

**Independent School District No. 742  
St. Cloud, Minnesota**

**Basic Financial Statements**

**June 30, 2023**

**Independent School District No. 742**  
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**Independent School District No. 742  
Board of Education and Administration  
As of June 30, 2023**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Shannon Haws	Chairperson	December 31, 2024
Al Dahlgren	Vice-Chairperson	December 31, 2024
Scott Andreasen	Treasurer	December 31, 2024
Zach Dorholt	Clerk	December 31, 2026
Monica Segura-Schwartz	Director	December 31, 2024
Natalie Copeland	Director	December 31, 2026
Heather Weems	Director	December 31, 2026
 <u>Administration</u>		
Dr. Laurie Putnam	Superintendent	
Amy Skaalerud, CPA	Executive Director of Finance and Business Services	
David Cooney	Controller	

## Independent Auditor's Report

To the School Board  
Independent School District No. 742  
St. Cloud, Minnesota

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 742, St. Cloud, Minnesota, as of and for the year ended June 30, 2023, and the related notes to the 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. 742, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund and each major special revenue 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. 742 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

The management of Independent School District No. 742 is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

## **Required Supplementary Information**

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

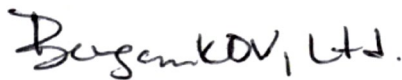
### **Supplementary Information**

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



St. Cloud, Minnesota  
October 30, 2023

## **Independent School District No. 742 Management's Discussion and Analysis**

This section of Independent School District No. 742, St. Cloud Area Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2023. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model required by GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. GASB Statement No. 34 establishes reporting requirements that include financial statements, expanded disclosure, and supplemental information, including the MD&A (this section).

Comparative information between the current fiscal year and the prior fiscal year is presented in the MD&A.

### **FINANCIAL HIGHLIGHTS**

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

- Net position increased by \$30,191,523.
- Overall revenues in governmental funds were \$195,619,371 while overall expenditures in all governmental funds totaled \$205,376,039.
- The restricted General Fund balance increased by \$10,039 from \$5,371,610 to \$5,381,649. This increase was due to an increase in fund balance restricted for area learning center which was offset by a decrease in fund balance restricted for operating capital.
- The unassigned General Fund balance increased by \$119,224 from \$17,529,034 to \$17,648,258.
- The amount of bonded indebtedness decreased \$7,635,000 from \$223,600,000 to \$215,965,000.
- Contracts with major bargaining groups expired on June 30, 2023. New contracts have been approved with some bargaining groups that will expire on June 30, 2025, and contracts with the remaining bargaining groups are currently being negotiated.



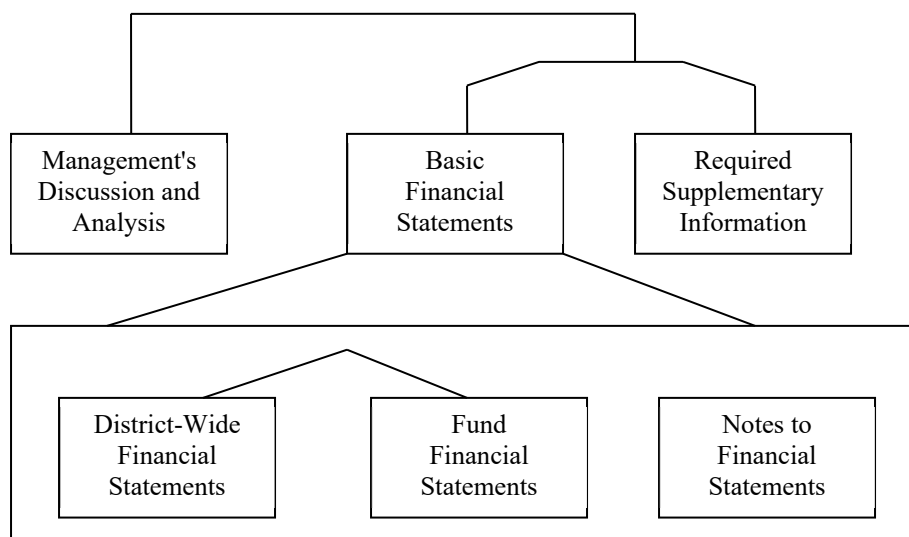
## Independent School District No. 742 Management's Discussion and Analysis

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund-financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements. There are three types of these.
- The first type are governmental funds statements that 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 second type is fiduciary funds statements which provide information about the financial relationships in which the District acts solely as a trustee or custodian for the benefit of others to whom the resources belong.
- The third type is proprietary funds statements which provide information about activities the District operates like a business. The District currently has three internal service funds that account for the District's self-insured risks and other post employment benefits.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The diagram below shows how the various parts of this annual report is arranged and related to one another.



Summary < ----- > Detail

**Independent School District No. 742  
Management's Discussion and Analysis**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

The major features of the District's financial statements, including the portion of the District's activities they cover, and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

<b>Fund Financial Statements</b>				
	<b>District-Wide Statements</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>	<b>Proprietary Funds</b>
Scope	Entire District (except fiduciary funds)	The activities of the District that is not fiduciary, such as special education and building maintenance.	Instances in which the District administers resources on behalf of someone else, such as being the fiscal host for the Central MN Joint Powers.	The activities the District operates like a business, such as retiree severance funds and self-insurance funds.
Required Financial Statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Position</li> <li>• Statement of Changes in Fiduciary Net Position</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses, and Changes in Fund Net Position</li> <li>• Statement of Cash Flows</li> </ul>
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of Assets/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can.	All assets and liabilities, both financial and capital, and short-term and long-term.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All additions and deductions during the year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

## **Independent School District No. 742 Management's Discussion and Analysis**

### **OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

#### **District-Wide Statements**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, 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, deferred outflows of resources, 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 is 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 nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- **Governmental Activities:** Most of the District's basic services are included here, such as regular and special education, transportation, administration, food service, 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 resources of funding and spending on particular programs:

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

The District has three 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 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 following the governmental funds statements that explains the relationship (or differences) between them.

**Independent School District No. 742  
Management's Discussion and Analysis**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Fund Financial Statements**

- **Proprietary Funds:** The District uses Internal Service Funds to account for operations of the District's self-insured Dental and Health Insurance plans and to account for its OPEB benefits. The activities of these funds are reported in a separate Statement of Net Position, Statement of Revenues, Expenses, and changes in Fund Net Position, and Statement of Cash Flows. This activity is also included in the Government-Wide Statement of Net Position and Statement of Activities.
- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only by those to whom the assets belong. The District's fiduciary activities (consisting of a Custodial Fund held for others) are reported in a separate Statement of 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 (DISTRICT-WIDE FINANCIAL STATEMENTS)**

**Net Position**

The District's combined net position was \$35,038,283 at June 30, 2023 (see details in Table A-1). This was an increase of \$30,191,523 from \$4,846,760 at June 30, 2022.

**Table A-1**

Condensed Statement of Net Position

	2023	2022
<b>Assets</b>		
Current and other assets	\$ 182,492,960	\$ 190,399,012
Capital assets	271,755,988	263,143,886
Total assets	<u>\$ 454,248,948</u>	<u>\$ 453,542,898</u>
<b>Deferred Outflows of Resources</b>	<u>\$ 38,287,407</u>	<u>\$ 40,362,035</u>
<b>Liabilities</b>		
Long-term liabilities	\$ 363,533,076	\$ 320,930,956
Other liabilities	39,323,231	36,107,410
Total liabilities	<u>\$ 402,856,307</u>	<u>\$ 357,038,366</u>
<b>Deferred Inflows of Resources</b>	<u>\$ 54,641,765</u>	<u>\$ 132,019,807</u>
<b>Net Position</b>		
Net investment in capital assets	\$ 108,009,606	\$ 97,493,334
Restricted	10,913,666	13,022,224
Unrestricted	<u>(83,884,989)</u>	<u>(105,668,798)</u>
Total net position	<u>\$ 35,038,283</u>	<u>\$ 4,846,760</u>

**Independent School District No. 742  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)**

**Change in Net Position**

The District's revenues were greater than expenses for the year ended June 30, 2023. A summary of the revenues and expenses is presented in Table A-2 below.

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

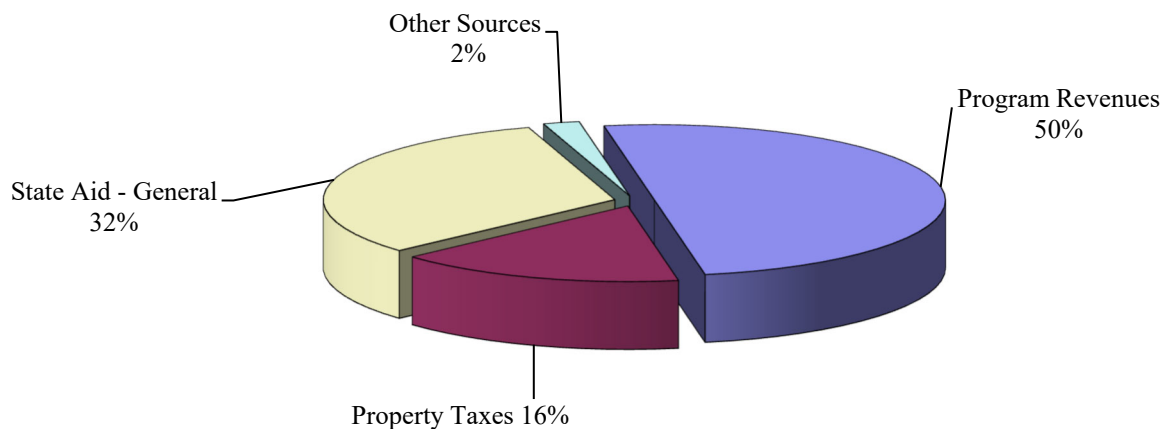
	2023	2022
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 3,682,537	\$ 2,695,714
Operating grants and contributions	89,641,597	88,026,936
Capital grants and contributions	5,454,244	7,050,904
General revenues		
Property taxes	31,438,362	31,068,707
Aids and payments from the state	63,577,489	62,143,047
Other sources	2,784,674	861,194
Total revenues	<u>\$ 196,578,903</u>	<u>\$ 191,846,502</u>
<b>Expenses</b>		
Administration	\$ 3,341,529	\$ 3,832,224
District support services	7,053,145	6,894,928
Elementary and secondary regular instruction	50,043,823	59,083,894
Vocational instruction	1,365,876	1,422,449
Special education instruction	31,281,653	31,708,175
Instructional support services	14,161,044	15,162,548
Pupil support services	17,008,261	16,597,055
Sites, buildings and equipment	10,636,440	9,770,394
Fiscal and other fixed cost programs	724,574	648,806
Food service	6,911,774	5,936,116
Community education and services	6,509,521	6,348,031
Unallocated depreciation	8,943,158	8,705,343
Interest and fiscal charges - long-term debt	8,406,582	6,672,281
Total expenses	<u>166,387,380</u>	<u>172,782,244</u>
Change in net position	30,191,523	19,064,258
<b>Net Position</b>		
Beginning	<u>4,846,760</u>	<u>(14,217,498)</u>
Ending	<u>\$ 35,038,283</u>	<u>\$ 4,846,760</u>

**Independent School District No. 742  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)**

The District's total revenue of \$196,578,903 consists of program revenues of \$98,778,378 up from \$97,773,554 in 2022; property taxes of \$31,438,362 up from \$31,068,707 in 2022; aid and payments from the state of \$63,577,489 up from \$62,143,047 in 2022 and \$2,784,674 from miscellaneous other sources up from \$861,194 in 2022.

**2022-23 Revenues - Table A-3**



There were a number of significant changes in revenue from 2022 to 2023, with revenue increasing in all categories.

The largest increase was in revenue from other sources due to a significant increase in interest revenue.

The increase in program revenues is primarily in charges for services and is due to the District collecting fee based food service revenue in 2023 whereas there was minimal fee based revenue in 2022 due to meals being free for all students. Operating grants and contributions increased and there was a corresponding decrease in capital grants and contributions due to a higher portion of ESSER funding being used for capital purchases in 2022 compared to 2023.

Revenue from property taxes increased slightly from 2022 to 2023 due to an increase in the debt-service levy related to the long-term facilities maintenance bonds that were issued in 2022.

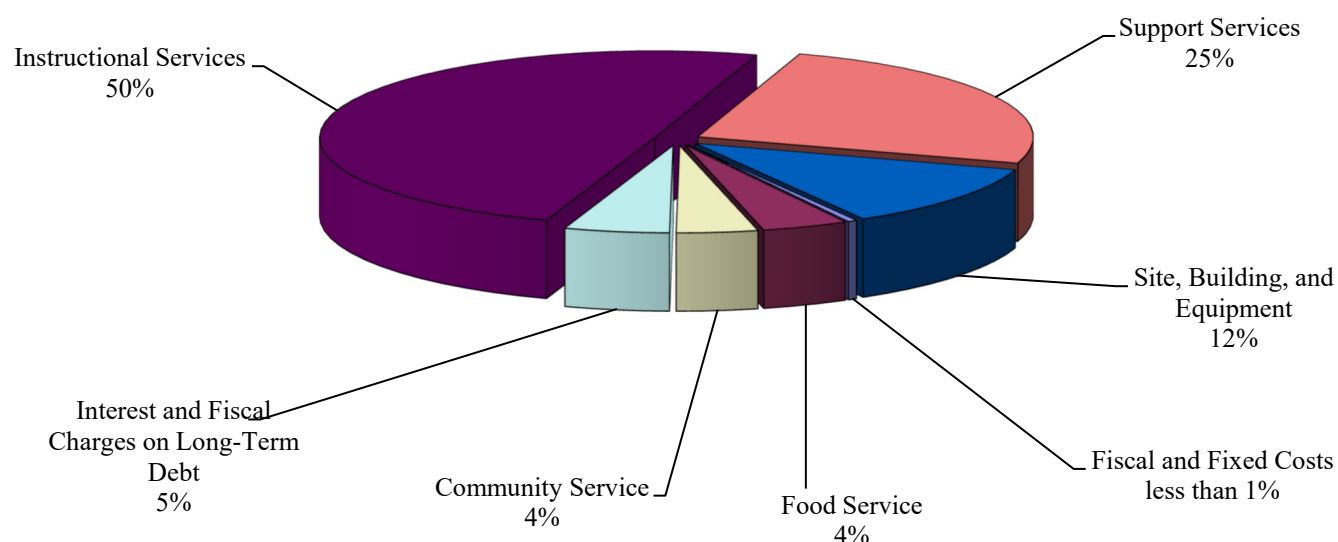
Revenue from state aid is largely driven by student enrollment, and the largest single source of funding for the District is state aid called general education revenue. General education revenue provides the base funding and represents a per pupil unit funding amount multiplied by adjusted marginal cost pupil units (referred to here as student enrollment). Revenues from state aids increased from 2022 to 2023 due to an increase in the per pupil funding amount as well as an increase in compensatory revenue.

**Independent School District No. 742  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)**

The District's total expenses of \$166,387,380 consisted mainly of costs for instructional services (regular, vocational, and special instruction) of \$82,691,352 down from \$92,214,518 in 2022. Other areas of cost included: support services (district, administrative, instructional and pupil) of \$41,563,979 down from \$42,486,755 in 2022; site, buildings, and equipment (including unallocated depreciation) of \$19,579,598 up from \$18,475,737 in 2022; fiscal and other fixed cost programs of \$724,574 up from \$648,806 in 2022; food service of \$6,911,774 up from \$5,936,116 in 2022; community education and services of \$6,509,521 up from \$6,348,031 in 2022; interest and fiscal charges on long-term debt of \$8,406,582 up from \$6,672,281 in 2022.

**2022-23 Expenses - Table A-4**



The majority of District expenditures in operating areas are for human resources. Salary and benefits make up approximately 72% of total operating expenditures. Historically this percentage has been around 74% however is less currently due to significant one-time non-salary purchases being made with the additional COVID relief funds. Many of the other operational costs are fixed costs, such as utilities, technology, and core supplies.

**Independent School District No. 742  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)**

The net cost of governmental activities is their total cost less program revenues applicable to each category. Table A-5 presents these costs. Note that site, building, and equipment expenses include unallocated depreciation expense.

**Table A-5**

Net Cost of Governmental Activities  
(in Thousands of Dollars)

	Total Cost of Services		Net Cost of Services	
	2023	2022	2023	2022
Administration	\$ 3,341	\$ 3,832	\$ 3,189	\$ 3,660
District support services	7,053	6,895	3,781	3,823
Elementary and secondary regular instruction	50,044	59,084	12,124	22,099
Vocational instruction	1,366	1,422	1,366	1,422
Special education instruction	31,282	31,708	4,011	5,381
Instructional support services	14,161	15,163	8,320	8,549
Pupil support services	17,008	16,597	10,457	10,411
Sites, buildings and equipment	19,579	18,476	14,146	13,312
Fiscal and other fixed-cost program	725	649	668	568
Food service	6,912	5,936	154	(1,577)
Community education and services	6,509	6,348	986	689
Interest and fiscal charge long-term debt	8,407	6,672	8,407	6,672
Total expenses	<u>\$ 166,387</u>	<u>\$ 172,782</u>	<u>\$ 67,609</u>	<u>\$ 75,009</u>

**Fund Balance**

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$115,203,733. This is down \$9,756,668 from the June 30, 2022, combined fund balance total which was \$124,960,401. This was primarily due to a decrease in the fund balance for the Building Construction Fund of \$7,391,141 from \$17,399,356 in 2022 to \$10,008,215 in 2023 as a result of the District spending bond proceeds for capital projects. The fund balance in the General Fund decreased by \$541,943 from \$24,130,361 in 2022 to \$23,588,418 in 2023 due to higher transportation costs compared to budget. The fund balance in the Debt Service fund decreased by \$1,324,918 due to the District paying the principal and interest payments on the crossover refunding bonds from the escrow account; this issued in 2022 out which will refund the 2017B bonds at the future call date. The Food Service and Community Service Funds had minor decreases in fund balances from June 30, 2022 to June 30, 2023, of \$156,766 and \$341,900 respectively due to budgeted spending of fund balances for one-time purchases.



**Independent School District No. 742  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)**

**Revenues and Expenditures**

Revenues of the District's governmental funds totaled \$195,619,371 while total expenditures were \$205,376,039. A summary of the revenues and expenditures reported on the governmental fund financial statements appear in Table A-6 below.

**Table A-6**

	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General	\$ 167,987,001	\$ 168,528,944	\$ -	\$ (541,943)
Food service	6,811,367	6,968,133	-	(156,766)
Community service	6,885,427	7,227,327	-	(341,900)
Capital projects	416,542	7,807,683	-	(7,391,141)
Debt service	13,519,034	14,843,952	-	(1,324,918)
Total	<u>\$ 195,619,371</u>	<u>\$ 205,376,039</u>	<u>\$ -</u>	<u>\$ (9,756,668)</u>

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

**Budgetary Highlights**

During the year ended June 30, 2023, the District revised its operating budget one time. The original budget was adopted in June 2022 (a budget must be in place prior to the beginning of the fiscal year on July 1). The final budget was adopted in June 2023.

Significant changes between original budget and final budget: The revised budget was modified from the original budget to reflect the following changes:

- The budgets for local, state, and federal grant revenues and expenditures were increased as a result of grant awards being higher than originally anticipated, including significant adjustments for revenues and expenditures related to the various federal COVID-19 relief funds.
- The budget for the expenditures in the Building Construction Fund was increased to reflect the updated 2023 anticipated costs for summer HVAC projects.
- The budget for the expenditures in the Debt Service Fund was increased to reflect the bond payment on the 2022B bond which was issued after the original budget was approved.
- The budget for revenues in the Food Service Fund was increased to reflect higher federal revenues.
- The budgets for expenditures in the Food Service Fund and Community Service funds were increased to reflect one-time purchases from fund balance.
- Amendments were made in the budgeted revenues and expenditures for a number of programs to account for operational changes throughout the fiscal year.

## **Independent School District No. 742 Management's Discussion and Analysis**

### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)**

#### **Variances from Final Budget to Actual**

The District's final General Fund budget anticipated that expenditures would exceed revenues by \$37,475. The actual result was \$541,943 excess of expenditures over revenues. General Fund revenues were under budget by \$4,434,893 or 2.6%. The primary reasons for revenues being under budget were enrollment coming in less than projected as well as the timing of ESSER purchases that were budgeted in 2023 but purchases were delayed to 2024. General Fund expenditures were under budget by \$3,930,425 or 2.3%. The primary reasons for this variance were transportation costs exceeding budgeted amounts due to increases in the number of routes needed offset by the timing of some budgeted ESSER purchases shifting from 2023 to 2024.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

Additions totaling \$32,089,660 consisted primarily of building construction and remodeling projects, HVAC and other improvement projects, site improvements, vehicles, and equipment. Disposals and adjustments totaling \$13,540,359 consisted of the disposal of equipment and the reclassification of prior year construction in progress. Detailed information related to the District's capital assets can be found in Note 4.

#### **Long-Term Liabilities**

At year-end, the District had \$248,642,674 of long-term liabilities. This consisted of bonded indebtedness of \$215,965,000, certificates of participation of \$21,920,000, unamortized bond premiums of \$8,441,313, financed purchase agreements of \$438,353, lease liability of \$764,939 and compensated absences of \$1,113,069. This is a decrease of \$10,124,690 from June 30, 2022. More detailed information regarding long-term liabilities can be found in Note 5.

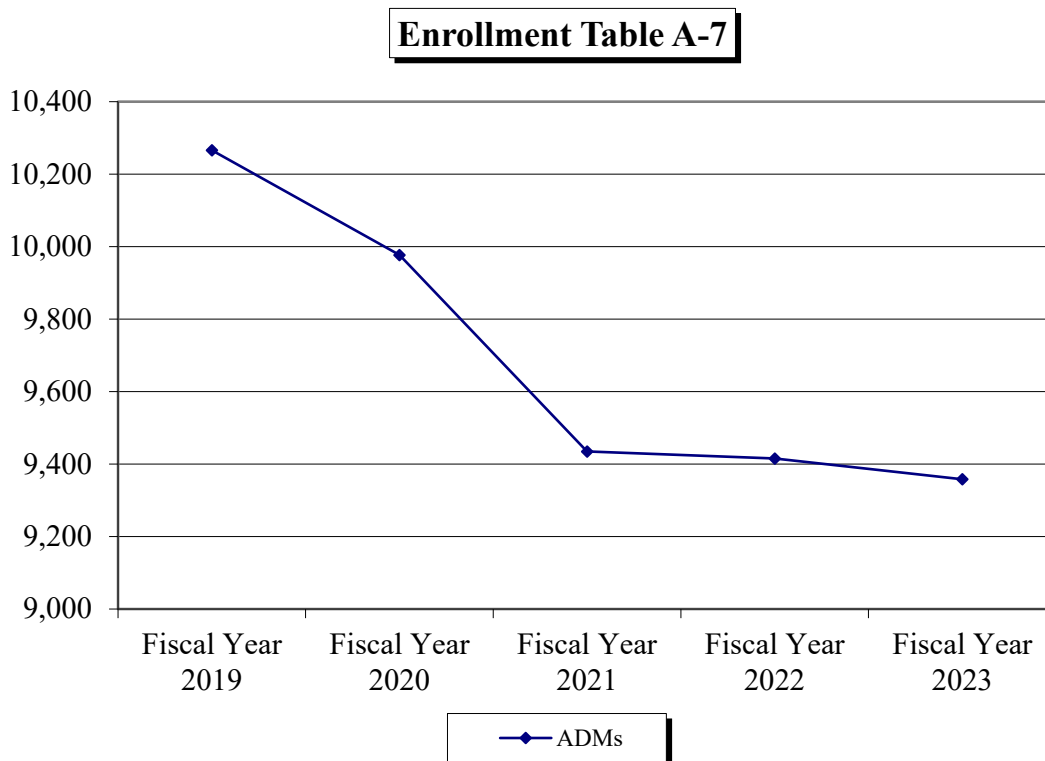
### **FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- Minnesota school districts are paid based on pupil units served, therefore a decline in enrollment results in less revenue being received for operations. The District did see a slight decrease in enrollment in 2023, however is expecting an increase in enrollment in 2023. The District's average daily membership (ADM) served for the past five years is shown in Table A-7 on the following page.

**Independent School District No. 742  
Management's Discussion and Analysis**

**FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)**



- The political and economic environment of the State of Minnesota could have a significant effect on future finances. The State Legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive. The State regularly faces large budget deficits and since K-12 education accounts for about 40% of State spending, the future revenues of the District and other Minnesota school districts is unknown and unstable.
- Contracts with major bargaining groups expired on June 30, 2023. New contracts have been approved with some bargaining groups that will expire on June 30, 2025, and contracts with the remaining bargaining groups are currently being negotiated. Negotiations on these contracts will impact future budget periods.
- COVID-19 has greatly impacted the District's operations and will continue to affect operations and funding into the future due to impacts that it has had on enrollment, staffing, and operational costs.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's 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 Amy Skaalerud, CPA, Executive Director of Finance and Business Services, at the District Administration Office, Independent School District No. 742, 1201 South Second Street, Waite Park, Minnesota 56303.

## **BASIC FINANCIAL STATEMENTS**

**Independent School District No. 742**  
**Statement of Net Position**  
**June 30, 2023**

	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets	
Cash and investments (including cash equivalents)	\$ 67,890,948
Cash with fiscal agent	73,805,305
Current property taxes receivable	15,821,430
Delinquent property taxes receivable	275,534
Accounts receivable	551,598
Interest receivable	1,085,355
Due from Department of Education	10,820,371
Due from Federal Government through Department of Education	11,098,033
Due from federal - direct	35,164
Due from other Minnesota school districts	280,036
Due from other governmental units	135,611
Inventory	128,428
Prepaid items	565,147
Total current assets	<u>182,492,960</u>
Noncurrent assets	
Capital assets not being depreciated	
Land	6,730,006
Construction in progress	10,731,732
Capital assets, net of accumulated depreciation and amortization	
Land improvements	23,723,752
Buildings and building improvements	330,184,485
Furniture and equipment	10,133,156
Vehicles	4,728,588
Food service equipment	1,932,507
Leased buildings	895,328
Less accumulated depreciation and amortization	<u>(117,303,566)</u>
Total capital assets, net of accumulated depreciation and amortization	<u>271,755,988</u>
Total assets	<u>454,248,948</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to pensions	35,465,775
Deferred outflows of resources related to OPEB	<u>2,821,632</u>
Total deferred outflows of resources	<u>38,287,407</u>
 Total assets and deferred outflows of resources	 <u><u>\$ 492,536,355</u></u>

**Independent School District No. 742**  
**Statement of Net Position**  
**June 30, 2023**

	<u>Governmental Activities</u>
<b>Liabilities</b>	
Current liabilities	
Accounts and contracts payable	\$ 9,403,957
Salaries, benefits, severance, and compensated absences payable	14,390,489
Accrued interest payable	3,718,093
Due to other Minnesota school districts	962,722
Unearned revenue	64,818
Long term liabilities due within one year	10,783,152
Total current liabilities	<u>39,323,231</u>
Noncurrent liabilities	
Bond principal payable, net of premiums	223,144,728
Certificates of indebtedness, net of premiums	23,181,585
Financed purchases from direct borrowing	438,353
Lease liability	764,939
Compensated absences payable	1,113,069
Net pension liability	116,374,509
Total OPEB liability	9,299,045
Less amount due within one year	<u>(10,783,152)</u>
Total noncurrent liabilities	<u>363,533,076</u>
Total liabilities	<u>402,856,307</u>
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent year's expenditures	31,212,779
Deferred inflows of resources related to pensions	22,213,857
Deferred inflows of resources related to OPEB	1,215,129
Total deferred inflows of resources	<u>54,641,765</u>
<b>Net Position</b>	
Net investment in capital assets	108,009,606
Restricted for	
Capital asset acquisition	2,730,660
Food service	2,186,734
Community service	3,184,663
Other purposes	2,811,609
Unrestricted	<u>(83,884,989)</u>
Total net position	<u>35,038,283</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 492,536,355</u></u>

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**Independent School District No. 742**  
**Statement of Activities**  
**Year Ended June 30, 2023**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
				Governmental Activities
Governmental activities				
Administration	\$ 3,341,529	\$ -	\$ 152,631	\$ -
District support services	7,053,145	-	3,272,370	-
Elementary and secondary regular instruction	50,043,823	272,828	37,643,560	3,200
Vocational education instruction	1,365,876	-	-	-
Special education instruction	31,281,653	1,463,912	25,806,413	-
Instructional support services	14,161,044	51,992	5,789,273	-
Pupil support services	17,008,261	-	6,251,003	299,704
Sites and buildings	10,636,440	119,794	162,034	5,151,340
Fiscal and other fixed cost programs	724,574	-	56,522	-
Food service	6,911,774	873,113	5,885,085	-
Community education and services	6,509,521	900,898	4,622,706	-
Unallocated depreciation	8,943,158	-	-	-
Interest and fiscal charges on long-term debt	8,406,582	-	-	-
Total governmental activities	<u>\$ 166,387,380</u>	<u>\$ 3,682,537</u>	<u>\$ 89,641,597</u>	<u>\$ 5,454,244</u>
				(67,609,002)
General revenues				
Taxes				
Property taxes, levied for general purposes				18,335,900
Property taxes, levied for community service				1,244,322
Property taxes, levied for debt service				11,858,140
State aid-formula grants				63,577,489
Other general revenues				374,922
Investment income				2,409,752
Total general revenues				<u>97,800,525</u>
Change in net position				30,191,523
Net position - beginning				<u>4,846,760</u>
Net position - ending				<u>\$ 35,038,283</u>

See notes to basic financial statements.



**Independent School District No. 742**  
**Balance Sheet - Governmental Funds**  
**June 30, 2023**

	General	Food Service	Community Service
<b>Assets</b>			
Cash and investments	\$ 27,260,672	\$ 2,191,829	\$ 3,930,787
Cash with fiscal agent	-	-	-
Current property taxes receivable	8,885,769	-	554,812
Delinquent property taxes receivable	157,285	-	11,221
Accounts receivable	326,192	-	167,196
Interest receivable	-	-	-
Due from Department of Education	10,303,277	-	443,827
Due from Federal Government through Department of Education	10,957,702	425	139,906
Due from Federal - direct	35,164	-	-
Due from other Minnesota school districts	280,036	-	-
Due from other governmental units	135,611	-	-
Inventory	65,784	62,644	-
Prepaid items	492,727	24,948	7,601
	<u>\$ 58,900,219</u>	<u>\$ 2,279,846</u>	<u>\$ 5,255,350</u>
<b>Liabilities</b>			
Accounts and contracts payable	\$ 3,502,911	\$ 17,438	\$ 246,185
Salaries, benefits, severance, and compensated absences payable	13,933,212	10,856	446,421
Due to other Minnesota school districts	743,432	-	219,290
Unearned revenue	-	64,818	-
Total liabilities	<u>18,179,555</u>	<u>93,112</u>	<u>911,896</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - delinquent property taxes	157,285	-	11,221
Property taxes levied for subsequent year's expenditures	16,974,961	-	1,158,791
Total deferred inflows of resources	<u>17,132,246</u>	<u>-</u>	<u>1,170,012</u>
<b>Fund Balances</b>			
Nonspendable	558,511	87,592	7,601
Restricted	5,381,649	2,099,142	3,165,841
Unassigned	17,648,258	-	-
Total fund balances	<u>23,588,418</u>	<u>2,186,734</u>	<u>3,173,442</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 58,900,219</u>	<u>\$ 2,279,846</u>	<u>\$ 5,255,350</u>

Building Construction	Debt Service	Total Governmental Funds
\$ 12,206,705	\$ 9,377,111	\$ 54,967,104
1,393,386	72,411,919	73,805,305
-	6,380,849	15,821,430
-	107,028	275,534
-	-	493,388
-	1,085,355	1,085,355
-	73,267	10,820,371
-	-	11,098,033
-	-	35,164
-	-	280,036
-	-	135,611
-	-	128,428
39,871	-	565,147
<u>\$ 13,639,962</u>	<u>\$ 89,435,529</u>	<u>\$ 169,510,906</u>
\$ 3,631,747	\$ 2,550	\$ 7,400,831
-	-	14,390,489
-	-	962,722
-	-	64,818
<u>3,631,747</u>	<u>2,550</u>	<u>22,818,860</u>
-	107,028	275,534
-	13,079,027	31,212,779
-	13,186,055	31,488,313
39,871	-	693,575
9,968,344	76,246,924	96,861,900
-	-	17,648,258
<u>10,008,215</u>	<u>76,246,924</u>	<u>115,203,733</u>
<u>\$ 13,639,962</u>	<u>\$ 89,435,529</u>	<u>\$ 169,510,906</u>

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**Independent School District No. 742**  
**Reconciliation of the Balance Sheet to**  
**the Statement of Net Position - Governmental Funds**  
**June 30, 2023**

Total fund balance - governmental funds	\$ 115,203,733
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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 including leased assets	389,059,554
Less accumulated depreciation and amortization	(117,303,566)

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

Long-term liabilities at year-end consist of:

Bonds payable, net of premiums	(223,144,728)
Certificates of participation payable, net of premiums	(23,181,585)
Finance purchase from direct borrowing	(438,353)
Lease liability	(764,939)
Compensated absences payable	(1,113,069)
Net pension liability	(116,374,509)
Total OPEB liability	(9,299,045)

Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.

Deferred outflows of resources related to pensions	35,465,775
Deferred inflows of resources related to pensions	(22,213,857)
Deferred outflows of resources related to OPEB	2,821,632
Deferred inflows of resources related to OPEB	(1,215,129)

Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

275,534

Governmental funds do not report a liability for accrued interest on bonds payable until due and payable.

(3,718,093)

The OPEB internal service fund is used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the OPEB liability. These assets are included with governmental activities.

256,945

The health and dental insurance internal service funds are used by the District to charge the cost of health and dental insurance employee premiums and claims to the individual funds. The assets and liabilities of these internal service funds are included with governmental activities.

10,721,983

Total net position - governmental activities

\$ 35,038,283

**Independent School District No. 742**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2023**

	General	Food Service	Community Service
<b>Revenues</b>			
Local property taxes	\$ 18,270,625	\$ -	\$ 1,239,945
Other local and county revenues	4,455,175	75,160	1,201,967
Revenue from state sources	114,152,224	243,115	4,253,364
Revenue from federal sources	31,108,977	5,619,979	190,151
Sales and other conversion of assets	-	873,113	-
Total revenues	<u>167,987,001</u>	<u>6,811,367</u>	<u>6,885,427</u>
<b>Expenditures</b>			
Current			
Administration	4,067,136	-	-
District support services	7,543,509	-	-
Elementary and secondary regular instruction	58,568,030	-	-
Vocational education instruction	1,729,673	-	-
Special education instruction	37,133,275	-	-
Instructional support services	15,174,517	-	-
Pupil support services	17,597,230	-	149,297
Sites and buildings	16,413,011	-	-
Fiscal and other fixed cost programs	724,574	-	-
Food service	-	6,661,068	-
Community education and services	-	-	6,993,881
Capital outlay			
District support services	4,443	-	-
Elementary and secondary regular instruction	2,397,557	-	-
Vocational education instruction	1,140	-	-
Special education instruction	107,488	-	-
Instructional support services	990,167	-	-
Pupil support services	453,613	-	-
Sites and buildings	3,558,494	-	-
Food service	-	307,065	-
Community education and services	-	-	84,149
Debt service			
Principal	1,025,007	-	-
Interest and fiscal charges	1,040,080	-	-
Total expenditures	<u>168,528,944</u>	<u>6,968,133</u>	<u>7,227,327</u>
Excess of revenues under expenditures	(541,943)	(156,766)	(341,900)
<b>Fund Balances</b>			
Beginning of year	<u>24,130,361</u>	<u>2,343,500</u>	<u>3,515,342</u>
End of year	<u>\$ 23,588,418</u>	<u>\$ 2,186,734</u>	<u>\$ 3,173,442</u>

See notes to basic financial statements.

Building Construction	Debt Service	Total Governmental Funds
\$ -	\$ 11,815,193	\$ 31,325,763
416,542	970,206	7,119,050
-	733,635	119,382,338
-	-	36,919,107
-	-	873,113
<u>416,542</u>	<u>13,519,034</u>	<u>195,619,371</u>
-	-	4,067,136
-	-	7,543,509
-	-	58,568,030
-	-	1,729,673
-	-	37,133,275
-	-	15,174,517
-	-	17,746,527
-	-	16,413,011
-	-	724,574
-	-	6,661,068
-	-	6,993,881
-	-	4,443
-	-	2,397,557
-	-	1,140
-	-	107,488
-	-	990,167
-	-	453,613
7,337,683	-	10,896,177
-	-	307,065
-	-	84,149
470,000	7,635,000	9,130,007
-	7,208,952	8,249,032
<u>7,807,683</u>	<u>14,843,952</u>	<u>205,376,039</u>
(7,391,141)	(1,324,918)	(9,756,668)
<u>17,399,356</u>	<u>77,571,842</u>	<u>124,960,401</u>
<u>\$ 10,008,215</u>	<u>\$ 76,246,924</u>	<u>\$ 115,203,733</u>

**Independent School District No. 742**  
**Reconciliation of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2023**

Total net change in fund balances - governmental funds	\$ (9,756,668)
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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 and amortization expense.

Capital outlays	18,720,717
Depreciation and amortization expense	(10,096,532)
Net disposals	(12,083)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.

292,660

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.

23,645,511

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.

9,130,007

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.

(859,573)

Governmental 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 asset or liability in the government-wide financial statements.

Amortization of bond premium	702,023
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Total OPEB obligations are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. The District's obligation exceeded its contribution, therefore, net position is decreased.

(29,077)

The change in net position of the internal service funds is reported with governmental activities.

(1,658,061)

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.

112,599

Change in net position - governmental activities

\$ 30,191,523

**Independent School District No. 742**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2023**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
<b>Revenues</b>				
Local property taxes	\$ 17,511,815	\$ 18,159,640	\$ 18,270,625	\$ 110,985
Other local and county revenues	3,983,471	3,811,536	4,455,175	643,639
Revenue from state sources	116,786,828	117,105,153	114,152,224	(2,952,929)
Revenue from federal sources	26,726,780	33,345,565	31,108,977	(2,236,588)
Total revenues	<u>165,008,894</u>	<u>172,421,894</u>	<u>167,987,001</u>	<u>(4,434,893)</u>
<b>Expenditures</b>				
Current				
Administration	4,130,893	4,163,499	4,067,136	(96,363)
District support services	7,508,297	7,547,149	7,543,509	(3,640)
Elementary and secondary regular instruction	58,806,879	60,932,060	58,568,030	(2,364,030)
Vocational education instruction	1,656,188	1,656,318	1,729,673	73,355
Special education instruction	36,263,994	36,861,928	37,133,275	271,347
Instructional support services	14,712,074	16,227,031	15,174,517	(1,052,514)
Pupil support services	16,843,751	16,862,259	17,597,230	734,971
Sites and buildings	15,712,130	15,985,479	16,413,011	427,532
Fiscal and other fixed cost programs	600,000	792,683	724,574	(68,109)
Capital outlay				
District support services	2,500	7,698	4,443	(3,255)
Elementary and secondary regular instruction	2,844,918	3,880,671	2,397,557	(1,483,114)
Vocational education instruction	1,084	1,184	1,140	(44)
Special education instruction	90,992	104,344	107,488	3,144
Instructional support services	180,405	1,002,792	990,167	(12,625)
Pupil support services	7,500	564,857	453,613	(111,244)
Sites and buildings	3,625,000	3,912,113	3,558,494	(353,619)
Debt service				
Principal	956,493	956,493	1,025,007	68,514
Interest and fiscal charges	1,000,833	1,000,811	1,040,080	39,269
Total expenditures	<u>164,943,931</u>	<u>172,459,369</u>	<u>168,528,944</u>	<u>(3,930,425)</u>
Net change in fund balance	<u>\$ 64,963</u>	<u>\$ (37,475)</u>	<u>(541,943)</u>	<u>\$ (504,468)</u>
<b>Fund Balances</b>				
Beginning of year			24,130,361	
Ending of year			<u>\$ 23,588,418</u>	



**Independent School District No. 742**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - Food Service Special Revenue Fund**  
**Year Ended June 30, 2023**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Over (Under)
<b>Revenues</b>				
Other local and county revenues	\$ 5,000	\$ 5,000	\$ 75,160	\$ 70,160
Revenue from state sources	235,000	253,811	243,115	(10,696)
Revenue from federal sources	4,472,500	5,313,750	5,619,979	306,229
Sales and other conversion of assets	1,019,750	1,019,750	873,113	(146,637)
Total revenues	<u>5,732,250</u>	<u>6,592,311</u>	<u>6,811,367</u>	<u>219,056</u>
<b>Expenditures</b>				
Current				
Food service	5,670,120	6,445,661	6,661,068	215,407
Capital outlay				
Food service	<u>55,000</u>	<u>482,279</u>	<u>307,065</u>	<u>(175,214)</u>
Total expenditures	<u>5,725,120</u>	<u>6,927,940</u>	<u>6,968,133</u>	<u>40,193</u>
Net change in fund balance	<u>\$ 7,130</u>	<u>\$ (335,629)</u>	<u>(156,766)</u>	<u>\$ 178,863</u>
<b>Fund balances</b>				
Beginning of year			<u>2,343,500</u>	
Ending of year			<u>\$ 2,186,734</u>	

**Independent School District No. 742**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - Community Service Special Revenue Fund**  
**Year Ended June 30, 2023**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Over (Under)
<b>Revenues</b>				
Local property taxes	\$ 1,243,014	\$ 1,243,014	\$ 1,239,945	\$ (3,069)
Other local and county revenues	884,350	934,350	1,201,967	267,617
Revenue from state sources	4,217,011	4,254,458	4,253,364	(1,094)
Revenue from federal sources	140,000	211,761	190,151	(21,610)
Total revenues	<u>6,484,375</u>	<u>6,643,583</u>	<u>6,885,427</u>	<u>241,844</u>
<b>Expenditures</b>				
Current				
Pupil support services	150,998	150,998	149,297	(1,701)
Community education and services	6,315,659	6,761,345	6,993,881	232,536
Capital outlay				
Community education and services	5,000	11,139	84,149	73,010
Total expenditures	<u>6,471,657</u>	<u>6,923,482</u>	<u>7,227,327</u>	<u>303,845</u>
Net change in fund balance	<u>\$ 12,718</u>	<u>\$ (279,899)</u>	<u>(341,900)</u>	<u>\$ (62,001)</u>
<b>Fund Balances</b>				
Beginning of year			<u>3,515,342</u>	
Ending of year			<u>\$ 3,173,442</u>	

**Independent School District No. 742**  
**Statement of Net Position - Proprietary Funds**  
**June 30, 2023**

	<u>Total Internal Service Funds</u>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 12,923,844
Due from other funds	737,714
Accounts Receivable	<u>58,210</u>
Total current assets	<u>\$ 13,719,768</u>
<b>Liabilities</b>	
Insurance claims payable	\$ 2,003,126
Due to other funds	<u>737,714</u>
Total liabilities	<u>2,740,840</u>
<b>Net Position</b>	
Unrestricted	<u>10,978,928</u>
Total liabilities and net position	<u>\$ 13,719,768</u>

**Statement of Revenues, Expenses, and Changes  
in Fund Net Position - Proprietary Funds  
Year Ended June 30, 2023**

	<u>Total Internal Service Funds</u>
<b>Operating Revenue</b>	
Charges for services	\$ 16,585,684
Retiree contributions	563,519
Total revenues	<u>17,149,203</u>
<b>Operating Expenses</b>	
Insurance claims	17,796,082
Insurance premiums	1,301,233
Total operating expenses	<u>19,097,315</u>
Operating income	(1,948,112)
<b>Nonoperating Revenue</b>	
Investment income	<u>290,051</u>
Change in net position	(1,658,061)
<b>Net Position</b>	
Beginning of year	<u>12,636,989</u>
End of year	<u><u>\$ 10,978,928</u></u>

**Independent School District No. 742**  
**Statement of Cash Flows - Proprietary Funds**  
**Year Ended June 30, 2023**

	<u>Total Internal Service Funds</u>
<b>Cash Flows - Operating Activities</b>	
Employee insurance deductions	
received from other funds	\$ 15,789,760
Receipts from retirees	563,519
Insurance claims paid	(17,079,330)
Insurance premiums paid	<u>(563,519)</u>
Net cash flows - operating activities	<u>(1,289,570)</u>
<b>Cash Flows - Investing Activities</b>	
Interest received	<u>290,051</u>
Net change in cash and cash equivalents	(999,519)
<b>Cash and Cash Equivalents</b>	
Beginning of year	<u>13,923,363</u>
End of year	<u><u>\$ 12,923,844</u></u>
<b>Reconciliation of Operating Income to Net Cash Flows- Operating Activities</b>	
Operating income (loss)	\$ (1,948,112)
Adjustments to reconcile operating income to net cash flows - operating activities	
Change in accounts receivable	(58,210)
Change in due from other funds	(737,714)
Change in insurance claims payable	716,752
Change in due to other funds	<u>737,714</u>
Net cash flows - operating activities	<u><u>\$ (1,289,570)</u></u>

**Independent School District No. 742**  
**Statement of Fiduciary Net Position**  
**June 30, 2023**

	Fundraising Custodial Fund
<b>Assets</b>	
Cash and investments	\$ 280
<b>Liabilities</b>	
Accounts payable	280
<b>Net Position</b>	\$ -

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

	Fundraising Custodial Fund
<b>Additions</b>	
Other local and county revenues	\$ 280
<b>Deductions</b>	
Supplies	280
Change in net position	-
<b>Net Position</b>	
Beginning of year	-
End of year	\$ -

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**Independent School District No. 742**  
**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 three and 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 Statement 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.



**Independent School District No. 742**  
**Notes to Basic Financial Statements**

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

**B. Basic Financial Statement Information (Continued)**

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Funds are charges to customers for services. Operating expenses for the Internal Service Funds are insurance claims and premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Custodial 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 proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 collectable within 60 days.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

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

**C. Measurement Focus and Basis of Accounting (Continued)**

**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.

**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.

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

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

Building Construction Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities or to account for bonds specifically issued for technology expenditures.

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.

**Proprietary Funds:**

Dental Insurance Internal Service Fund – This fund is used to account for operations of the District's self-insured dental insurance plan. Premiums collected from employees are collected from other governmental funds and claims for dental claims are paid by this fund.

Health Insurance Internal Service Fund – This fund is used to account for operations of the District's self-insured health insurance plan. Premiums collected from employees are collected from other governmental funds and claims for health claims are paid by this fund.

OPEB Internal Service Fund – This fund is used to account for the financial resources relating to other post-employment benefits.

**Fiduciary Fund:**

Fundraising Custodial Fund – This fund is used to account for resources received and held by the District in a trustee capacity to be used in making donations from student activity fundraisers.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

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

**D. Deposits and Investments**

All governmental, proprietary, and fiduciary funds of the District, except for the OPEB Internal Service Fund, participate in a government-wide investment pool. Cash and investment balances from these funds are combined and invested to the extent available in various securities as authorized by state law. The OPEB Fund's deposits and investments are held and invested separately from the rest of the District's funds as authorized by state law. In addition, deposits and investments related to the 2017A Certificates of Participation, 2017B School Buildings Bonds, 2022A Certificates of Participation, and 2022B Facility Maintenance Bonds are held and invested separately from these pooled funds.

*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. Earnings from the pooled investments are allocated to the respective funds based on the average of month-end cash and investment balances.

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

Cash and investments at June 30, 2023, were comprised of deposits, negotiable certificates of deposit, shares in the Minnesota School District Liquid Asset Fund (MSDLAF) including MSDLAF MAX, shares in the Minnesota Trust (MNTrust) Term Series, shares in the MNTrust Investment Shares Portfolio, shares in the MNTrust Limited Term Duration Series, U.S. Treasury Notes, guaranteed investment certificates, and money market funds.

In accordance with GASB Statement No. 79, the various MSDLAF, and MNTrust, funds are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF Liquid, MNTrust Investment Shares Portfolio, or money market funds. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Investments in the MNTrust Limited Term Duration Series may only be withdrawn on the third Wednesday of each month upon advance written notice on the immediately preceding first Wednesday of that month.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

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

**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 tax receivables represent uncollected taxes for the past six years and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

**F. Property Taxes Levied for Subsequent Year's Expenditures**

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

**G. Inventories**

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on an average cost basis. Inventories are recorded as expenditures when consumed rather than when purchased.

**H. Prepaid Items**

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

**I. Property Taxes**

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Benton, Sherburne, Stearns, and Wright Counties are the collecting agencies for the levy and remit 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.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

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

**J. Capital Assets (Continued)**

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000. 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 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, buildings, and building improvements, 5 to 20 years for furniture and equipment including food service equipment, and 8 years for vehicles.

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.

**K. Right-to-Use Lease Assets/Lease Liabilities**

The District recorded right-to-use lease assets as a result of implementing GASB Statement No. 87, *Leases*. The right-to-use lease assets are initially measured at an amount equal to the initial measurement of the lease liability plus any payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-to-use assets are amortized on a straight-line basis over the life of the related lease.

Key estimates and judgments related to leases include (1) the discount rate, (2) lease term, (3) lease payments, and (4) amortization.

The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District determines its estimated borrowing rate. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a re-measurement of the leases and will remeasure the right-to-use lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of the lease liability.

**L. Deferred Outflows/Inflows of Resources**

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

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

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

**L. Deferred Outflows/Inflows of Resources (Continued)**

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

**M. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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 withheld or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**N. Pensions**

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

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

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

**N. Pensions (Continued)**

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

**O. Compensated Absences**

The District compensates clerical, custodial, and non-represented employees upon termination of employment for unused vacation. An employee may not carry over more than 15 days of vacation time.

District employees are entitled to sick leave at the following rates:

<u>Position</u>	<u>Days Earned Per Year</u>	<u>Maximum Number of Days Allowed to Accumulate</u>
Administrators	12	100
Teachers	11-13	100
Clerical	10-12	60
Custodial	12	100
Food Service	10	60
Non-represented	10-12	100
Paraprofessionals	10	60
Interpreters	10	60
Principals	10-12	100

Employees are not compensated for unused sick leave upon termination of employment, unless taken in conjunction with severance pay as described in Note 1.P.

Compensated absences payable, as reported in the Statement of Net Position, consists of the severance payable to eligible employees based on their unused sick leave of \$872,639 and vacation leave of \$240,430. See Note 1.P.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

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

**P. Post Employment Severance and Health Benefits**

Teachers who have completed 15 years of continuous service with the District are eligible for severance pay in the amount of \$1,000 per year of service upon retirement or resignation not to exceed \$45,000 per employee. District administrators have a similar arrangement. Employees in all other bargaining groups who are 55 years of age and have a minimum of 10 years of service are eligible for severance pay based on his or her accrued accumulative leave up to a maximum number of days as set forth in each negotiated contract. All severance payments are made directly into a Post Retirement Health Care Savings Plan. Severance pay is recognized as an expenditure in the year payment is made in accordance with the Uniform Financial Accounting and Reporting Standards (UFARS) for Minnesota Schools and accounting principles generally accepted in the United States of America and is not recorded as a liability on the fund financial statements. The liability for severance based on years of service is reported in the Statement of Net Position as part of the District's OPEB and the liability for severance based on accumulated leave is reported in the Statement of Net Position as compensated absences.

**Q. Fund Equity**

**1. Classifications**

In the fund financial statements, governmental funds report 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 those 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 amounts that are restricted to specific purposes either by legally enforceable constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through enabling legislation.
- **Unassigned Fund Balances** – This represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose in the General Fund.
- The District's policy is to strive to spend resources from fund balance classifications in the following order (first to last) if resources from more than one fund balance classification could be spent: restricted, committed, assigned, and unassigned.

**2. Minimum Fund Balance Policy**

The District has a fund balance policy in place that states the District will strive to maintain a minimum unassigned General Fund balance of 10% of the annual General Fund expenditure budget.



**Independent School District No. 742**  
**Notes to Basic Financial Statements**

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

**R. 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.

**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.

**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 Superintendent submits to the School Board, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
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 Projects, and Debt Service Funds.
4. Budgets for all 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.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**A. Deposits (Continued)**

Custodial Credit Risk – Deposits: This is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in possession of an outside party. *Minnesota Statutes* § 118A requires all deposits be protected by federal deposit insurance, corporate security 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. The District has a policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding FDIC, SAIF, BIF, or FCUA coverage. As of June 30, 2023, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institutions' trust department or agent in the District's name.

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

Checking	\$ 358,029
MN Trust certificates of deposit	<u>5,014,600</u>
Total	<u><u>\$ 5,372,629</u></u>

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments**

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

Investment Type	Total	Investment Maturities	
		Less Than 1 Year	1 to 3 Years
Pooled			
MSDLAF+ Liquid Class	\$ 5,772,131	\$ 5,772,131	\$ -
MSDLAF+ Max Class	352,562	352,562	-
MN Trust Term Series	6,000,000	6,000,000	-
MN Trust Limited Term Duration Series	8,115,486	8,115,486	-
Negotiable Certificates of Deposit	1,699,935	1,213,061	486,874
MN Trust Investment Shares Portfolio	24,145,976	24,145,976	-
Total pooled investments	46,086,090	45,599,216	486,874
Non pooled			
2017A Certificates of Participation			
Money Market	1,393,386	1,393,386	-
2022A Certificates of Participation			
Guarateed Investment Certificate	72,411,919	-	72,411,919
Total cash with fiscal agent	73,805,305	1,393,386	72,411,919
2017B School Building Bonds			
MN Trust Investment Shares Portfolio	2,554	2,554	-
Money Market Account	448,813	448,813	-
2022B Facility Maintenance Bonds			
MN Trust Investment Shares Portfolio	1,051,486	1,051,486	-
MN Trust Term Series - Flex	739,135	739,135	-
U.S. Treasury Notes	13,191,787	13,191,787	-
OPEB Investments			
MN Trust Investment Shares Portfolio	35,323	35,323	-
U.S. Treasury Notes	959,336	488,828	470,508
Total non-pooled investments	16,428,434	15,957,926	470,508
Total investments	\$ 136,319,829	\$ 62,950,528	\$ 73,369,301

**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 policy states the District will diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities, with maximum percent of portfolio on certain investment types.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

**Custodial Credit Risk – Investments:** This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy on custodial credit risk states securities will be held in third party safekeeping by an institution designated as custodial agent. The custodial agent shall issue a safekeeping receipt to the District listing pertinent information related to the securities held.

**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 investments to the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy limits investments to those specified in the above statutes. As of June 30, 2023, the District's investments in MSDLAF+ Liquid Class, MSDLAF+ Max Class, MN Trust Term Series, MN Trust Investment Shares Portfolio, and MN Trust Long-Term Duration Series were rated AAAM by Standard and Poor's. The District's investments in U.S Treasury notes were rated AAA. The District's investments in negotiable certificates of deposit, guaranteed investment certificate, and the money markets are not rated.

**Interest Rate Risk:** This is the risk that the market value of securities will fall due to the changes in market interest rates. The District's policy states investment maturities should be scheduled to coincide with projected District cash flow needs, taking into account large routine or scheduled expenditures, as well as anticipated receipt dates of anticipated revenues. The policy also indicates investments shall be managed to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

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

- Pooled investments of \$1,699,935 were valued using a matrix pricing model (Level 2 inputs)
- Nonpooled investments of \$15,993,322 were valued using quoted market prices (Level 1 inputs)

The following is a summary of total deposits and investments:

Cash on hand	\$ 4,075
Deposits - pooled (Note 2.A.)	5,372,629
Investments - pooled (Note 2.B.)	46,086,090
Investments - Nonpooled, cash with fiscal agent	73,805,305
Investments - nonpooled (Note 2.B.)	<u>16,428,434</u>
Total	<u><u>\$ 141,696,533</u></u>

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

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

Statement of Net Position	
Cash and investments	\$ 67,890,948
Cash with fiscal agent	73,805,305
 Statement of Fiduciary Net Position	
Cash and investments	<u>280</u>
 Total deposits and investments	<u><u>\$ 141,696,533</u></u>

**NOTE 3 – INTERFUND ACTIVITY**

As of June 30, 2023, \$737,714 was due from the OPEB Internal Service Fund to the Health Insurance Internal Service Fund for retiree health benefits.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 4 – CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 6,730,006	\$ -	\$ -	\$ 6,730,006
Construction in progress	8,991,606	15,109,069	13,368,943	10,731,732
Total capital assets not being depreciated	<u>15,721,612</u>	<u>15,109,069</u>	<u>13,368,943</u>	<u>17,461,738</u>
Other capital assets at historical cost				
Land improvements	16,378,430	7,345,322	-	23,723,752
Buildings and building improvements	321,928,100	8,256,385	-	330,184,485
Furniture and equipment	9,421,950	856,906	145,700	10,133,156
Vehicles	4,428,884	299,704	-	4,728,588
Food service equipment	1,735,949	222,274	25,716	1,932,507
Leased building	895,328	-	-	895,328
Total other capital assets	<u>354,788,641</u>	<u>16,980,591</u>	<u>171,416</u>	<u>371,597,816</u>
Less accumulated depreciation				
Land improvements	(6,327,481)	(768,598)	-	(7,096,079)
Buildings	(88,718,590)	(8,532,621)	-	(97,251,211)
Furniture and equipment	(7,246,645)	(441,757)	(145,700)	(7,542,702)
Vehicles	(3,738,679)	(191,719)	-	(3,930,398)
Food service equipment	(1,245,439)	(72,304)	(13,633)	(1,304,110)
Less accumulated amortization				
Leased building	(89,533)	(89,533)	-	(179,066)
Total accumulated depreciation/amortization	<u>(107,366,367)</u>	<u>(10,096,532)</u>	<u>(159,333)</u>	<u>(117,303,566)</u>
Total capital assets being depreciated/amortized, net	<u>247,422,274</u>	<u>6,884,059</u>	<u>12,083</u>	<u>254,294,250</u>
Governmental activities, capital assets, net	<u>\$ 263,143,886</u>	<u>\$ 21,993,128</u>	<u>\$ 13,381,026</u>	<u>\$ 271,755,988</u>

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

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

District support services	\$ 8,296
Elementary and secondary regular instruction	236,723
Vocational instruction	15,502
Special education instruction	3,407
Instructional support services	162,936
Pupil support services	169,234
Sites and buildings	484,971
Food service	72,305
Unallocated	<u>8,943,158</u>
Total depreciation/amortization expense	<u><u>\$ 10,096,532</u></u>

**NOTE 5 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due within One Year
Long-term liabilities						
G.O. bonds						
2015A Alternative Facility Bonds	03/05/15	2.0%-4.0%	\$ 37,715,000	02/01/35	\$ 26,560,000	\$ 1,755,000
2015B Capital Facilities Bonds	10/01/15	2.0%-4.0%	13,130,000	02/01/30	7,255,000	940,000
2015C Crossover Refunding Bonds	11/19/15	2.0%-4.0%	20,460,000	02/01/27	9,090,000	2,150,000
2017B School Building Bonds	02/21/17	3.0%-5.0%	100,365,000	02/01/37	83,630,000	3,040,000
2022A Crossover Refunding Bonds	05/19/22	3.375%-3.45%	74,800,000	02/01/37	74,800,000	-
2022B Facilities Maintenance Bonds	06/28/22	4.0%-5.0%	14,630,000	02/01/43	14,630,000	460,000
Unamortized bond premiums					7,179,728	-
Net bonds payable					<u>223,144,728</u>	<u>8,345,000</u>
Certificates of Participation						
2017A Certificates of Participation	02/21/17	2.0%-5.0%	16,910,000	02/01/38	15,275,000	590,000
2021A Certificates of Participation	11/17/21	3.0%	7,075,000	02/01/35	6,645,000	485,000
Unamortized premiums					1,261,585	-
Net Certificates of Participation					<u>23,181,585</u>	<u>1,075,000</u>
Financed purchase agreements					438,353	438,353
Lease liability					764,939	74,799
Compensated absences payable					<u>1,113,069</u>	<u>850,000</u>
Total all long-term liabilities					<u><u>\$ 248,642,674</u></u>	<u><u>\$ 10,783,152</u></u>

The long-term bond liabilities listed above were issued to finance acquisition and construction of capital facilities or refund existing bonds. Compensated absences, financed purchase agreements, the lease liability, and Certificates of Participation are typically liquidated through the General Fund.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**A. Components of Long-Term Liabilities (Continued)**

The District entered into a gymnastics facility lease agreement. Monthly payments are \$8,760, due for 120 months, using an annual interest rate of 5%. The facility has been recorded as a leased building and is being amortized over the life of the lease.

On July 5, 2020, the District entered into a financed purchase agreement with Apple, Inc. for the acquisition of MacBooks. The financed purchase obligation and corresponding equipment totaled \$527,758. The agreement includes annual principal and interest payments of \$139,800 payable through July 5, 2023.

On August 1, 2020, the District entered into a financed purchase agreement with Trinity3, LLC for the acquisition of Chromebooks. The financed purchase obligation and corresponding equipment totaled \$1,193,257. The agreement includes annual principal and interest payments of \$316,087 payable through August 1, 2023.

**B. Minimum Debt Payments**

Minimum annual principal and interest payments required to retire long-term liabilities:

Year Ending June 30,	G.O. Bonds	
	Principal	Interest
2024	\$ 8,345,000	\$ 7,989,179
2025	8,685,000	7,642,941
2026	83,065,000	7,318,141
2027	9,680,000	3,650,609
2028	9,980,000	3,331,929
2029-2033	51,250,000	11,795,193
2034-2038	40,095,000	4,012,026
2039-2043	4,865,000	598,800
Total	<u>\$ 215,965,000</u>	<u>\$ 46,338,818</u>

Year Ending June 30,	Certificates of Participation	
	Principal	Interest
2024	\$ 1,075,000	\$ 894,900
2025	1,120,000	850,850
2026	1,165,000	804,850
2027	1,210,000	756,900
2028	1,265,000	707,000
2029-2033	7,140,000	2,702,400
2034-2038	8,945,000	1,102,800
Total	<u>\$ 21,920,000</u>	<u>\$ 7,819,700</u>



**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**B. Minimum Debt Payments (Continued)**

Year Ending June 30,	Financed Purchase	
	Principal	Interest
2024	\$ 438,353	\$ 17,534
Total	\$ 438,353	\$ 17,534

Year Ending June 30,	Lease Liability	
	Principal	Interest
2024	\$ 74,798	\$ 36,564
2025	81,473	32,672
2026	88,562	28,438
2027	96,085	23,840
2028	104,068	18,854
2029-2032	319,953	22,706
Total	\$ 764,939	\$ 163,074

**C. Changes in Long-Term Liabilities**

	Beginning Balance	Increases	Decreases	Ending Balance
Long-term liabilities				
G.O. bonds	\$ 223,600,000	\$ -	\$ 7,635,000	\$ 215,965,000
Certificates of participation	22,925,000	-	1,005,000	21,920,000
Unamortized premiums	9,143,336	-	702,023	8,441,313
Financed purchase agreements	859,846	-	421,493	438,353
Lease liability	833,453	-	68,514	764,939
Compensated absences	1,405,729	547,069	839,729	1,113,069
Total long-term liabilities	\$ 258,767,364	\$ 547,069	\$ 10,671,759	\$ 248,642,674

**NOTE 6 – FUND BALANCES/NET POSITION**

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

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

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)**

**Fund Equity**

**A. Fund Balance**

	General Fund	Food Service	Community Service	Building Construction	Debt Service	Total
Nonspendable for						
Inventory	\$ 65,784	\$ 62,644	\$ -	\$ -	\$ -	\$ 128,428
Prepaid Items	492,727	24,948	7,601	39,871	-	565,147
Total nonspendable fund balance	558,511	87,592	7,601	39,871	-	693,575
Restricted for						
Operating Capital	2,570,040	-	-	-	-	2,570,040
Gifted and Talented	78,450	-	-	-	-	78,450
Area Learning Center	823,514	-	-	-	-	823,514
Scholarships	144,848	-	-	-	-	144,848
Student Activities	357,577	-	-	-	-	357,577
Long-Term Facilities						
Maintenance	-	-	-	8,472,555	-	8,472,555
Basic Skills Extended Time	1,407,220	-	-	-	-	1,407,220
Food Service	-	2,099,142	-	-	-	2,099,142
Community Education	-	-	1,303,552	-	-	1,303,552
Early Childhood and						
Family Education	-	-	345,777	-	-	345,777
School Readiness	-	-	967,217	-	-	967,217
Adult Basic Education	-	-	431,145	-	-	431,145
Community Service	-	-	118,150	-	-	118,150
Projects Funded by COP	-	-	-	1,375,040	-	1,375,040
Capital Projects	-	-	-	120,749	-	120,749
Debt Service	-	-	-	-	76,246,924	76,246,924
Total restricted fund balance	5,381,649	2,099,142	3,165,841	9,968,344	76,246,924	96,861,900
Unassigned						
General Purposes	17,694,584	-	-	-	-	17,694,584
Long-Term Facilities						
Maintenance	(46,326)	-	-	-	-	(46,326)
Total unassigned fund balance	17,648,258	-	-	-	-	17,648,258
Total fund balance	\$ 23,588,418	\$ 2,186,734	\$ 3,173,442	\$ 10,008,215	\$ 76,246,924	\$ 115,203,733

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

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

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

Restricted/Reserved for 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.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)**

**Fund Equity (Continued)**

**A. Fund Balance (Continued)**

Restricted/Reserved for Area Learning Center – This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to the sum of 1) at least 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to *Minnesota Statutes* § 126C.10, subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved area learning center, plus (2) the amount of basic skills revenue generated by pupils attending the area learning center. The amount restricted may only be spent on program costs associated with the area learning center.

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 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). The negative LTFM balance in the General Fund is reported as unassigned fund balance in accordance with GASB Statement No. 54.

Restricted/Reserved for Basic Skills Extended Time – This balance represents resources available for the basic skills extended time uses listed in *Minnesota Statutes* § 126C.15, subd. 1.

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

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/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education. This would include all state aid and any grants or local funding used in support of ABE.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balance (Continued)**

Restricted for Community Service – This balance represents the remaining resources of the Community Service Fund not restricted for other programming.

Restricted/Reserved for Building Projects Funded by Certificates of Participation/Financed Purchase Agreement with Related Lease Levy Authority – This balance represents the June 30 balance in the Building Construction Fund for projects funded by certificates of participation/financed purchase agreements with related lease levy authority under *Minnesota Statutes* 2022 § 126C.40.

Restricted for Capital Projects – This balance represents available resources in the Building Construction Fund for projects.

Restricted for Debt Service – This amount represents the resources available to pay the principal and interest on outstanding debt.

**B. Net Position**

Net position restricted for other purposes on the Statement of Net Position is comprised of the total positive position of the restricted fund balance portion of the General Fund with the exception of the operating capital reserve. This reserve is reported as restricted for capital acquisition.

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

The District participates in various pension plans. Total pension expense for the year ended June 30, 2023, was (\$14,525,957). The components of pension expense are noted in the following plan summaries.

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

**Teachers' Retirement Association**

**A. Plan Description**

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

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

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 7 – 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 I Benefits*

<u>Tier 1</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
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.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**B. 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, 2021, June 30, 2022, and June 30, 2023, were:

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

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**C. Contribution Rate (Continued)**

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

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

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.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions**

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

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**Actuarial Information**

Valuation date	July 1, 2022
Measurement date	June 30, 2022
Experience study	June 28, 2019 (demographic and economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.00%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028, and 3.25% after June 30, 2028.
Projected salary increase	2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% after June 30, 2028.
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

**Mortality Assumptions**

Pre-retirement	RP 2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.



**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 7 – 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:

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

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

Changes in actuarial assumptions since the 2021 valuation:

- None

**E. Discount Rate**

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

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability**

On June 30, 2023, the District reported a liability of \$92,614,410 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District proportionate share was 1.1566% at the end of the measurement period and 1.1173% 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	\$ 92,614,410
State's proportionate share of the net pension liability associated with the District	6,867,879

For the year ended June 30, 2023, the District recognized pension expense of (\$17,501,555). Included in this amount, the District recognized \$944,354 as pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,317,443	\$ 783,134
Net difference between projected and actual earnings on plan investments	3,640,878	-
Changes of assumptions	14,332,381	18,794,177
Changes in proportion	1,832,194	1,853,953
Contributions to TRA subsequent to the measurement date	6,240,303	-
Total	<u>\$ 27,363,199</u>	<u>\$ 21,431,264</u>

The \$6,240,303 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

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

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

Year Ended June 30,	Pension Expense Amount
2024	\$ (17,486,578)
2025	3,003,039
2026	1,522,038
2027	12,301,186
2028	351,947
Total	<u><u>\$ (308,368)</u></u>

**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 (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
\$ 146,001,574	\$ 92,614,410	\$ 48,853,581

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](http://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.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association**

**A. Plan Description**

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

**General Employees Retirement Plan**

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

**B. Benefits Provided**

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

**General Employees Plan Benefits**

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

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.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**C. Contributions**

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

**General Employees Fund Contributions**

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2023 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2023, were \$1,830,811. The District's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

**General Employees Fund Pension Costs**

At June 30, 2023, the District reported a liability of \$23,760,099 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 \$696,586.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.3000% at the end of the measurement period and 0.2955% for the beginning of the period.

School's proportionate share of the net pension liability	\$ 23,760,099
State of Minnesota's proportionate share of the net pension liability associated with the School	<u>696,586</u>
Total	<u><u>\$ 24,456,685</u></u>

For the year ended June 30, 2023, the District recognized pension expense of \$2,975,598 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$104,086 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.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 198,462	\$ 251,093
Changes in actuarial assumptions	5,299,118	99,828
Net collective difference between projected and actual investments earnings	577,533	-
Changes in proportion	196,652	431,672
District's contributions to PERA subsequent to the measurement date	<u>1,830,811</u>	<u>-</u>
Total	<u><u>\$ 8,102,576</u></u>	<u><u>\$ 782,593</u></u>

The \$1,830,811 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2024	\$ 1,980,353
2025	2,023,834
2026	(663,756)
2027	<u>2,148,741</u>
Total	<u><u>\$ 5,489,172</u></u>

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term</u>
Domestic equity	33.5 %	5.10 %
International equity	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	100.0 %	

**F. Actuarial Methods and Assumptions**

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

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

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

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

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

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

**Changes in Actuarial Assumptions**

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

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**F. Actuarial Methods and Assumptions (Continued)**

Changes in Plan Provisions

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

**G. Discount Rate**

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

**H. Pension Liability Sensitivity**

The table on following page 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 proprionate share of the PERA net pension liability	\$ 37,530,321	\$ 23,760,099	\$ 12,466,392

**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](http://www.mnpera.org).

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description**

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses through the District's self-insured health insurance plan. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.



**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**B. Benefits Paid**

At retirement, employees of the District receiving a retirement or disability benefit, or eligible to receive a benefit, from a Minnesota public pension plan may continue to participate in the District's group health insurance plan. Various employees are also eligible for subsidized contributions based on terms outlined in contracts. The General Fund, Food Service Fund, and Community Service Fund typically liquidate the liability related to post employment health benefits.

**C. Members**

As of the June 30, 2022, valuation date, the following were covered by the benefit terms:

Retiree electing coverage	44
Active employees waiving coverage	561
Active employees electing coverage	<u>952</u>
Total	<u><u>1,557</u></u>

**D. Contributions**

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with health insurance providers. The required contributions are based on projected pay-as-you-go financing requirements. For 2023, the District contributed \$792,835 in District paid premiums and implicit rate costs for retirees to the plan.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**E. Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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Key Methods and Assumptions Used in Valuation of Total OPEB Liability

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Discount Rate	3.69%, used index rate for 20-Year, tax exempt municipal bonds (fidelity 20-Year Municipal G.O. AA Index)
Inflation	2.50%
Healthcare cost trend increases	6.8% initially, decreasing over several decades to an ultimate rate of 3.9% in FY 2076 and later years.
Mortality Assumption - Teachers	From the July 1, 2022, TRA actuarial valuation, mortality tables were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments
Mortality Assumption - Non-teachers	From the July 1, 2022, PERA General Employees retirement plan actuarial valuation, mortality tables were based on the Pub-2010 General mortality tables with projected mortality improvements based on scale MP-2021, and other adjustments

Since the last valuation, the following changes in actuarial assumptions and plan provisions have been made:

- The discount rate was changed from 1.92% to 3.69% based on updated 20-year municipal bonds rates.
- 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 rates used in the July 1, 2019, PERA General Employees Plan and the July 1, 2019, TRA valuations to the rates used in the July 1, 2022, valuations.
- The percent of future retirees assumed to elect spouse coverage at retirement changed from 20% to 30% to reflect recent plan experience.
- Retiree premiums were updated to current levels.
- Clerical and custodian explicit subsidy benefit was added to the valuation based on the updated contract.
- Administrators' severance benefit was removed from the valuation based on the updated contract.

**F. Total OPEB Liability**

The District's total OPEB liability of \$9,299,045 was measured as of June 30, 2022, and was determined by an actuarial valuation as of that date.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**F. Total OPEB Liability (Continued)**

Changes in the total OPEB liability are as follows:

	Total OPEB Liability
	<u>                    </u>
Balances at June 30, 2022	\$ 10,628,036
Changes for the year	
Service cost	797,231
Interest	208,877
Differences between expected and actual experience	(332,684)
Changes of assumptions	(882,683)
Changes of benefit terms	(27,242)
Employer contributions	<u>(1,092,490)</u>
Net changes	<u>(1,328,991)</u>
Balances at June 30, 2023	<u><u>\$ 9,299,045</u></u>

**G. OPEB Liability Sensitivity**

The following presents the District's total OPEB liability calculated using the discount rate of 3.69% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% Decrease in Discount Rate (2.69%)	Current Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total OPEB Liability	\$ 9,771,071	\$ 9,299,045	\$ 8,832,336

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

	1% Decrease (5.8% Decreasing to 2.9%)	Current (6.8% Decreasing to 3.9%)	1% Increase (7.8% Decreasing to 4.9%)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total OPEB Liability	\$ 9,156,747	\$ 9,299,045	\$ 9,463,232

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

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

For the year ended June 30, 2023, the District recognized OPEB expense of \$1,101,469. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual liability	\$ 1,326,173	\$ 302,980
Changes of assumptions	702,624	912,149
Contributions made subsequent to the measurement date	792,835	-
	<u>2,821,632</u>	<u>-</u>
Total	<u>\$ 2,821,632</u>	<u>\$ 1,215,129</u>

The \$792,835 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

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

Year Ending June 30,	Total
2024	\$ 122,603
2025	122,603
2026	122,603
2027	122,603
2028	131,511
Thereafter	191,745
Total	<u>\$ 813,668</u>

**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 fiscal years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2023.

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 9 – RISK MANAGEMENT (CONTINUED)**

Since 2009, the District has provided a dental care self-insurance program. Under this program, the fund provides up to a maximum of \$1,000 for each dental claim. The General Fund, Food Service Fund, and Community Service Fund of the District participate in this program and make payments to the Dental Insurance Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the basic financial statements indicates it is probable a liability has been incurred at the date of the basic financial statements and the amount of the loss can be reasonably estimated. The total claims liability reported in the fund as of June 30, 2023, was \$99,843, which is comprised of the liability for known claims as well as an estimate for claims incurred but not yet reported. Changes in the fund's claims liability amounts for the past three years are as follows.

Year	Beginning Balance	Claims Expense and Estimates	Claims Payments	Ending Balance
2021	\$ 82,060	\$ 1,061,021	\$ 1,071,779	\$ 71,302
2022	71,302	1,056,219	1,054,845	72,676
2023	72,676	1,106,443	1,079,276	99,843

Since 2014, the District has provided a health care self-insurance program. Under this program, the fund provides up to a maximum of \$200,000 for each health claim. The General Fund, Food Service Fund, and Community Service Fund of the District participate in this program and make payments to the Health Insurance Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the basic financial statements indicates it is probable a liability has been incurred at the date of the basic financial statements and the amount of the loss can be reasonably estimated. The total claims liability reported in the fund as of June 30, 2023, was \$1,903,283, which is comprised of the liability for known claims as well as an estimate for claims incurred but not yet reported. Changes in the fund's claims liability amounts for the past three years are as follows:

Year	Beginning Balance	Claims Expense and Estimates	Claims Payments	Ending Balance
2021	\$ 1,113,473	\$ 14,048,272	\$ 14,027,681	\$ 1,134,064
2022	1,134,064	14,971,696	14,892,062	1,213,698
2023	1,213,698	16,689,639	16,000,054	1,903,283

**NOTE 10 – CONTINGENCIES AND COMMITMENTS**

**A. Program Compliance**

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

**Independent School District No. 742**  
**Notes to Basic Financial Statements**

**NOTE 10 – CONTINGENCIES AND COMMITMENTS (CONTINUED)**

**B. Construction Commitments**

As of June 30, 2023, the District had construction commitments totaling \$9,690,475 related to various projects in process.

**NOTE 11 – SUBSEQUENT EVENT**

On September 6, 2023, the School Board approved the sale of the 2023A G.O. Facilities Maintenance Bonds in the amount of \$14,385,000 to fund the acquisition and betterment of projects included in the District's ten-year facility plan.

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## **REQUIRED SUPPLEMENTARY INFORMATION**



**Independent School District No. 742**  
**Schedule of Changes in Total OPEB Liability**  
**and Related Ratios**

	June 30, 2018	June 30, 2019	June 30, 2020	June 30, 2021
Total OPEB Liability				
Service cost	\$ 551,968	\$ 533,823	\$ 504,366	\$ 572,050
Interest	248,357	285,572	298,166	268,111
Differences between expected and actual experience	-	54,882	-	1,686,192
Changes of assumptions	(248,899)	252,614	217,361	284,663
Changes of benefit terms	-	-	-	-
Benefit payments	(923,271)	(1,110,658)	(654,319)	(862,394)
Net change in total OPEB liability	(371,845)	16,233	365,574	1,948,622
Beginning of year	8,415,030	8,043,185	8,059,418	8,424,992
End of year	<u>\$ 8,043,185</u>	<u>\$ 8,059,418</u>	<u>\$ 8,424,992</u>	<u>\$ 10,373,614</u>
Covered payroll	\$ 85,506,873	\$ 85,312,922	\$ 85,409,905	\$ 87,828,950
Total OPEB liability as a percentage of covered-employee payroll	9.41%	9.45%	9.86%	11.81%

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

<u>June 30, 2022</u>	<u>June 30, 2023</u>
\$ 718,313	\$ 797,231
258,707	208,877
75,311	(332,684)
267,026	(882,683)
-	(27,242)
<u>(1,064,935)</u>	<u>(1,092,490)</u>
<u>254,422</u>	<u>(1,328,991)</u>
<u>10,373,614</u>	<u>10,628,036</u>
<u>\$ 10,628,036</u>	<u>\$ 9,299,045</u>
\$ 89,944,021	\$ 96,649,476
11.82%	9.62%

**Independent School District No. 742**  
**Schedule of District's and Non-Employer Proportionate Share**  
**(if Applicable) of Net Pension Liability**  
**Last Ten Years General Employees Retirement Fund**

For Plan Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Proportionate Share of the Net Pension of Liability	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.3412%	\$ 16,027,867	\$ -	\$ 16,027,867	\$ 17,914,041	89.5%	78.75%
2015	0.3111%	16,122,817	-	16,122,817	17,982,867	89.7%	78.19%
2016	0.3074%	24,959,355	325,963	25,285,318	19,074,613	130.9%	68.91%
2017	0.3392%	21,654,304	272,264	21,926,568	21,850,400	99.1%	75.90%
2018	0.3159%	17,524,837	574,913	18,099,750	21,232,667	82.5%	79.53%
2019	0.3061%	16,923,583	525,977	17,449,560	21,662,733	78.1%	80.23%
2020	0.3099%	18,579,921	572,838	19,152,759	22,098,213	84.1%	79.06%
2021	0.2955%	12,619,174	385,460	13,004,634	21,277,200	59.3%	87.00%
2022	0.3000%	23,760,099	696,586	24,456,685	22,473,080	105.7%	76.67%

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

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

For Plan Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Proportionate Share of the Net Pension of Liability	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	1.1334%	\$ 52,226,256	\$ 3,673,947	\$ 55,900,203	\$ 51,738,486	100.9%	81.50%
2015	1.0964%	67,823,183	8,319,269	76,142,452	55,648,787	121.9%	76.77%
2016	1.1151%	265,977,956	26,696,660	292,674,616	58,007,307	458.5%	44.88%
2017	1.1630%	232,155,897	22,441,352	254,597,249	62,603,053	370.8%	51.57%
2018	1.1091%	69,661,861	6,544,927	76,206,788	61,275,573	113.7%	78.07%
2019	1.1062%	70,509,420	6,239,895	76,749,315	62,802,555	112.3%	78.21%
2020	1.1147%	82,355,530	6,901,545	89,257,075	64,776,692	127.1%	75.48%
2021	1.1173%	48,896,389	4,123,754	53,020,143	66,861,845	73.1%	86.63%
2022	1.1566%	92,614,410	6,867,879	99,482,289	71,489,736	129.5%	76.17%

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

**Independent School District No. 742  
Schedule of District Contributions  
General Employees Retirement Fund  
Last Ten Years**

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 1,298,768	\$ 1,298,768	\$ -	\$ 17,914,041	7.25%
2015	1,348,715	1,348,715	-	17,982,867	7.50%
2016	1,430,596	1,430,596	-	19,074,613	7.50%
2017	1,638,780	1,638,780	-	21,850,400	7.50%
2018	1,592,450	1,592,450	-	21,232,667	7.50%
2019	1,624,705	1,624,705	-	21,662,733	7.50%
2020	1,657,366	1,657,366	-	22,098,213	7.50%
2021	1,595,790	1,595,790	-	21,277,200	7.50%
2022	1,685,481	1,685,481	-	22,473,080	7.50%
2023	1,830,811	1,830,811	-	24,410,813	7.50%

**Schedule of District Contributions  
TRA Retirement Fund  
Last Ten Years**

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 3,621,694	\$ 3,621,694	\$ -	\$ 51,738,486	7.00%
2015	4,173,659	4,173,659	-	55,648,787	7.50%
2016	4,350,548	4,350,548	-	58,007,307	7.50%
2017	4,695,229	4,695,229	-	62,603,053	7.50%
2018	4,595,668	4,595,668	-	61,275,573	7.50%
2019	4,842,077	4,842,077	-	62,802,555	7.71%
2020	5,130,314	5,130,314	-	64,776,692	7.92%
2021	5,435,868	5,435,868	-	66,861,845	8.13%
2022	5,962,244	5,962,244	-	71,489,736	8.34%
2023	6,240,303	6,240,303	-	72,986,000	8.55%

**Independent School District No. 742**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund**

**2022 Changes**

Changes in Actuarial Assumptions

- None

**2021 Changes**

Changes in Actuarial Assumptions

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

**2020 Changes**

Changes in Actuarial Assumptions

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

**2019 Changes**

Changes in Actuarial Assumptions

- None

**2018 Changes**

Changes in Actuarial Assumptions

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

**Independent School District No. 742**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund (Continued)**

**2017 Changes**

Changes in Actuarial Assumptions

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

**2016 Changes**

Changes in Actuarial Assumptions

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

**2015 Changes**

Changes of Benefit Terms

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

**Independent School District No. 742**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund (Continued)**

**2015 Changes (Continued)**

Changes in Actuarial Assumptions

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

**Independent School District No. 742**  
**Notes to the Required Supplementary Information**

**General Employees Fund**

**2022 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2021 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2020 Changes**

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed 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 retirees 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.



**Independent School District No. 742**  
**Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2020 Changes (Continued)**

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.

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 changed 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.

**Independent School District No. 742**  
**Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2017 Changes (Continued)**

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.

**2016 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**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. 742**  
**Notes to the Required Supplementary Information**

**OPEB Health Care Plan**

**2022 Changes**

Changes in Actuarial Assumptions

- The discount rate was changed from 1.92% to 3.69% based on updated 20-year municipal bonds rates.
- 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 rates used in the July 1, 2019, PERA General Employees Plan and the July 1, 2019, TRA valuations to the rates used in the July 1, 2022, valuations.
- The percent of future retirees assumed to elect spouse coverage at retirement changed from 20% to 30% to reflect recent plan experience.

Changes in Plan Provisions

- Retiree premiums were updated to current levels.
- Clerical and custodian explicit subsidy benefit was added to the valuation based on the updated contract.
- Administrators' severance benefit was removed from the valuation based on the updated contract.

**2021 Changes**

Changes in Actuarial Assumptions

- The discount rate was changed from 2.45% to 1.92% based on updated 20-year municipal bonds rates.

**2020 Changes**

Changes in Actuarial Assumptions

- The discount rate was changed from 3.13% to 2.45% based on updated 20-year municipal bonds rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including the repeal 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 and new plan offerings, including an adjustment to reflect age/gender-based risk scores published by the Society of Actuaries.
- Mortality and salary increase rates were updated from the rates used in the July 1, 2018, PERA General Employees Retirement Plan and July 1, 2018, Teachers Retirement Association valuations to the rates used in the July 1, 2019, valuations.

**2019 Changes**

Changes in Actuarial Assumptions

- The discount rate was decreased to 3.13% from 3.62%.

**2018 Changes**

Changes in Actuarial Assumptions

- The discount rate was increased to 3.62% from 3.56%.
- The inflation rate was decreased to 2.5% from 2.75%.

## **SUPPLEMENTARY INFORMATION**

**Independent School District No. 742**  
**Combining Schedule of Net Position - Internal Service Funds**  
**June 30, 2023**

	Dental Insurance	Health Insurance	OPEB	Total Internal Service Funds
<b>Assets</b>				
Current assets				
Cash and investments	\$ 937,931	\$ 10,991,254	\$ 994,659	\$ 12,923,844
Due from other funds	-	737,714	-	737,714
Accounts receivable	16,672	41,538	-	58,210
	<u>954,603</u>	<u>11,770,506</u>	<u>994,659</u>	<u>13,719,768</u>
Total current assets	<u>\$ 954,603</u>	<u>\$ 11,770,506</u>	<u>\$ 994,659</u>	<u>\$ 13,719,768</u>
<b>Liabilities</b>				
Insurance claims payable	\$ 99,843	\$ 1,903,283	\$ -	\$ 2,003,126
Due to other funds	-	-	737,714	737,714
Total liabilities	<u>99,843</u>	<u>1,903,283</u>	<u>737,714</u>	<u>2,740,840</u>
<b>Net Position</b>				
Unrestricted	<u>854,760</u>	<u>9,867,223</u>	<u>256,945</u>	<u>10,978,928</u>
Total liabilities and net position	<u>\$ 954,603</u>	<u>\$ 11,770,506</u>	<u>\$ 994,659</u>	<u>\$ 13,719,768</u>

**Combining Schedule of Revenues, Expenses, and Changes  
in Fund Net Position - Internal Service Funds  
Year Ended June 30, 2023**

	Dental Insurance	Health Insurance	OPEB	Total Internal Service Funds
<b>Operating Revenue</b>				
Charges for services	\$ 1,082,384	\$ 15,503,300	\$ -	\$ 16,585,684
Retiree contributions	-	-	563,519	563,519
Total operating revenues	<u>1,082,384</u>	<u>15,503,300</u>	<u>563,519</u>	<u>17,149,203</u>
<b>Operating Expenses</b>				
Insurance claims	1,106,443	16,689,639	-	17,796,082
Insurance premiums	-	-	1,301,233	1,301,233
Total operating expenses	<u>1,106,443</u>	<u>16,689,639</u>	<u>1,301,233</u>	<u>19,097,315</u>
Operating income	(24,059)	(1,186,339)	(737,714)	(1,948,112)
<b>Nonoperating Revenue</b>				
Investment income	<u>21,063</u>	<u>260,712</u>	<u>8,276</u>	<u>290,051</u>
Change in net position	(2,996)	(925,627)	(729,438)	(1,658,061)
<b>Net Position</b>				
Beginning of year	<u>857,756</u>	<u>10,792,850</u>	<u>986,383</u>	<u>12,636,989</u>
End of year	<u>\$ 854,760</u>	<u>\$ 9,867,223</u>	<u>\$ 256,945</u>	<u>\$ 10,978,928</u>

**Independent School District No. 742**  
**Combining Schedule of Cash Flows - Internal Service Funds**  
**Year Ended June 30, 2023**

	Dental Insurance	Health Insurance	OPEB	Total Internal Service Funds
<b>Cash Flows - Operating Activities</b>				
Employee insurance deductions received from other funds	\$ 1,065,712	\$ 14,724,048	\$ -	\$ 15,789,760
Receipts from retirees	-	-	563,519	563,519
Insurance claims and fees paid	(1,079,276)	(16,000,054)	-	(17,079,330)
Insurance premiums paid	-	-	(563,519)	(563,519)
Net cash flows - operating activities	<u>(13,564)</u>	<u>(1,276,006)</u>	<u>-</u>	<u>(1,289,570)</u>
<b>Cash Flows - Investing Activities</b>				
Interest received	<u>21,063</u>	<u>260,712</u>	<u>8,276</u>	<u>290,051</u>
<b>Net Change in Cash and Cash Equivalents</b>	7,499	(1,015,294)	8,276	(999,519)
<b>Cash and Cash Equivalents</b>				
Beginning of year	<u>930,432</u>	<u>12,006,548</u>	<u>986,383</u>	<u>13,923,363</u>
End of year	<u>\$ 937,931</u>	<u>\$ 10,991,254</u>	<u>\$ 994,659</u>	<u>\$ 12,923,844</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows-Operating Activities</b>				
Operating income	\$ (24,059)	\$ (1,186,339)	\$ (737,714)	\$ (1,948,112)
Adjustments to reconcile operating income to net cash flows - operating activities				
Change in due from other funds	-	(737,714)	-	(737,714)
Change in accounts receivable	(16,672)	(41,538)	-	(58,210)
Change in insurance claims payable	27,167	689,585	-	716,752
Change in due to other funds	-	-	737,714	737,714
Net cash flows - operating activities	<u>\$ (13,564)</u>	<u>\$ (1,276,006)</u>	<u>\$ -</u>	<u>\$ (1,289,570)</u>

**Independent School District No. 742**  
**Uniform Financial Accounting and Reporting Standards**  
**Compliance Table**  
**Year Ended June 30, 2023**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION FUND</b>			
Total revenue	\$ 167,987,001	\$ 167,986,997	\$ 4	Total revenue	\$ 416,542	\$ 416,541	\$ 1
Total expenditures	168,528,944	168,528,940	4	Total expenditures	7,807,683	7,807,681	2
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable fund balance	558,511	558,512	(1)	4.60 Nonspendable fund balance	39,871	39,871	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
4.01 Student Activities	357,577	357,577	-	4.07 Capital Projects Levy	-	-	-
4.02 Scholarships	144,848	144,848	-	4.13 Building Projects Funded by COP	1,375,040	1,375,040	-
4.03 Staff Development	-	-	-	4.67 Long-term Facilities Maintenance	8,472,555	8,472,555	-
4.07 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
4.08 Cooperative Programs	-	-	-	4.64 Restricted fund balance	120,749	120,750	(1)
4.13 Project Funded by COP	-	-	-	<i>Unassigned:</i>			
4.14 Operating Debt	-	-	-	4.63 Unassigned fund balance	-	-	-
4.16 Levy Reduction	-	-	-				
4.17 Taconite Building Maintenance	-	-	-	<b>07 DEBT SERVICE FUND</b>			
4.24 Operating Capital	2,570,040	2,570,040	-	Total revenue	\$ 13,519,034	\$ 13,519,035	\$ (1)
4.26 \$25 Taconite	-	-	-	Total expenditures	14,843,952	14,843,953	(1)
4.27 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
4.28 Learning and Development	-	-	-	4.60 Nonspendable fund balance	-	-	-
4.34 Area Learning Center	823,514	823,514	-	<i>Restricted/reserved:</i>			
4.35 Contracted Alternative Programs	-	-	-	4.25 Bond refundings	73,497,275	73,497,275	-
4.36 State Approved Alternative Program	-	-	-	4.33 Maximum effort loan aid	-	-	-
4.38 Gifted and Talented	78,450	78,450	-	4.51 QZAB payments	-	-	-
4.40 Teacher Development and Evaluation	-	-	-	4.67 Long-term Facilities Maintenance	-	-	-
4.41 Basic Skills Programs	-	-	-	<i>Restricted:</i>			
4.48 Achievement and Integration	-	-	-	4.64 Restricted fund balance	2,749,649	2,749,650	(1)
4.49 Safe School Crime	-	-	-	<i>Unassigned:</i>			
4.51 QZAB Payments	-	-	-	4.63 Unassigned fund balance	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-				
4.53 Unfunded Severance and Retirement Levy	-	-	-	<b>08 TRUST FUND</b>			
4.59 Basic Skills - Extended Time	1,407,220	1,407,220	-	Total revenue	\$ -	\$ -	\$ -
4.67 Long-term Facilities Maintenance	(46,326)	(46,326)	-	Total expenditures	-	-	-
4.72 Medical Assistance	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				4.01 Student Activities	-	-	-
4.64 Restricted fund balance	-	-	-	4.02 Scholarships	-	-	-
4.75 Title VII - Impact Aid	-	-	-	4.22 Net position	-	-	-
4.76 PILT	-	-	-				
<i>Committed:</i>				<b>18 CUSTODIAL FUND</b>			
4.18 Committed for separation	-	-	-	Total revenue	\$ 280	\$ 280	\$ -
4.61 Committed	-	-	-	Total expenditures	280	280	-
<i>Assigned:</i>				<i>Unassigned:</i>			
4.62 Assigned fund balance	-	-	-	4.01 Student Activities	-	-	-
<i>Unassigned:</i>				4.02 Scholarships	-	-	-
4.22 Unassigned fund balance	17,694,584	17,694,583	1	4.48 Achievement and Integration	-	-	-
				4.64 Restricted fund balance	-	-	-
<b>02 FOOD SERVICE FUND</b>							
Total revenue	\$ 6,811,367	\$ 6,811,366	\$ 1	<b>20 INTERNAL SERVICE FUND</b>			
Total expenditures	6,968,133	6,968,134	(1)	Total revenue	\$ 16,867,459	\$ 16,867,458	\$ 1
<i>Nonspendable:</i>				Total expenditures	17,796,082	17,796,080	2
4.60 Nonspendable fund balance	87,592	87,592	-	<i>Unassigned:</i>			
<i>Restricted/reserved:</i>				4.22 Net position	10,721,983	10,721,984	(1)
4.52 OPEB liabilities not held in trust	-	-	-				
<i>Restricted:</i>				<b>25 OPEB REVOCABLE FUND</b>			
4.64 Restricted fund balance	2,099,142	2,099,139	3	Total revenue	\$ 571,795	\$ 571,795	\$ -
<i>Unassigned:</i>				Total Expenditures	1,301,233	1,301,233	-
4.63 Unassigned fund balance	-	-	-	<i>Unassigned:</i>			
				4.22 Net position	256,945	256,945	-
<b>04 COMMUNITY SERVICE FUND</b>							
Total revenue	\$ 6,885,427	\$ 6,885,427	\$ -	<b>45 OPEB IRREVOCABLE FUND</b>			
Total expenditures	7,227,327	7,227,327	-	Total revenue	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				Total expenditures	-	-	-
4.60 Nonspendable fund balance	7,601	7,601	-	<i>Unassigned:</i>			
<i>Restricted/reserved:</i>				4.22 Net position	-	-	-
4.26 \$25 Taconite	-	-	-				
4.31 Community Education	1,303,552	1,303,552	-	<b>47 OPEB DEBT SERVICE</b>			
4.32 ECFE	345,777	345,777	-	Total revenue	\$ -	\$ -	\$ -
4.40 Teacher Development and Evaluation	-	-	-	Total expenditures	-	-	-
4.44 School Readiness	967,217	967,217	-	<i>Nonspendable:</i>			
4.47 Adult Basic Education	431,145	431,145	-	4.60 Nonspendable fund balance	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-	<i>Restricted:</i>			
<i>Restricted:</i>				4.25 Bond refunding	-	-	-
4.64 Restricted fund balance	118,150	118,150	-	4.64 Restricted fund balance	-	-	-
<i>Unassigned:</i>				<i>Unassigned:</i>			
4.63 Unassigned fund balance	-	-	-	4.63 Unassigned fund balance	-	-	-



**Independent School District No. 742**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2023**

Federal Agency/Pass Through Agency/Program Title	Federal Assistance Listing Number	Expenditures
<b>U.S. Department of Agriculture</b>		
Through Minnesota Department of Education		
Child Nutrition Cluster		
School Breakfast Program	10.553	\$ 1,171,978
National School Lunch Program	10.555	3,748,204
Commodities (Noncash)	10.555	498,817
Special Milk	10.556	11,398
Fresh Fruit and Vegetable Program	10.582	189,582
Total Child Nutrition Cluster and U.S. Department of Agriculture		<u>5,619,979</u>
<b>U.S. Department of Treasury</b>		
Through Minnesota Department of Education		
COVID 19 - Coronavirus State and Local Fiscal Recovery Fund	21.027C	388,047
<b>Federal Communications Commission</b>		
Through Universal Service Administrative Co.		
Emergency Connectivity Fund Program	32.009	895,486
<b>U.S. Department of Education</b>		
Received Directly		
Indian Education Grants to Local Education Agencies	84.060	35,164
Through Minnesota Department of Education		
Adult Basic Education	84.002	139,906
Title I		
Title I, Part A	84.010	4,752,672
Title I, Part D	84.010A	175,030
Total Title I		<u>4,927,702</u>
Special Education Cluster		
Special Education	84.027	2,980,923
Disabled Early Education	84.173	116,305
COVID-19 - Individuals with Disabilities Education Act (IDEA)/American Rescue Plan Act of 2021 (ARP)	84.027X	389,883
COVID-19 - IDEA/ARP Act of 2021	84.173X	32,030
Total Special Education Cluster		<u>3,519,141</u>
Infants and Toddlers	84.181	97,500
COVID-19 - IDEA/ARP Act of 2021	84.181X	106,303
Total Infants and Toddlers		<u>203,803</u>
Education for Homeless Children and Youths	84.196	35,000
Title III, Part A - English Language Acquisition Grants	84.365	238,427
Title II, Part A - Supporting Effective Instruction State Grant	84.367	691,837
Title IV, Part A - Student Support and Academic Enrichment Grants	84.424	249,229
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	90,392
Education Stabilization Fund		
COVID-19 - Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	6,913,181
COVID 19 - ARP - ESSER	84.425U	12,304,668
COVID-19 - ARP - ESSER - Homeless Children and Youth	84.425W	55,296
COVID-19 - ARP - Anti-Bias Grant	84.425U	50,502
COVID-19 - ARP - Expanded Rigorous Coursework	84.425U	75,556
Total Education Stabilization Fund		<u>19,399,203</u>
Through Independent School District No. 966 - Wright Technical Center:		
Carl Perkins	84.048A	161,731
Total U.S. Department of Education		<u>29,691,535</u>
<b>U.S. Department of Health and Human Services</b>		
Through Minnesota Department of Education		
COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases	93.323	229,199
Total Federal Expenditures		<u>\$ 36,824,246</u>

See notes to schedule of expenditures of federal awards.

**Independent School District No. 742**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2023**

**NOTE 1 – BASIS OF PRESENTATION**

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3 – PASS-THROUGH GRANT NUMBERS**

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

**NOTE 4 – INVENTORY**

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

**NOTE 5 – INDIRECT COST RATE**

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

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**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. 742  
St. Cloud, 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. 742, St. Cloud, Minnesota, as of and for the year ending June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 30, 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance that we consider to be a significant deficiency in internal control, Audit Finding 2023-001.

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

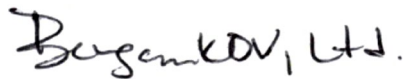
As part of obtaining reasonable assurance about whether the District's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

### **District's Response to the Finding**

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

### **Purpose of this Report**

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



St. Cloud, Minnesota  
October 30, 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. 742  
St. Cloud, Minnesota

**Report on Compliance for Each Major Federal Program**

**Opinion on Each Major Federal Program**

We have audited the District's 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 each of the District's major federal programs for the year ended June 30, 2023. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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

**Basis for Opinion on Each Major Federal Program**

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

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

**Responsibilities of Management for Compliance**

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

## **Auditor's Responsibilities for the Audit of Compliance**

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

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

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

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

## **Report on Internal Control over Compliance**

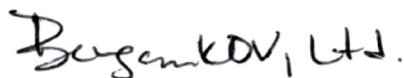
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

**Report on Internal Control over Compliance (Continued)**

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

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

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

A handwritten signature in black ink, appearing to read "Bugenkov, Ltd." with a stylized flourish at the end.

St. Cloud, Minnesota  
October 30, 2023



**Independent School District No. 742  
Schedule of Findings and Questioned Costs  
in Accordance with the Uniform Guidance**

**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

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

**Federal Awards**

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No
<b>Identification of Major Programs</b>	
Assistance Listing No.:	84.010, 84.010A
Name of Federal Program or Cluster:	Title I, Part A and Title I, Part D
Assistance Listing No.:	84.425D, 84.425U, 84.425W
Name of Federal Program or Cluster:	Education Stabilization Fund
Assistance Listing No.:	21.027C
Name of Federal Program or Cluster:	Coronavirus State and Local Fiscal Recovery Fund
Dollar threshold used to distinguish between type A and type B programs:	\$1,104,000
Auditee qualified as low risk auditee?	Yes

**Independent School District No. 742**  
**Schedule of Findings and Questioned Costs**  
**in Accordance with the Uniform Guidance**

**SECTION II – BASIC FINANCIAL STATEMENT FINDINGS**

**Audit Finding 2023-001**

*Criteria:*

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

*Condition:*

During the year ended June 30, 2023, the District had a lack of segregation of accounting duties due to a limited number of office employees. Examples of the lack of segregation of accounting duties include, but are not limited to the following:

- The Executive Director of Finance and Business Services has full access to the general ledger.
- Secretaries at the elementary schools and community education office receipt cash and prepare the deposit.
- The Business Services Bookkeeper receipts cash, posts amounts into the finance system, prepares the deposit, and makes the deposit.
- The Payroll Secretary enters timecard information into the system and processes payroll. The Accounting Coordinator reviews the payroll report and certain paper timecards. The Payroll Coordinator also reviews random selections of paper timecards to ensure information was entered correctly into the District's payroll system.

*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. 742  
Schedule of Findings and Questioned Costs  
in Accordance with the Uniform Guidance**

*Responsible Official's Response:*

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The District will continue to evaluate the benefits compared to the costs of increased internal controls.
3. Official Responsible for Ensuring CAP  
Amy Skaalerud, Executive Director of Finance and Business Services, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2024.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP by following up on these items as needed with the Executive Director of Finance and Business Services.

**Independent School District No. 742  
Schedule of Findings and Questioned Costs  
in Accordance with the Uniform Guidance**

**SCHEDULE III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**SCHEDULE IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

None

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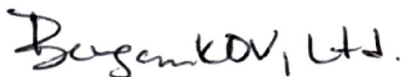
**Minnesota Legal Compliance****Independent Auditor's Report**

To the School Board  
Independent School District No. 742  
St. Cloud, 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. 742, St. Cloud, Minnesota, as of and for the year ended June 30, 2023, and the related notes to basic financial statements, and have issued our report thereon dated October 30, 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 was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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



St. Cloud, Minnesota  
October 30, 2023