | 4,700,578 | 4,866,510 |
| Instructional support services | 1,976,900 | 1,758,457 |
| Pupil support services | 1,922,544 | 1,823,605 |
| Sites and buildings | 2,276,218 | 2,581,563 |
| Fiscal and other fixed cost programs | 137,823 | 120,749 |
| Food service | 860,637 | 731,408 |
| Community education and services | 464,929 | 398,109 |
| Interest and fiscal charges on long-term debt | 356,631 | 615,656 |
| Total expenses | 23,204,012 | 24,187,816 |
| Increase (decrease) in net position | 2,726,217 | (331,134) |
| **Net Position** | | |
| Net position - beginning | (4,309,706) | (3,978,572) |
| End of year | $ (1,583,489) | $ (4,309,706) |

## Financial Analysis of the District as A Whole (Continued)

**Figure A-1**
**Source of Revenues for Fiscal Year 2022**

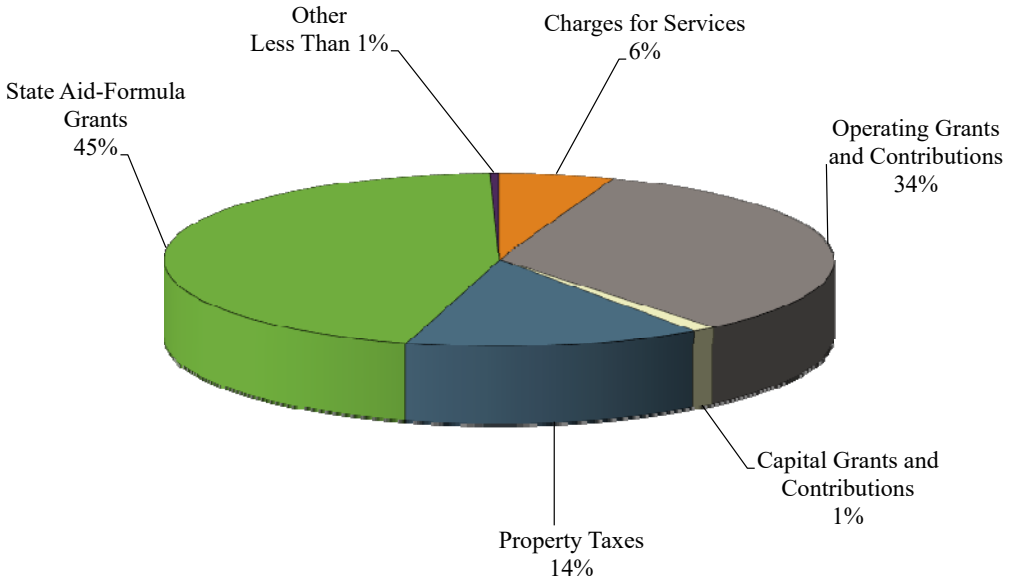
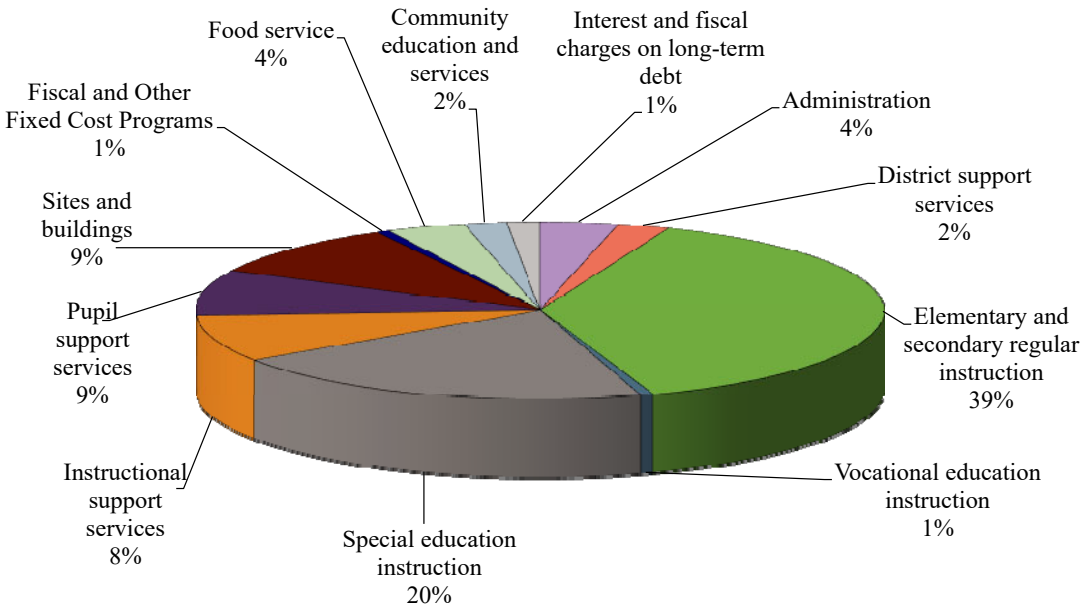



**Figure A-2**
**Expenses for Fiscal Year 2022**



## Financial Analysis of the District as A Whole (Continued)

- The cost of all governmental activities was $23,204,012. This was a decrease of $983,804 when compared to the previous year.
- The federal and state governments subsidized certain programs with grants and contributions of $8,965,776.
- A good portion of the District's costs, $15,413,799, 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 | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Administrative | $ 854,364 | $ 923,245 | $ (854,364) | $ (923,245) |
| District support services | 567,321 | 439,962 | (560,373) | (439,962) |
| Elementary and secondary regular instruction | 8,946,936 | 9,696,603 | (6,258,928) | (9,289,647) |
| Vocational education instruction | 139,131 | 231,949 | (128,111) | (220,978) |
| Special education instruction | 4,700,578 | 4,866,510 | (569,904) | (1,746,382) |
| Instructional support services | 1,976,900 | 1,758,457 | (1,149,824) | (1,758,377) |
| Pupil support services | 1,922,544 | 1,823,605 | (1,259,766) | (1,815,004) |
| Sites and buildings | 2,276,218 | 2,581,563 | (1,985,856) | (2,581,563) |
| Fiscal and other fixed cost programs | 137,823 | 120,749 | (137,823) | (120,749) |
| Food service | 860,637 | 731,408 | 365,899 | 74,057 |
| Community education and services | 464,929 | 398,109 | 104,734 | (151,070) |
| Interest and fiscal charges on long-term debt | 356,631 | 615,656 | (356,631) | (615,656) |
| Total | $ 23,204,012 | $ 24,187,816 | $ (12,790,947) | $ (19,588,576) |

## 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 $6,302,875, which is a decrease of $2,771,294 from the prior year ending fund balance. Revenues for the District's governmental funds were $26,000,518, total expenditures were $28,790,989, and other sources and uses provided $19,177.

The fund balance of the General fund decreased by $108,166 based on current year operations. The operations of the other governmental funds: Capital Projects, Food Service, Community Service, and Debt Service funds resulted in a decrease in fund balance of $2,663,128.

## 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, 2022 | June 30, 2021 | Increase (Decrease) |
| Local property taxes | $ 2,433,024 | $ 2,390,441 | $ 42,583 |
| Revenue from state sources | 16,605,919 | 16,234,768 | 371,151 |
| Revenue from federal sources | 2,504,250 | 1,102,619 | 1,401,631 |
| Other | 1,274,230 | 1,409,742 | (135,512) |
| Total | $ 22,817,423 | $ 21,137,570 | $ 1,679,853 |

Total General Fund revenue of $22,817,423 increased by $1,679,853, or 7.9%, 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, 2022 | June 30, 2021 | Increase (Decrease) |
| Salaries | $ 11,362,892 | $ 11,268,504 | $ 94,388 |
| Employee benefits | 4,342,315 | 4,187,563 | 154,752 |
| Purchased services | 4,377,812 | 4,120,023 | 257,789 |
| Supplies and materials | 1,590,932 | 1,157,426 | 433,506 |
| Capital expenditures | 1,126,425 | 409,378 | 717,047 |
| Other capital expenditures | 1,500 | - | 1,500 |
| Other expenditures | 142,893 | 123,679 | 19,214 |
| Total | $ 22,944,769 | $ 21,266,574 | $ 1,678,195 |

**General Fund (Continued)**
The total General Fund expenditures of $22,944,766 was an increase of $1,678,192 or 7.9% from the prior year. Capital expenditure costs increased by $717,047 or 175.2%, from the prior year based on the amount of building and construction expenditures.

In 2021-2022, General Fund revenues were less than expenditures by $127,343, which was $730,079 less than the final budget. Revenue received was $519,255 lower than budgeted and expenditures were $210,824 higher than budgeted. Expenditures were greater than budgeted in several areas, most notably 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 $348,381 in 2021-2022. Food Service Fund revenue for 2021-2022 totaled $1,230,357, which is an increase of $424,461 from 2020-2021. Food Service Fund expenditures for 2021-2022 totaled $881,976, an increase of $149,475 from 2020-2021.

**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 decreased by $63,589 in 2021-2022. Community Service Fund revenues for 2021-2022 totaled $412,848. This was an increase of $45,190 from 2020-2021. Community Service Fund expenditures for 2021-2022 totaled $476,437. This was an increase of $37,573 from 2020-2021.

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 $1,537,931 for 2021-2022, 76% of which came from property tax revenue. Debt service expenditures were $1,525,692. The District made principal payments in the amount of $1,195,000 and interest and fiscal charge payments of $330,692. The Debt Service Fund has a fund balance of $400,414 as of June 30, 2022, 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 2022, the District had invested $48,326,493 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, 2022, was $20,745,251, with current year depreciation expense for governmental activities totaling $1,077,873. See Note 3 to the financial statements for additional information.

**Table A-6**
**Capital Assets**

| | Year Ended 2022 | Year Ended 2021 | Percent Change |
|---|---|---|---|
| Land | $ 191,251 | $ 191,251 | 0.0% |
| Construction in progress | 3,134,582 | 931,752 | 236.4% |
| Land improvements | 2,112,620 | 2,107,524 | 0.2% |
| Buildings and improvements | 40,195,122 | 39,358,603 | 2.1% |
| Machinery and equipment | 2,692,918 | 2,297,591 | 17.2% |
| Less accumulated depreciation/amortization | (20,745,251) | (19,667,378) | 5.5% |
| Total capital assets | $ 27,581,242 | $ 25,219,343 | 9.4% |

### *Long-Term Liabilities*

For the fiscal year ended June 30, 2022, the District had $26,404,058 in long-term liabilities outstanding, including $12,750,000 in General Obligation Bonds. The decrease in total bonds payable was $1,195,000 or 8.6% from last year (see Table A-7). See Notes 4, 6 and 7 for additional information.

**Table A-7**
**Long-Term Liabilities**

| | Year Ended 2022 | Year Ended 2021 |
|---|---|---|
| General obligation bonds | $ 12,750,000 | $ 13,945,000 |
| Net bond premium and discount | 526,210 | 680,018 |
| Certificates of participation payable | 3,720,000 | 3,875,000 |
| Financed purchases payable | 520,883 | 581,678 |
| Net pension liability | 7,977,368 | 13,256,072 |
| Total OPEB liability | 818,038 | 1,063,071 |
| Severance payable | - | 387,513 |
| Compensated absences payable | 91,559 | 169,627 |
| Total long-term liabilities | $ 26,404,058 | $ 33,957,979 |
| Long-term liabilities | | |
| Due within one year | $ 1,496,240 | $ 1,621,262 |
| Due in more than one year | 24,907,818 | 32,336,717 |
| Total | $ 26,404,058 | $ 33,957,979 |

## 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. The Legislature has provided a 2.45% and 2% increase in the basic education funding formula allowance for 2021-22 and 2022-23 fiscal years. The legislative revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. The District will strive to maximize resources available through efficient and effective management of its operations while striving to maintain its long-standing commitment to academic excellence and educational opportunity.
- The amount of funding a district receives is also dependent on the number of students it serves, meaning attracting and retaining students is critical to the District's financial well-being. The COVID-19 pandemic will impact how many students the District attracts and maintains. Students choosing to enroll in other online schools, private school options, or kindergarten families choosing to wait a year, will mean less revenue for the District.
- 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, 2022**

| | Governmental Activities |
|---|---|
| **Assets** | |
| Cash and investments | $ 6,060,912 |
| Receivables | |
| Property taxes | 1,827,616 |
| Other governments | 3,522,734 |
| Other | 8,327 |
| Prepaid items | 191,009 |
| Inventory | 20,658 |
| Capital assets not being depreciated | |
| Land | 191,251 |
| Construction in progress | 3,134,582 |
| Capital assets (net of accumulated depreciation) | |
| Land improvements | 829,726 |
| Buildings | 22,493,625 |
| Equipment and transportation | 932,058 |
| Total assets | 39,212,498 |
| **Deferred Outflows of Resources** | |
| Deferred outflows related to pensions | 4,465,768 |
| Deferred outflows related to OPEB | 468,983 |
| Total deferred outflows of resources | 4,934,751 |
| Total assets and deferred outflows of resources | $ 44,147,249 |
| **Liabilities** | |
| Accounts payable | $ 343,169 |
| Salaries and benefits payable | 1,239,223 |
| Interest payable | 157,870 |
| Due to other Minnesota school districts | 28,588 |
| Unearned revenue | 19,626 |
| Bond principal payable (net) | |
| Payable within one year | 1,220,000 |
| Payable after one year | 12,056,210 |
| Certificate of participation payable | |
| Payable within one year | 155,000 |
| Payable after one year | 3,565,000 |
| Financed purchases payable | |
| Payable within one year | 62,305 |
| Payable after one year | 458,578 |
| Compensated absences payable | |
| Payable within one year | 58,935 |
| Payable after one year | 32,624 |
| Net other post employment benefits (OPEB) payable | 818,038 |
| Net pension liability | 7,977,368 |
| Total liabilities | 28,192,534 |
| **Deferred Inflows of Resources** | |
| Property taxes levied for subsequent year's expenditures | 3,651,567 |
| Deferred inflows related to OPEB | 493,422 |
| Deferred inflows related to pensions | 13,393,215 |
| Total deferred inflows of resources | 17,538,204 |
| **Net Position** | |
| Net investment in capital assets | 10,064,149 |
| Restricted | |
| Debt service | 257,717 |
| State-mandated restrictions | 2,535,791 |
| Unrestricted | (14,441,146) |
| Total net position | (1,583,489) |
| Total liabilities, deferred inflows of resources, and net position | $ 44,147,249 |

See notes to basic financial statements.

**Independent School District No. 578**
**Statement of Activities**
**Year Ended June 30, 2022**

| 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 | $ 854,364 | $ - | $ - | $ - | $ (854,364) |
| District support services | 567,321 | - | 6,948 | - | (560,373) |
| Elementary and secondary regular instruction | 8,946,936 | 143,555 | 2,544,453 | - | (6,258,928) |
| Vocational education instruction | 139,131 | - | 11,020 | - | (128,111) |
| Special education instruction | 4,700,578 | 782,231 | 3,348,443 | - | (569,904) |
| Instructional support services | 1,976,900 | 9,223 | 817,853 | - | (1,149,824) |
| Pupil support services | 1,922,544 | 504 | 662,274 | - | (1,259,766) |
| Sites and buildings | 2,276,218 | - | - | 290,362 | (1,985,856) |
| Fiscal and other fixed cost programs | 137,823 | - | - | - | (137,823) |
| Food service | 860,637 | 121,777 | 1,104,759 | - | 365,899 |
| Community education and services | 464,929 | 389,999 | 179,664 | - | 104,734 |
| Interest and fiscal charges on long-term debt | 356,631 | - | - | - | (356,631) |
| Total governmental activities | $ 23,204,012 | $ 1,447,289 | $ 8,675,414 | $ 290,362 | (12,790,947) |
| General revenues | | | | | |
| Taxes | | | | | |
| Property taxes, levied for general purposes | | | | | 2,432,522 |
| Property taxes, levied for community service | | | | | 120,112 |
| Property taxes, levied for debt service | | | | | 1,160,776 |
| State aid-formula grants | | | | | 11,700,389 |
| Other general revenues | | | | | 192,574 |
| Investment income | | | | | (89,209) |
| Total general revenues | | | | | 15,517,164 |
| Change in net position | | | | | 2,726,217 |
| Net position - beginning | | | | | (4,309,706) |
| Net position - ending | | | | | $ (1,583,489) |

See notes to basic financial statements.

**Independent School District No. 578**
**Balance Sheet - Governmental Funds**
**June 30, 2022**

| | General | Debt Service | Nonmajor Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and investments | $ 4,422,796 | $ 966,704 | $ 671,412 | $ 6,060,912 |
| Current property taxes receivable | 1,148,680 | 576,505 | 56,223 | 1,781,408 |
| Delinquent property taxes receivable | 29,484 | 15,173 | 1,551 | 46,208 |
| Due from other Minnesota school districts | 360,489 | - | - | 360,489 |
| Due from Department of Education | 1,637,199 | 37,184 | 14,979 | 1,689,362 |
| Due from federal government through Department of Education | 1,406,505 | - | 66,378 | 1,472,883 |
| Interest receivable | 8,327 | - | - | 8,327 |
| Prepaid items | 191,009 | - | - | 191,009 |
| Inventory | - | - | 20,658 | 20,658 |
| Total assets | $ 9,204,489 | $ 1,595,566 | $ 831,201 | $ 11,631,256 |
| **Liabilities** | | | | |
| Accounts payable | $ 342,748 | $ - | $ 421 | $ 343,169 |
| Salaries and benefits payable | 1,213,383 | - | 25,840 | 1,239,223 |
| Due to other Minnesota school districts | 28,588 | - | - | 28,588 |
| Unearned revenue | - | - | 19,626 | 19,626 |
| Total liabilities | 1,584,719 | - | 45,887 | 1,630,606 |
| **Deferred Inflows of Resources** | | | | |
| Property taxes levied for subsequent year's expenditures | 2,349,290 | 1,179,979 | 122,298 | 3,651,567 |
| Unavailable revenue - delinquent property taxes | 29,484 | 15,173 | 1,551 | 46,208 |
| Total deferred inflows of resources | 2,378,774 | 1,195,152 | 123,849 | 3,697,775 |
| **Fund Balances** | | | | |
| Nonspendable | | | | |
| Inventory | - | - | 20,658 | 20,658 |
| Restricted | | | | |
| Scholarships | 285,629 | - | - | 285,629 |
| Student Activities | 53,359 | - | - | 53,359 |
| Medical assistance | 30,968 | | - | 30,968 |
| Learning and development | 4,847 | - | - | 4,847 |
| Gifted and talented | 7,639 | - | - | 7,639 |
| Achievement and Integration | 1,672 | - | - | 1,672 |
| Long term facility maintenance | 485,056 | - | - | 485,056 |
| Operating capital | 780,122 | - | - | 780,122 |
| Safe school crime levy | 223,483 | - | - | 223,483 |
| Debt service | - | 400,414 | - | 400,414 |
| Community education | - | - | 45,362 | 45,362 |
| Early childhood and family education | - | - | 30,625 | 30,625 |
| School readiness | - | - | 23,942 | 23,942 |
| Food service | - | - | 540,878 | 540,878 |
| Assigned | 94,887 | | - | 94,887 |
| Unassigned | 3,273,334 | - | - | 3,273,334 |
| Total fund balances | 5,240,996 | 400,414 | 661,465 | 6,302,875 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 9,204,489 | $ 1,595,566 | $ 831,201 | $ 11,631,256 |

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, 2022**

| | | |
|---|---|---|
| Total fund balances - governmental funds | $ | 6,302,875 |
| 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 | | 48,326,493 |
| Less accumulated depreciation | | (20,745,251) |
| 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 | | (12,750,000) |
| Certificates of participation payable | | (3,720,000) |
| Financed purchase payable | | (520,883) |
| Compensated absences payable | | (91,559) |
| Net pension liability | | (7,977,368) |
| Net OPEB obligation | | (818,038) |
| 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. | | (526,210) |
| 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 | | 4,465,768 |
| Deferred outflows of resources related to OPEB | | 468,983 |
| Deferred inflows of resources related to pensions | | (13,393,215) |
| Deferred inflows of resources related to OPEB | | (493,422) |
| 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. | | 46,208 |
| Governmental funds do not report a liability for accrued interest on bonds and financed purchases until due and payable. | | (157,870) |
| Total net position - governmental activities | $ | (1,583,489) |

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, 2022**

| | General | Capital Projects | Debt Service |
|---|---|---|---|
| **Revenues** | | | |
| Local Sources | | | |
| Property taxes | $ 2,433,024 | $ - | $ 1,162,525 |
| Earnings on investments | (110,009) | 1,959 | 12,403 |
| Other | 1,384,239 | - | - |
| State sources | 16,605,919 | - | 363,003 |
| Federal sources | 2,504,250 | - | - |
| Sales and other conversion of assets | - | - | - |
| Total revenues | 22,817,423 | 1,959 | 1,537,931 |
| **Expenditures** | | | |
| Current | | | |
| Administration | 930,836 | - | - |
| District support services | 583,085 | - | - |
| Elementary and secondary regular instruction | 9,976,238 | - | - |
| Vocational education instruction | 149,584 | - | - |
| Special education instruction | 4,962,791 | - | - |
| Instructional support services | 1,949,215 | - | - |
| Pupil support services | 1,915,969 | - | - |
| Sites and buildings | 1,467,829 | - | - |
| Fiscal and other fixed cost programs | 137,823 | - | - |
| Food service | - | - | - |
| Community service | - | - | - |
| Capital outlay | | | |
| Elementary and secondary regular instruction | 181,548 | - | - |
| Special education instruction | 149,682 | - | - |
| Instructional support services | 83,016 | - | - |
| Pupil support services | 22,019 | - | - |
| Sites and buildings | 117,356 | 2,962,118 | - |
| Food service | - | - | - |
| Debt service | | | |
| Principal | 215,795 | - | 1,195,000 |
| Interest and fiscal charges | 101,980 | - | 330,692 |
| Total expenditures | 22,944,766 | 2,962,118 | 1,525,692 |
| Excess of revenues over (under) expenditures | (127,343) | (2,960,159) | 12,239 |
| **Other Financing Sources (Uses)** | | | |
| Insurance recovery | 19,177 | - | - |
| Net change in fund balances | (108,166) | (2,960,159) | 12,239 |
| **Fund Balances** | | | |
| Beginning of year | 5,349,162 | 2,960,159 | 388,175 |
| End of year | $ 5,240,996 | $ - | $ 400,414 |

See notes to basic financial statements.

| Nonmajor Funds | Total Governmental Funds |
|---|---|
| $ 120,228 | $ 3,715,777 |
| 6,438 | (89,209) |
| 110,624 | 1,494,863 |
| 180,060 | 17,148,982 |
| 1,104,078 | 3,608,328 |
| 121,777 | 121,777 |
| 1,643,205 | 26,000,518 |
| | |
| - | 930,836 |
| - | 583,085 |
| - | 9,976,238 |
| - | 149,584 |
| - | 4,962,791 |
| - | 1,949,215 |
| - | 1,915,969 |
| - | 1,467,829 |
| - | 137,823 |
| 877,897 | 877,897 |
| 476,437 | 476,437 |
| | |
| - | 181,548 |
| - | 149,682 |
| - | 83,016 |
| - | 22,019 |
| - | 3,079,474 |
| 4,079 | 4,079 |
| | |
| - | 1,410,795 |
| - | 432,672 |
| 1,358,413 | 28,790,989 |
| | |
| 284,792 | (2,790,471) |
| | |
| - | 19,177 |
| 284,792 | (2,771,294) |
| | |
| 376,673 | 9,074,169 |
| | |
| $ 661,465 | $ 6,302,875 |

**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, 2022**

| | |
|---|---|
| Net change in fund balances - total governmental funds | $ (2,771,294) |
| 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 | 3,439,772 |
| Depreciation expense | (1,077,873) |
| 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. | 465,581 |
| 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. | 174,856 |
| 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. | 1,010,706 |
| 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. | 1,410,795 |
| 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. | 717 |
| 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. | 75,324 |
| 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. | (2,367) |
| Change in net position - governmental activities | $ 2,726,217 |

See notes to basic financial statements.

**Independent School District No. 578**
**Statement of Revenues, Expenditures, and**
**Changes in Fund Balance -**
**Budget and Actual - General Fund**
**Year Ended June 30, 2022**

| | Budgeted Amounts | | Actual | Variance with Final Budget - |
|---|---|---|---|---|
| | Original | Final | Amounts | Over (Under) |
| **Revenues** | | | | |
| Revenues from local sources | | | | |
| Property taxes | $ 2,372,361 | $ 2,386,147 | $ 2,433,024 | $ 46,877 |
| Earnings on investments | 60,000 | 10,000 | (110,009) | (120,009) |
| Other local and county revenues | 1,476,059 | 1,188,219 | 1,384,239 | 196,020 |
| Revenues from state sources | 16,080,016 | 16,523,543 | 16,605,919 | 82,376 |
| Revenues from federal sources | 1,484,624 | 3,228,769 | 2,504,250 | (724,519) |
| Total revenues | 21,473,060 | 23,336,678 | 22,817,423 | (519,255) |
| **Expenditures** | | | | |
| Current | | | | |
| Administration | 949,117 | 963,542 | 930,836 | (32,706) |
| District support services | 375,318 | 510,242 | 583,085 | 72,843 |
| Elementary and secondary regular instruction | 9,191,147 | 10,554,379 | 9,976,238 | (578,141) |
| Vocational education instruction | 219,669 | 207,784 | 149,584 | (58,200) |
| Special education instruction | 4,949,709 | 4,586,495 | 4,962,791 | 376,296 |
| Instructional support services | 1,699,970 | 1,903,545 | 1,949,215 | 45,670 |
| Pupil support services | 1,765,879 | 1,904,672 | 1,915,969 | 11,297 |
| Sites and buildings | 1,358,227 | 1,387,193 | 1,467,829 | 80,636 |
| Fiscal and other fixed cost programs | 112,922 | 138,449 | 137,823 | (626) |
| Capital outlay | | | | |
| District support services | 3,000 | - | - | - |
| Elementary and secondary regular instruction | 138,448 | 172,714 | 181,548 | 8,834 |
| Vocational education instruction | 10,000 | 4,556 | - | (4,556) |
| Special education instruction | - | - | 149,682 | 149,682 |
| Instructional support services | - | 54,159 | 83,016 | 28,857 |
| Pupil support services | - | - | 22,019 | 22,019 |
| Sites and buildings | 278,000 | 192,746 | 117,356 | (75,390) |
| Debt service | | | | |
| Principal | 210,794 | 98,453 | 215,795 | 117,342 |
| Interest and fiscal charges | 126,107 | 55,013 | 101,980 | 46,967 |
| Total expenditures | 21,388,307 | 22,733,942 | 22,944,766 | 210,824 |
| Excess of revenues over (under) expenditures | 84,753 | 602,736 | (127,343) | (730,079) |
| **Other Financing Sources (Uses)** | | | | |
| Insurance recovery | - | - | 19,177 | 19,177 |
| Net change in fund balance | $ 84,753 | $ 602,736 | (108,166) | $ (710,902) |
| **Fund Balance** | | | | |
| Beginning of year | | | 5,349,162 | |
| End of year | | | $ 5,240,996 | |

See notes to basic financial statements.

**Independent School District No. 578**
**Statement of Fiduciary Net Position**
**June 30, 2022**

| | OPEB Irrevocable Trust Fund |
|---|---|
| **Assets** | |
| Current | |
| Cash and investments (including cash equivalents) | $ 964,257 |
| **Net Position** | |
| Held in trust for OPEB | $ 964,257 |

**Statement of Changes in Fiduciary Net Position**
**Year Ended June 30, 2022**

| | OPEB Irrevocable Trust Fund |
|---|---|
| **Additions** | |
| Interest revenue | $ 14,929 |
| Change in net position | 14,929 |
| **Net Position** | |
| Beginning of year | 949,328 |
| End of year | $ 964,257 |

See notes to basic financial statements.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

### A. Reporting Entity

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

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

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

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

### B. Basic Financial Statement Information

The government-wide 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, 2022, 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 2021, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2022. 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, 2022, 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.

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### R. 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.

### S. 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)

### T. Budgetary Information

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

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. 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, 2022, 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, 2022, the District had the following deposits:

| | |
|---|---|
| Total checking, savings, and certificates of deposit | $ 1,574,217 |

## NOTE 2 – DEPOSITS AND INVESTMENTS

### B. Investments

As of June 30, 2022, 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 | $ 1,924 | NAV | N/A | N/A | N/A |
| MSDMAX | 18,233 | NAV | N/A | N/A | N/A |
| MNTrust Investment Shares Portfolio | 2,630,155 | NAV | N/A | N/A | N/A |
| Money Market Fund | 287,390 | 1 | N/A | N/A | N/A |
| Negotiable Certificates of Deposit | 1,371,687 | 2 | $ 247,049 | $ 687,356 | $ 437,282 |
| Municpal Obligations | 176,514 | 2 | - | 176,514 | - |
| Guaranteed investment contract (OPEB) | 964,257 | N/A | N/A | N/A | N/A |
| Total | $ 5,450,160 | | $ 247,049 | $ 863,870 | $ 437,282 |

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, 2022 the District had investments greater than 5% of the portfolio. The OPEB Trust had 100% of investments in the Mid-American guaranteed investment contract. The pooled investments had the following investments: Sallie Mae Bank (5.5%), Capital One National Bank (5.4%), Capital One Bank USA (5.4%) and JPMorgan Chase Co. (5.4%).

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, 2022:

| | |
|---|---|
| Deposits (Note 3.A) | $ 1,574,217 |
| Petty cash | 792 |
| Investments | 5,450,160 |
| Total deposits and investments | $ 7,025,169 |

Deposits and investments are presented in the June 30, 2022, basic financial statements as follows:

| | |
|---|---|
| Statement of Net Position | |
| Cash and investments | $ 6,060,912 |
| Statement of Fiduciary Net Position | |
| Cash and investments | 964,257 |
| Total | $ 7,025,169 |

## NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022, was as follows:

| | Balance 06/30/21 | Additions | Disposals | Balance 06/30/22 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 191,251 | $ - | $ - | $ 191,251 |
| CIP | 931,752 | 3,023,845 | 821,015 | 3,134,582 |
| Total capital assets, not being depreciated | 1,123,003 | 3,023,845 | 821,015 | 3,325,833 |
| Capital assets, being depreciated | | | | |
| Land Improvements | 2,107,524 | 5,096 | - | 2,112,620 |
| Buildings | 39,358,602 | 836,520 | - | 40,195,122 |
| Equipment | 2,297,591 | 395,327 | - | 2,692,918 |
| Total capital assets being depreciated | 43,763,717 | 1,236,943 | - | 45,000,660 |
| Less: Accumulated Depreciation | | | | |
| Land Improvements | (1,205,199) | (77,695) | - | (1,282,894) |
| Buildings | (16,802,119) | (899,378) | - | (17,701,497) |
| Equipment | (1,660,060) | (100,800) | - | (1,760,860) |
| Total accumulated depreciation | (19,667,378) | (1,077,873) | - | (20,745,251) |
| Total capital assets being depreciated, net | 24,096,339 | 159,070 | - | 24,255,409 |
| Governmental activities, capital assets, net | $ 25,219,342 | $ 3,182,915 | $ 821,015 | $ 27,581,242 |

Depreciation expense of $1,077,873 for the year ended June 30, 2022, was charged to the following governmental functions:

| | |
|---|---|
| Administration | $ 1,764 |
| District support services | 27 |
| Elementary and secondary regular instruction | 91,183 |
| Vocational education instruction | 701 |
| Special education instruction | 4,197 |
| Instructional support services | 10,060 |
| Pupil support services | 6,263 |
| Sites and buildings | 940,854 |
| Food service | 7,414 |
| Community education and services | 15,410 |
| Total depreciation expense | $ 1,077,873 |

## 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 | $ 305,000 | $ 150,000 |
| 2016A Alternative Facilities Refunding Bonds | 03/09/16 | 2.00%-3.00% | 5,945,000 | 02/01/28 | 3,825,000 | 495,000 |
| 2016B Facilities Maintenance Bonds | 05/05/16 | 2.00% | 1,385,000 | 02/01/26 | 645,000 | 155,000 |
| G.O. School Building Refunding Bonds Series 2017A | 05/04/17 | 3.00%-4.00% | 4,365,000 | 02/01/28 | 2,785,000 | 420,000 |
| 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 | | | | | 12,750,000 | 1,220,000 |
| Certificates of Participation | | | | | | |
| 2021A Certificates of participation | 05/06/21 | 2.00%-3.00% | 3,875,000 | 04/01/41 | 3,720,000 | 155,000 |
| Unamortized bond premium | | | | | 526,210 | - |
| Financed purchases | | | | | 520,883 | 62,305 |
| Compensated absences payable | | | | | 91,559 | 58,935 |
| Total long term-debt | | | | | $ 17,608,652 | $ 1,496,240 |

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 |
| 2023 | $ 1,220,000 | $ 278,340 | $ 1,498,340 |
| 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 |
| 2028-2032 | 6,425,000 | 255,765 | 6,680,765 |
| Total | $ 12,750,000 | $ 1,291,625 | $ 14,041,625 |

## 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 |
|---|---|---|---|
| 2023 | $ 62,305 | $ 18,362 | $ 80,667 |
| 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 |
| 2028-2031 | 182,677 | 10,105 | 192,782 |
| Total | $ 520,262 | $ 75,857 | $ 596,119 |

| Year Ending June 30, | Certificates of Participation Principal | Interest | Total |
|---|---|---|---|
| 2023 | $ 155,000 | $ 86,300 | $ 241,300 |
| 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 |
| 2028-2032 | 940,000 | 258,100 | 1,198,100 |
| 2033-2037 | 1,045,000 | 154,500 | 1,199,500 |
| 2038-2041 | 910,000 | 46,000 | 956,000 |
| Total | $ 3,720,000 | $ 842,100 | $ 4,562,100 |

### C. Changes in Long-Term Debt

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Long-term debt | | | | |
| G.O. Bonds and Certificates | $ 13,945,000 | $ - | $ 1,195,000 | $ 12,750,000 |
| Unamortized bond premium | 680,018 | - | 88,754 | 591,264 |
| Certificates of participation | 3,875,000 | - | 155,000 | 3,720,000 |
| Financed purchases | 581,678 | - | 60,795 | 520,883 |
| Compensated absences payable | 169,627 | 138,105 | 216,173 | 91,559 |
| Severance payable | 387,513 | - | 387,513 | - |
| Total long-term debt | $ 19,638,836 | $ 138,105 | $ 2,103,235 | $ 17,673,706 |

## 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 Medical Assistance – This balance represents available resources to be used for medical assistance expenditures (*Minnesota Statutes* 125A.21, subd. 3).

Restricted/Reserved for Learning and Development – Learning and development is funded by general education revenue. This reserve represents available general education revenues for learning and development, which is mainly for reducing the pupil to staff ratio.

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 Safe School Crime Levy – The unspent resources available from the safe schools levy must be restricted in this account for future use.

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

## NOTE 5 – FUND BALANCES AND NET POSITION (CONTINUED)

### A. Fund Equity (Continued)

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.

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, 2022, was ($58,438). The components of pension expense are noted in the following plan summaries.

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

### Teachers' Retirement Association

### A. Plan Description

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

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

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

### Teachers' Retirement Association (Continued)

**B. Benefits Provided**

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

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

*Tier 1 Benefits*

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

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

### A. Benefits Provided (Continued)

*Tier II Benefits (Continued)*

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

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

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

### C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2020, June 30, 2021, and June 30, 2022, were:

| | June 30, 2020 | | June 30, 2021 | | June 30, 2022 | |
|---|---|---|---|---|---|---|
| | Employee | Employer | Employee | Employer | Employee | Employer |
| Basic | 11.0% | 11.92% | 11.0% | 12.13% | 11.0% | 12.34% |
| Coordinated | 7.5% | 7.92% | 7.5% | 8.13% | 7.5% | 8.34% |

## 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 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 | $ | 448,829 |
| Add employer contributions not related to future contribution efforts | | 379 |
| Deduct TRA's contributions not included in allocation | | (538) |
| Total employer contributions | | 448,670 |
| Total non-employer contributions | | 37,840 |
| Total contributions reported in Schedule of Employer and Non-Employer Allocations | $ | 486,510 |

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, 2021, 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, 2021 |
| Measurement date | June 30, 2021 |
| Experience study | June 5, 2019 (demographic assumptions)<br>November 6, 2017, (economic assumptions) |
| Actuarial cost method | Entry Age Normal |
| Actuarial assumptions | |
| Investment rate of return | 7.00% |
| Price inflation | 2.50% |
| Wage growth rate | 2.85% before July 1, 2028, and 3.25% thereafter |
| Projected salary increase | 2.85% to 8.85% before July 1, 2028, and<br>3.25% to 9.25% thereafter |
| Cost of living adjustment | 1.0% for January 2020 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 six years and female rates set back five years. Generational projection uses the MP 2015 scale. |
| Post-retirement | RP 2014 white collar annuitant table, male rates 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 stocks | 36.5 % | 5.10 % |
| International stocks | 17.5 | 5.30 |
| Bonds | 20.0 | 0.75 |
| Alternative assets | 25.0 | 5.90 |
| Unallocated cash | 2.0 | 0.00 |
| Total | 100.0 % | |

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2022 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 over a period of five years as required by GASB 68.

Changes in actuarial assumptions and methods for the 2020 valuation:

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

**E. Discount Rate**

The discount rate used to measure the total pension liability was 7.0%. The discount rate used to measure the total pension liability at the prior measurement date was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2021 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, 2022, the District reported a liability of $6,363,139 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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 0.1454% at the end of the measurement period and 0.1481% for the beginning of the year.

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

| | |
|---|---|
| District's proportionate share of net pension liability | $ 6,363,139 |
| State's proportionate share of the net pension liability associated with the District | 536,786 |

For the year ended June 30, 2022, the District recognized pension expense of ($21,307). Included in this amount, the District recognized ($6,010) as pension expense for the support provided by direct aid.

On June 30, 2022, 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 | $ 175,543 | $ 183,134 |
| Net difference between projected and actual earnings on plan investments | - | 5,328,217 |
| Changes of assumptions | 2,331,971 | 5,923,610 |
| Changes in proportion | - | 423,350 |
| Contributions to TRA subsequent to the measurement date | 755,061 | - |
| Total | $ 3,262,575 | $ 11,858,311 |

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

### Teachers' Retirement Association (Continued)

#### F. Net Pension Liability (Continued)

The $755,061 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, 2023. 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 |
|---|---|
| 2023 | $ (4,574,844) |
| 2024 | (3,372,915) |
| 2025 | (815,977) |
| 2026 | (1,002,969) |
| 2027 | 415,908 |
| Total | $ (9,350,797) |

#### 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%) |
| $ 12,853,850 | $ 6,363,139 | $ 1,040,238 |

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 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 2022 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, 2022, were $199,235. 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, 2022, the District reported a liability of $1,614,229 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 $49,353.

## 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, 2021, 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, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0378% at the end of the measurement period and 0.0386% for the beginning of the period.

| | |
|---|---|
| School's proportionate share of net pension liability | $ 1,614,229 |
| State of Minnesota's proportionate share of the net pension liability associated with the School | 49,353 |
| Total | $ 1,663,582 |

For the year ended June 30, 2022, the District recognized pension expense of ($37,131) for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $3,982 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, 2022, 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 | $ 10,049 | $ 49,521 |
| Changes in actuarial assumptions | 985,615 | 36,372 |
| Difference between projected and actual investments earnings | - | 1,396,395 |
| Change in proportion | 8,294 | 52,616 |
| Contributions paid to PERA subsequent to the measurement date | 199,235 | - |
| Total | $ 1,203,193 | $ 1,534,904 |

## 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 $199,235 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30, | Pension Expense |
|---|---|
| 2023 | $ (95,033) |
| 2024 | (31,199) |
| 2025 | (23,406) |
| 2026 | (381,308) |
| Total | $ (530,946) |

### E. Long-Term Expected Return on Investment

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

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

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

### F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2021, 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 29 years of service and 6.0% per year thereafter.

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 2021:

General Employees Fund

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 previous valuation.

### G. Discount Rates

The discount rate used to measure the total pension liability in 2021 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 | $ 3,292,204 | $ 1,614,229 | $ 237,349 |

#### 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 2022, the District contributed $120,100 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 July 1, 2020, 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 July 1, 2021, valuation.

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

## 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, 2022, the annual money-weighted rate of return on investments, net of investment expense, was 1.57%. 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 3.04%. 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 $1,782,295 was measured as of June 30, 2022, 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 | $ 2,012,399 | $ 949,328 | $ 1,063,071 |
| Changes for the year | | | |
| Service cost | 132,970 | - | 132,970 |
| Interest | 50,686 | - | 50,686 |
| Differences between expected and actual economic experience | (112,270) | - | (112,270) |
| Changes in assumptions | (98,357) | - | (98,357) |
| Employer contributions | - | 203,133 | (203,133) |
| Net investment income | - | 14,929 | (14,929) |
| Benefit payments | (203,133) | (203,133) | - |
| Net changes | (230,104) | 14,929 | (245,033) |
| Balances at June 30, 2022 | $ 1,782,295 | $ 964,257 | $ 818,038 |

### H. OPEB Liability Sensitivity

The following presents the District's net OPEB liability calculated using the discount rate of 3.04% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

| | 1% decrease in Discount Rate (2.04%) | Current Discount Rate (3.04%) | 1% increase in Discount Rate (4.04%) |
|---|---|---|---|
| Net OPEB Liability | $ 911,403 | $ 818,038 | $ 725,770 |

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 | $ 675,017 | $ 818,038 | $ 987,321 |

## 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, 2022, the District recognized OPEB expense of $148,377. At June 30, 2022, 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 | $ 296,292 | $ 103,317 |
| Change of assumptions | 23,333 | 390,105 |
| Net difference between projected and actual investment earnings | 29,258 | - |
| Contributions between measurement date and reporting date | 120,100 | - |
| Total | $ 468,983 | $ 493,422 |

$120,100 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, 2023.

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 |
|---|---|
| 2023 | $ (8,075) |
| 2024 | (11,157) |
| 2025 | (13,809) |
| 2026 | (16,521) |
| 2027 | (17,850) |
| Thereafter | (77,127) |
| Total | $ (144,539) |

## 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, 2022.

## NOTE 10 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* establishes that a Subscription-Based Information Technology Arrangement (SBITA) results in a right-to-use subscription asset and a corresponding liability. Under this statement, a governmental entity generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. This statement will be effective for the year ending June 30, 2023.

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**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.

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

**Independent School District No. 578**
**Schedule of Investment Returns**

| | June 30, 2017 | June 30, 2018 | June 30, 2019 | June 30, 2020 | June 30, 2021 | June 30, 2022 |
|---|---|---|---|---|---|---|
| Annual money-weighted rate of return, net of investment expense | 1.67% | 1.45% | 1.54% | 1.80% | 1.80% | 1.57% |

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'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% |

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% |

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 | 199,235 | 199,235 | - | 2,656,467 | 7.50% |

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

**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 | 755,061 | 755,061 | - | 8,956,833 | 8.43% |

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

## TRA Retirement Fund

### 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%.

**Independent School District No. 578**
**Notes to the Required Supplementary Information**

## General Employees Fund

### 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.

### 2019 Changes

Changes in Actuarial Assumptions

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

**General Employees Fund (Continued)**

**2019 Changes (Continued)**

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.

**Independent School District No. 578**
**Notes to the Required Supplementary Information**

## Post Employment Health Care Plan

### 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

### 2019 Changes

Changes in Actuarial Assumptions

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

## Post Employment Health Care Plan

### 2019 Changes (Continued)

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

**SUPPLEMENTARY INFORMATION**

**Independent School District No. 578**
**Combining Balance Sheet -**
**Nonmajor Governmental Funds**
**June 30, 2022**

| | Special Revenue Funds | | |
|---|---|---|---|
| | Food Service | Community Service | Total Nonmajor Funds |
| **Assets** | | | |
| Cash and investments | $ 548,760 | $ 122,652 | $ 671,412 |
| Current property taxes receivable | - | 56,223 | 56,223 |
| Delinquent property taxes receivable | - | 1,551 | 1,551 |
| Due from Department of Education | 690 | 14,289 | 14,979 |
| Due from federal government through department of education | 29,441 | 36,937 | 66,378 |
| Inventory | 20,658 | - | 20,658 |
| Total assets | $ 599,549 | $ 231,652 | $ 831,201 |
| **Liabilities** | | | |
| Accounts payable | $ 83 | $ 338 | 421 |
| Salaries and benefits payable | 18,304 | 7,536 | 25,840 |
| Unearned revenue | 19,626 | - | 19,626 |
| Total liabilities | 38,013 | 7,874 | 45,887 |
| **Deferred Inflows of Resources** | | | |
| Unavailable revenue - delinquent property taxes | - | 1,551 | 1,551 |
| Property taxes levied for subsequent year's expenditures | - | 122,298 | 122,298 |
| Total deferred inflows of resources | - | 123,849 | 123,849 |
| **Fund Balances** | | | |
| Nonspendable | | | |
| Inventory | 20,658 | - | 20,658 |
| Restricted | | | |
| Community education programs | - | 45,362 | 45,362 |
| Early childhood and family education programs | - | 30,625 | 30,625 |
| School readiness | - | 23,942 | 23,942 |
| Food service | 540,878 | - | 540,878 |
| Total fund balances | 561,536 | 99,929 | 661,465 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 599,549 | $ 231,652 | $ 831,201 |

**Independent School District No. 578**
**Combining Statement of Revenues, Expenditures,**
**and Changes in Fund Balances -**
**Nonmajor Governmental Funds**
**Year Ended June 30, 2022**

| | Special Revenue Funds | | |
|---|---|---|---|
| | Food Service | Community Service | Total Nonmajor Funds |
| **Revenues** | | | |
| Revenue from local sources | | | |
| Property taxes | $ - | $ 120,228 | $ 120,228 |
| Earnings on investments | 3,821 | 2,617 | 6,438 |
| Other local and county revenues | 39 | 110,585 | 110,624 |
| Revenue from state sources | 37,579 | 142,481 | 180,060 |
| Revenue from federal sources | 1,067,141 | 36,937 | 1,104,078 |
| Sales and other conversion of assets | 121,777 | - | 121,777 |
| Total revenues | 1,230,357 | 412,848 | 1,643,205 |
| **Expenditures** | | | |
| Current | | | |
| Food service | 877,897 | - | 877,897 |
| Community education and services | - | 476,437 | 476,437 |
| Capital outlay | | | |
| Food service | 4,079 | - | 4,079 |
| Total expenditures | 881,976 | 476,437 | 1,358,413 |
| Net change in fund balances | 348,381 | (63,589) | 284,792 |
| **Fund Balances** | | | |
| Beginning of year | 213,155 | 163,518 | 376,673 |
| End of year | $ 561,536 | $ 99,929 | $ 661,465 |

**Independent School District No. 578**
**Statement of Revenues, Expenditures, and**
**Changes in Fund Balance -**
**Budget and Actual - Food Service Fund**
**Year Ended June 30, 2022**

| | Budgeted Amounts | | Actual | Variance with Final Budget- |
|---|---|---|---|---|
| | Original | Final | Amounts | Over (Under) |
| **Revenues** | | | | |
| Revenues from local sources | | | | |
| Earnings on investments | $ 500 | $ - | $ 3,821 | $ 3,821 |
| Other local and county revenues | 3,800 | 1,550 | 39 | (1,511) |
| Revenues from state sources | 12,444 | 51,000 | 37,579 | (13,421) |
| Revenues from federal sources | 793,390 | 812,390 | 1,067,141 | 254,751 |
| Sales and other conversion of assets | 45,500 | 45,500 | 121,777 | 76,277 |
| Total revenues | 855,634 | 910,440 | 1,230,357 | 319,917 |
| **Expenditures** | | | | |
| Current | | | | |
| Food service | 852,004 | 839,464 | 877,897 | 38,433 |
| Capital outlay | | | | |
| Food service | - | 10,059 | 4,079 | (5,980) |
| Total expenditures | 852,004 | 849,523 | 881,976 | 32,453 |
| Net change in fund balances | $ 3,630 | $ 60,917 | 348,381 | $ 287,464 |
| **Fund Balance** | | | | |
| Beginning of year | | | 213,155 | |
| End of year | | | $ 561,536 | |

**Independent School District No. 578**
**Statement of Revenues, Expenditures, and**
**Changes in Fund Balance -**
**Budget and Actual - Community Service Fund**
**Year Ended June 30, 2022**

| | Budgeted Amounts | | Actual | Variance with Final Budget- |
|---|---|---|---|---|
| | Original | Final | Amounts | Over (Under) |
| **Revenues** | | | | |
| Revenues from local sources | | | | |
| Property taxes | $ 120,714 | $ 120,714 | $ 120,228 | $ (486) |
| Earnings on investments | 4,000 | 2,000 | 2,617 | 617 |
| Other local and county revenues | 108,950 | 82,265 | 110,585 | 28,320 |
| Revenues from state sources | 147,252 | 144,141 | 142,481 | (1,660) |
| Revenue from federal sources | - | - | 36,937 | 36,937 |
| Total revenues | 380,916 | 349,120 | 412,848 | 63,728 |
| **Expenditures** | | | | |
| Current | | | | |
| Community education and services | 363,791 | 417,724 | 476,437 | 58,713 |
| Capital outlay | | | | |
| Community education and services | 50,700 | 22,844 | - | (22,844) |
| Total expenditures | 414,491 | 440,568 | 476,437 | 35,869 |
| Net change in fund balances | $ (33,575) | $ (91,448) | (63,589) | $ 27,859 |
| **Fund Balance** | | | | |
| Beginning of year | | | 163,518 | |
| End of year | | | $ 99,929 | |

**Independent School District No. 578**
**Uniform Financial Accounting and Reporting Standards**
**Compliance Table**
**Year Ended June 30, 2022**

| | Audit | UFARS | Audit-UFARS |
|---|---|---|---|
| **01 General Fund** | | | |
| Total revenue | $ 22,817,423 | $ 22,817,426 | $ (3) |
| Total expenditures | 22,944,766 | 22,944,769 | (3) |
| *Nonspendable:* | | | |
| 4.60 Nonspendable fund balance | - | - | - |
| *Restricted/reserved:* | | | |
| 4.01 Student Activities | 53,359 | 53,359 | - |
| 4.02 Scholarships | 285,629 | 285,629 | - |
| 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 | 780,122 | 780,122 | - |
| 4.26 $25 Taconite | - | - | - |
| 4.27 Disabled Accessibility | - | - | - |
| 4.28 Learning and Development | 4,847 | 4,847 | - |
| 4.34 Area Learning Center | - | - | - |
| 4.35 Contracted Alternative Programs | - | - | - |
| 4.36 State Approved Alternative Program | - | - | - |
| 4.38 Gifted and Talented | 7,639 | 7,639 | - |
| 4.40 Teacher Development and Evaluation | - | - | - |
| 4.41 Basic Skills Programs | - | - | - |
| 4.45 Career Technical Programs | - | - | - |
| 4.48 Achievement and Integration | 1,672 | 1,672 | - |
| 4.49 Safe School Crime Levy | 223,483 | 223,483 | - |
| 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 | 485,056 | 485,056 | - |
| 4.72 Medical Assistance | 30,968 | 30,968 | - |
| *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 | 94,887 | 94,886 | 1 |
| *Unassigned:* | | | |
| 4.22 Unassigned fund balance | 3,273,334 | 3,273,335 | (1) |
| **02 Food Service Fund** | | | |
| Total revenue | $ 1,230,357 | $ 1,230,356 | $ 1 |
| Total expenditures | 881,976 | 881,975 | 1 |
| *Nonspendable:* | | | |
| 4.60 Nonspendable fund balance | 20,658 | 20,658 | - |
| *Restricted/reserved:* | | | |
| 4.52 OPEB liabilities not held in trust | - | - | - |
| *Restricted:* | | | |
| 4.64 Restricted fund balance | 540,878 | 540,878 | - |
| *Unassigned:* | | | |
| 4.63 Unassigned fund balance | - | - | - |
| **04 Community Service Fund** | | | |
| Total revenue | $ 412,848 | $ 412,848 | $ - |
| Total expenditures | 476,437 | 476,435 | 2 |
| *Nonspendable:* | | | |
| 4.60 Nonspendable fund balance | - | - | - |
| *Restricted/reserved:* | | | |
| 4.26 $25 Taconite | - | - | - |
| 4.31 Community Education | 45,362 | 45,362 | - |
| 4.32 ECFE | 30,625 | 30,625 | - |
| 4.40 Teacher Development and Evaluation | - | - | - |
| 4.44 School Readiness | 23,942 | 23,942 | - |
| 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 | $ 1,959 | $ 1,958 | $ 1 |
| Total expenditures | 2,962,118 | 2,962,118 | - |
| *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 | $ 1,537,931 | $ 1,537,932 | $ (1) |
| Total expenditures | 1,525,692 | 1,525,692 | - |
| *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 | 400,414 | 400,415 | (1) |
| *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 | $ 14,929 | $ 14,929 | $ - |
| Total expenditures | - | - | - |
| *Unassigned:* | | | |
| 4.22 Net position | 964,257 | 964,257 | - |
| **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 | - | - | - |

**Independent School District No. 578**
**Schedule of Expenditures of Federal Awards**
**Year Ended June 30, 2022**

| Federal Funding Source | Federal Assistance Listing Number | Expenditures |
|---|---|---|
| **Through Minnesota Department of Education** | | |
| **U.S. Department of Agriculture** | | |
| Commodities Program (cluster) | 10.555 | $ 72,404 |
| School Breakfast Program (cluster) | 10.553 | 168,870 |
| National School Lunch Program (cluster) | 10.555 | 812,744 |
| COVID-19 Summer food service program (cluster) | 10.559 | 13,123 |
| Total Child Nutrition Cluster | | 1,067,141 |
| **U.S. Department of Treasury** | | |
| COVID-19 Pandemic Enrollment Loss | 21.027 | 67,719 |
| COVID-19 American Rescue Plan Summer Academic Enrichment and Mental Health | 21.027 | 13,781 |
| Total Coronavirus Relief Fund | | 81,500 |
| **U.S. Department of Education** | | |
| Title I, Part A | 84.010 | 261,037 |
| Special Education (cluster) | 84.027 | 14,870 |
| Special Education Early Childhood (cluster) | 84.173 | 3,703 |
| Total Federal Special Education Cluster | | 18,573 |
| Title II, Part A - Improving Teacher Quality | 84.367 | 40,728 |
| Title IV, Part A | 84.186 | 17,237 |
| COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER) | 84.425D | 180,308 |
| COVID-19 ESSER II - 90% Formula Allocation | 84.425D | 808,474 |
| COVID-19 ESSER III - 90% Formula Allocation | 84.425U | 989,177 |
| COVID-19 ESSER III - 90% Learning Loss | 84.425U | 51,870 |
| COVID-19 American Rescue Plan - Homeless II | 84.425W | 5,892 |
| Total Education Stabilization Fund | | 2,035,721 |
| Carl Perkins | 84.048 | 1,000 |
| **U.S Department of Health and Human Services** | | |
| COVID-19 Minnesota COVID-19 Testing Program | 93.323 | 86,446 |
| Total Federal Expenditures | | $ 3,609,383 |

**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 includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the modified accrual basis financial statements.

## NOTE 2 – 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 3 – 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 4 – 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, 2022, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 31, 2023.

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

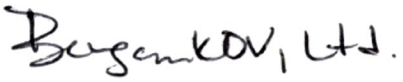
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 2022-001 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**
The District's response to the findings identified in our audit are 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 it.

**Purpose of this Report**
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
January 31, 2023

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

**Independent Auditor's Report**

To the School Board
Independent School District No. 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, 2022. 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, 2022.

### 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
January 31, 2023

**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 2022-001 |
| • 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.: | 84.425 |
| Name of Federal Program or Cluster: | Education Stabilization Fund |
| 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 2022-001

*Criteria or Specific Requirement:*
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, 2022, 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 2022-001 (Continued)

*Management'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, 2022, and the related notes to basic financial statements, and have issued our report thereon dated January 31, 2023.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, insofar as they relate to accounting matters. However, our audit as 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
January 31, 2023