

**Independent School District No. 2687  
Howard Lake-Waverly-Winsted, Minnesota**

**Basic Financial Statements**

**June 30, 2023**



**Independent School District No. 2687**  
**Table of Contents**

<b>Board of Education and Administration</b>	1
<b>Independent Auditor's Report</b>	2
<b>Management's Discussion and Analysis</b>	5
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements	
Balance Sheet – Governmental Funds	18
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	22
Notes to Basic Financial Statements	23
<b>Required Supplementary Information</b>	
Schedule of Changes in Total OPEB Liability and Related Ratios	58
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability – General Employees Retirement Fund	60
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability – TRA Retirement Fund	60
Schedule of District Contributions – General Employees Fund Retirement Fund	61
Schedule of District Contributions – TRA Retirement Fund	61
Notes to the Required Supplementary Information	62
<b>Supplementary Information</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	71
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	72
Uniform Financial Accounting and Reporting Standards Compliance Table	73
Schedule of Expenditures of Federal Awards	74
Notes to the Schedule of Expenditures of Federal Awards	75
<b>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 <i>Government Auditing Standards</i></b>	76

**Independent School District No. 2687  
Table of Contents**

<b>Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance</b>	78
<b>Schedule of Findings and Questioned Costs</b>	81
<b>Minnesota Legal Compliance</b>	84

**Independent School District No. 2687  
Board of Education and Administration  
June 30, 2023**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Michelle Heuer	Chairperson	December 31, 2024
Paul Bravinder	Vice Chairperson	December 31, 2024
Katie Koch	Clerk	December 31, 2026
Kelsey Puncochar	Treasurer	December 31, 2024
Shannah Mulvihill	Director	December 31, 2026
Ben Borrell	Director	December 31, 2026
Brian Marketon	Director	December 31, 2024
<u>Administration</u>		
Brad Sellner	Superintendent	

## Independent Auditor's Report

To the School Board  
Independent School District No. 2687  
Howard Lake-Waverly-Winsted, 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. 2687, Howard Lake-Waverly-Winsted, 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. 2687, as of June 30, 2023, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independent School District No. 2687 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. 2687 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.

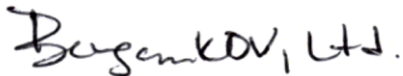
### **Supplementary Information**

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 November 7, 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  
November 7, 2023

## **Independent School District No. 2687 Management's Discussion and Analysis**

This section of Independent School District No. 2687's (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2023. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of a reporting model that is 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 established reporting requirements that include additional financial statements, expanded disclosure, and supplemental information, including the MD&A (this section).

Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A.

### **FINANCIAL HIGHLIGHTS – 2022-23**

- Governmental operating fund revenues were \$18,860,091, while governmental operating fund expenditures totaled \$19,759,490, resulting in a net change in fund balances of (\$899,399). These amounts do not include the Building Construction Fund or the Debt Service Fund.
- The Unassigned Fund Balance decreased \$759,676 in the General Fund and ended the year with a balance of \$377,948. The 2022-2023 school year was more normal than the previous years when the COVID-19 pandemic negatively affected enrollment and activities, and the 2022-23 enrollment was stronger than had been anticipated prior to the year starting. The school district had remaining federal funding which was allocated to help schools recover from lower revenue during the pandemic. The federal grants received and used for the 2022-23 school year were \$160,607. The funds were earmarked for additional programming to address learning loss or for certain other purposes. About \$25,500 of federal funds is available to be used in the 2023-24 school year. These funds have restricted uses and any expenses must be preapproved by MDE.
- The General Fund has other fund balance components besides the unassigned, and these include *restricted* and *assigned* fund balances. Compared to June 30, 2022, the *total* fund balance in the General Fund is lower by \$733,476. The nonspendable fund balance decreased by \$6,373. The restricted amount includes an increase in student activity funds of \$13,873; the operating capital fund balance decreased by \$246; and LTFM increased by \$18,948.
- The Food Service Fund balance decreased \$117,915 and has a fund balance of \$395,132. The decrease is due to the change from free meals that were reimbursed by the Federal Government to families having to pay for meals. Additional funds were used to help retain good staff and repair equipment at each building, as needed.
- The Community Service Fund balance decreased by \$48,008 and has a total fund balance of (\$80,101). The Community Service Fund program is continuing to rebound from the effects of the pandemic and less participation in class offerings, but some new programs and an all-day childcare program have been added. The hope is to boost the fund balance in future years as the programs build.
- Bonded indebtedness principal was paid in the amount of \$1,770,000.

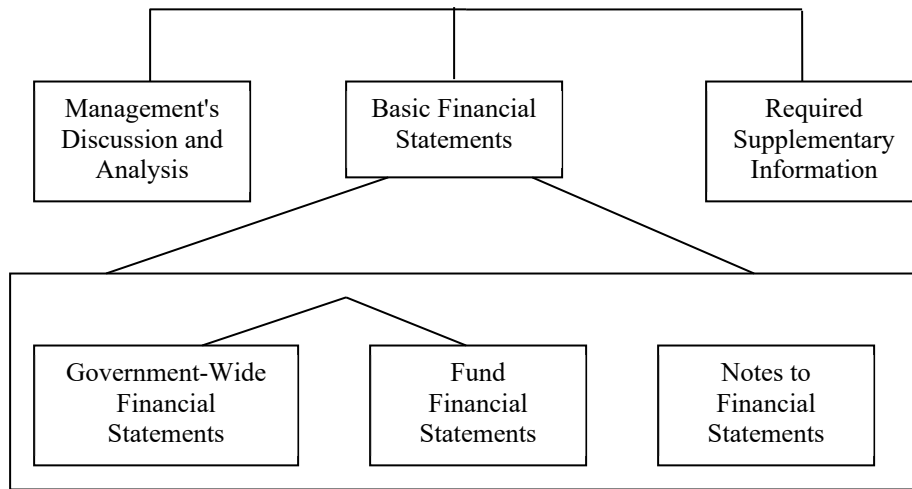
**Independent School District No. 2687  
Management's Discussion and Analysis**

**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, 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 government-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 government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. The diagram below shows how the various parts of this annual report are arranged and related to one another:



Summary < ----- > Detail

**Independent School District No. 2687  
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 on the following page. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

**Government-Wide Statements**

<b>Fund Financial Statements</b>		
	<b>Government-Wide Statements</b>	<b>Governmental Funds</b>
Scope	Entire District	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance.
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>
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial 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.
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.

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

## **Independent School District No. 2687 Management's Discussion and Analysis**

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

#### **Government-Wide Statements (Continued)**

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

- Over time, increases, or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating.
- 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 government-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 services, and community education. Property taxes and state aids finance most of these activities.

#### **Fund Financial Statements**

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

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

The District has one kind of fund:

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

**Independent School District No. 2687  
Management's Discussion and Analysis**

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

**Net Position**

The District's combined net position was (\$2,949,962) on June 30, 2023 (see details in Table A-1). This increased from (\$4,978,036) as of June 30, 2022.

**Table A-1**

	June 30,	
	2023	2022
<b>Assets and Deferred Outflows of Resources</b>		
Current and other assets	\$ 8,154,207	\$ 9,460,540
Capital assets	44,747,620	45,644,474
Deferred outflows of resources	3,609,882	4,283,221
Total assets and deferred outflows of resources	\$ 56,511,709	\$ 59,388,235
<b>Liabilities and Deferred Inflows of Resources</b>		
Current liabilities	\$ 4,632,522	\$ 4,497,496
Long-term liabilities	47,923,134	45,203,265
Deferred inflows of resources	6,906,015	14,665,510
Total liabilities and deferred inflows of resources	\$ 59,461,671	\$ 64,366,271
<b>Net Position</b>		
Net investment in capital assets	\$ 6,440,774	\$ 5,535,032
Restricted	704,319	795,279
Unrestricted	(10,095,055)	(11,308,347)
Total net position	\$ (2,949,962)	\$ (4,978,036)

**Change in Net Position**

The increase in net position occurred as a result of the District's revenues being more than its expenses for the fiscal year ended June 30, 2023. A summary of the revenue and expenses is presented in Table A-2 on the following page.

**Independent School District No. 2687  
Management's Discussion and Analysis**

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

**Change in Net Position (Continued)**

**Table A-2**

	June 30,	
	2023	2022
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 1,458,501	\$ 903,355
Operating grants and contributions	4,606,894	5,412,508
Capital grants and contributions	528,476	520,248
General revenues		
Property taxes	4,760,781	4,685,373
Aids and payments from state and other	10,382,357	9,675,692
Other sources	196,188	112,190
Total revenues	<u>21,933,197</u>	<u>21,309,366</u>
<b>Expenses</b>		
Administration	495,970	591,893
District support services	635,719	587,492
Regular instruction	6,469,071	7,046,832
Vocational education instruction	408,719	393,650
Special education instruction	2,443,054	2,521,499
Instructional support services	674,454	696,687
Pupil support services	2,318,994	2,093,436
Sites and buildings	3,100,833	2,853,045
Fiscal and other fixed costs	111,131	101,518
Food service	1,150,426	908,360
Community service	783,078	651,619
Interest and fiscal charges on long-term liabilities	1,313,674	1,397,085
Total expenses	<u>19,905,123</u>	<u>19,843,116</u>
Change in net position	2,028,074	1,466,250
<b>Net Position</b>		
Beginning	<u>(4,978,036)</u>	<u>(6,444,286)</u>
Ending	<u>\$ (2,949,962)</u>	<u>\$ (4,978,036)</u>

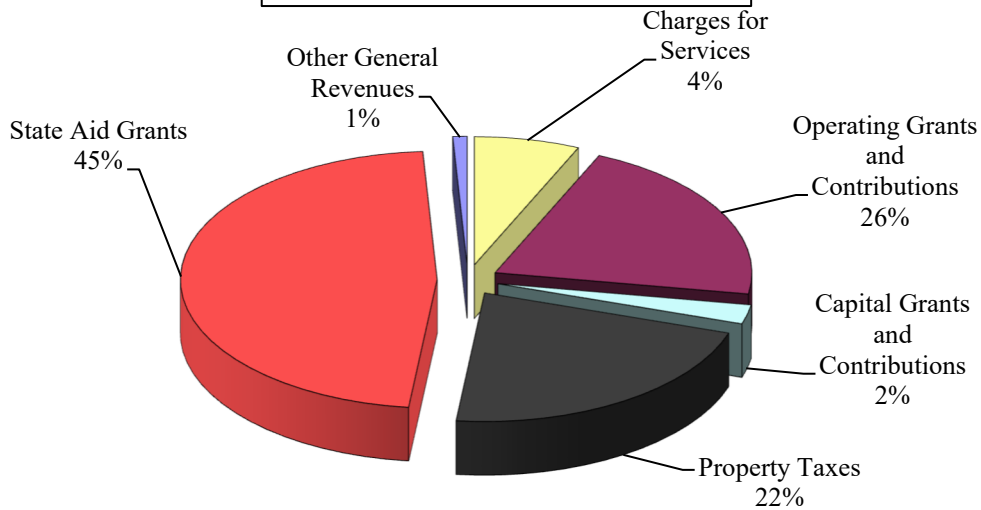
**Independent School District No. 2687  
Management's Discussion and Analysis**

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

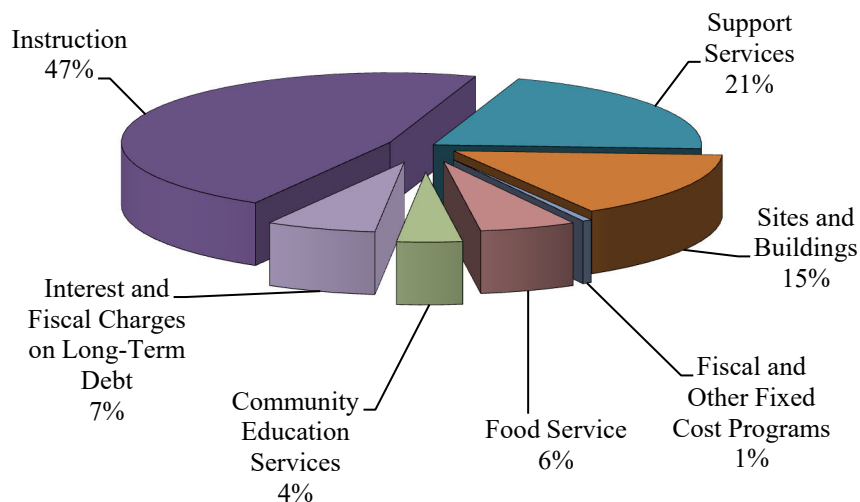
**Change in Net Position (Continued)**

The District's total revenue consisted of program revenues of \$6,593,871; property taxes of \$4,760,781; payments from the state aids of \$10,382,357; and \$196,188 from miscellaneous other sources. Expenses totaling \$19,905,123 consisted mainly of regular, vocational, and special instruction costs of \$9,367,626. Other areas of cost included: support services (District, administrative, instructional, and pupil) of \$4,078,355; sites, buildings, and equipment of \$3,100,833; fiscal and other fixed cost programs of \$111,131; food service of \$1,150,426; community education services of \$783,078; and interest and fiscal charges on long-term debt of \$1,313,674.

**Table A-3  
Sources of Revenues for 2022-2023**



**Table A-4  
Expenses for Fiscal Year 2022-2023**



**Independent School District No. 2687  
Management's Discussion and Analysis**

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

The net cost of governmental activities is their total costs less program revenues applicable to each category. Table A-5 presents these costs.

**Table A-5**

	June 30, 2023		June 30, 2022	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Administration	\$ 495,970	\$ (495,970)	\$ 591,893	\$ (591,893)
District support services	635,719	(635,719)	587,492	(587,492)
Regular instruction	6,469,071	(4,561,615)	7,046,832	(4,844,633)
Vocational education instruction	408,719	(388,391)	393,650	(353,795)
Special education instruction	2,443,054	(259,782)	2,521,499	(562,173)
Instructional support services	674,454	(417,597)	696,687	(446,083)
Pupil support services	2,318,994	(2,239,899)	2,093,436	(1,915,274)
Sites and buildings	3,100,833	(2,613,711)	2,853,045	(2,384,055)
Fiscal and other fixed costs	111,131	(111,131)	101,518	(101,518)
Food service	1,150,426	(122,508)	908,360	311,810
Community service	783,078	(151,255)	651,619	(134,814)
Interest and fiscal charges on long-term liabilities	1,313,674	(1,313,674)	1,397,085	(1,397,085)
Total	<u>\$ 19,905,123</u>	<u>\$ (13,311,252)</u>	<u>\$ 19,843,116</u>	<u>\$ (13,007,005)</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 \$1,504,524. This is a decrease of \$1,337,859 from the June 30, 2022, combined fund balance total, which was \$2,842,383. The decrease is mostly due to the increased cost of fuel, transportation, and utilities.

**Revenue and Expenditures**

Revenues of the District's governmental funds totaled \$21,926,392, while total expenditures were \$23,264,251. The expenditures included \$3,071,354 in bond and interest payments. The revenue and expenses are higher due to the additional funding from the federal government and extra costs due to the increased cost of supplies and services. A summary of the revenues and expenditures reported on the governmental fund financial statements follows.

**Independent School District No. 2687  
Management's Discussion and Analysis**

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

**Revenue and Expenditures (Continued)**

**Table A-6  
Revenues and Expenditures - Governmental Funds**

	Revenue	Expenditures	Excess of Revenues Over (Under) Expenditures
General	\$ 17,052,420	\$ 17,785,896	\$ (733,476)
Food service	1,031,878	1,149,793	(117,915)
Community service	775,793	823,801	(48,008)
Building construction	-	433,407	(433,407)
Debt service	3,066,301	3,071,354	(5,053)
Total	\$ 21,926,392	\$ 23,264,251	\$ (1,337,859)

**Fund Budgetary Highlights**

During the year ended June 30, 2023, the District revised its operating budget one time. A revision is always necessary since when the initial budget is prepared and adopted (a budget must be in place prior to the beginning of the fiscal year on July 1), details of student enrollments, staffing levels, and other significant information items are estimates. When these items become known, the budget is then revised. A similar revision is made each year for the same reasons.

*General Fund* – The District's final General Fund budget projected expenditures would exceed revenues by \$641,656. The actual result was \$733,476 expenditures over revenues. The District ended the year with higher ADM's than projected, but expenses were higher overall than was projected at the time the revised budget was approved. Costs were higher mainly in the areas of fuel, transportation, utilities, and snow removal. Student PSEO costs were also higher than budgeted.

*Food Service Fund* – The Food Service Fund saw a decrease of \$117,915 in the fund balance. The federal government mandated free meals to students in the 2021-22 school year, and districts were reimbursed for the meals through the government program. The free meal program did not carry through to 2022-23 and families had to pay for meals. This resulted in fewer meals and less reimbursement. The goal in the food service area is to at least break even, but with the large fund balance the district was able to increase pay to retain quality staff and repair equipment as needed at each building.

*Community Service Fund* – The fund balance in the Community Service Fund decreased by \$48,008. Community Education programs are trying to rebuild after being affected by COVID-19 as well as having a new director and new ECFE coordinator. The ECFE program has seen an increase in participation and growth. With the addition of the all-day Laker Care program in August there was added revenue. The Community Service Fund will continue to be closely monitored to increase the fund balance, as the main goal is to at least break even with the program.

## **Independent School District No. 2687 Management's Discussion and Analysis**

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

During fiscal year 2003, the District hired Industrial Appraisal to take a complete asset inventory. The process was completed in February 2003, which provided the District with a list of capital assets with a value of \$1,000 or more. Capital assets are now maintained on the District's financial software and additions and deletions are updated on a continual basis. Detailed information regarding the District's capital assets can be found in the notes to financial statements.

#### **Long-Term Debt**

At year-end, the District had \$38,315,379 of long-term debt, not including compensated absences payable or severance payable. The parts included in the above total are bonded indebtedness in the amount of \$33,934,917, capital notes of \$525,000 and financed purchase agreements payable of \$3,855,462. More detailed information regarding the District's long-term liabilities can be found in the notes to financial statements.

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

- Enrollment continues to be the main factor in calculating revenue for the District. Since Minnesota school districts are paid based on pupil units served, a decline in enrollment results in less revenue being received for operations and an increase in enrollment results in more revenue being received. The District makes a concerted effort each year to follow the enrollment and match their expenditures to the enrollment. In fiscal year 2023, the District continued these discussions. Enrollment is about 11 students higher for fiscal year 2024 compared to the prior year at this same time and is higher than was projected in the budget. Enrollment trends will be watched carefully in the future.
- The State Legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive. School districts received a 4% increase for 2023-24 and received another 2% increase for 2024-25.
- The District's taxpayers will be voting on a proposed operating levy on November 7, 2023. The school board is asking voters for \$600.00 per pupil on the ballot. (The current operating levy of \$55.24 expired at the end of the 2022-23 school year.) The operating levy revenue will provide the additional revenue needed to maintain current programs and class sizes. Without an operating levy the District will have to make further budget reductions that will affect staffing, programs and activities.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This report is designed to provide the District's citizens, taxpayers, customers, 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 any questions about this report or would like additional information, contact the District Office, HLWW ISD No. 2687, P.O. Box 708, Howard Lake, Minnesota, 55349.

## **BASIC FINANCIAL STATEMENTS**

**Independent School District No. 2687**  
**Statement of Net Position**  
**June 30, 2023**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 3,358,576
Cash with fiscal agent	8,533
Current property taxes receivable	2,563,795
Delinquent property taxes receivable	25,249
Accounts receivable	41,630
Due from Department of Education	1,671,837
Due from Federal Government through Department of Education	249,263
Due from other Minnesota school districts	67,917
Inventory	18,150
Prepaid items	14,070
Equity interest in joint venture	135,187
Capital assets not being depreciated	
Land	2,234,145
Capital assets being depreciated	
Land improvements	1,646,712
Buildings	54,951,233
Equipment and vehicles	1,863,237
Less accumulated depreciation	<u>(15,947,707)</u>
Total assets	<u>52,901,827</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to pensions	3,569,147
Deferred outflows of resources related to OPEB	40,735
Total deferred outflows of resources	<u>3,609,882</u>
Total assets and deferred outflows of resources	<u>\$ 56,511,709</u>
<b>Liabilities</b>	
Accounts payable	\$ 126,742
Salaries and benefits payable	1,519,863
Interest payable	532,600
Due to other Minnesota school districts	35,987
Unearned revenue	60,192
Loan payable	
Payable within one year	11,299
Bond principal payable	
Payable within one year	1,845,000
Payable after one year	32,089,917
Financed purchase agreements payable	
Payable within one year	409,714
Payable after one year	3,445,748
Capital note payable	
Payable within one year	58,000
Payable after one year	467,000
Compensated absences payable	
Payable within one year	33,125
Severance payable	
Payable after one year	125,285
Net pension liability	11,359,518
Total OPEB liability	435,666
Total liabilities	<u>52,555,656</u>
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent year's expenditures	4,735,164
Deferred inflows of resources related to pensions	2,021,004
Deferred inflows of resources related to OPEB	149,847
Total deferred inflows of resources	<u>6,906,015</u>
<b>Net Position</b>	
Net investment in capital assets	6,440,774
Restricted for	
Debt service	102,382
Other purposes	601,937
Unrestricted	<u>(10,095,055)</u>
Total net position	<u>(2,949,962)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 56,511,709</u>

**Independent School District No. 2687**  
**Statement of Activities**  
**Year Ended June 30, 2023**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental activities					
Administration	\$ 495,970	\$ -	\$ -	\$ -	\$ (495,970)
District support services	635,719	-	-	-	(635,719)
Elementary and secondary regular instruction	6,515,853	236,466	1,476,995	193,995	(4,608,397)
Vocational education instruction	408,719	16,591	3,737	-	(388,391)
Special education instruction	2,443,054	108,350	2,074,922	-	(259,782)
Instructional support services	627,672	59,801	197,056	-	(370,815)
Pupil support services	2,318,994	28,818	50,277	-	(2,239,899)
Sites and buildings	3,100,833	152,641	-	334,481	(2,613,711)
Fiscal and other fixed cost programs	111,131	-	-	-	(111,131)
Food service	1,150,426	434,281	593,637	-	(122,508)
Community education and services	783,078	421,553	210,270	-	(151,255)
Interest and fiscal charges on long-term debt	1,313,674	-	-	-	(1,313,674)
<b>Total governmental activities</b>	<b>\$ 19,905,123</b>	<b>\$ 1,458,501</b>	<b>\$ 4,606,894</b>	<b>\$ 528,476</b>	<b>(13,311,252)</b>
General revenues					
Taxes					
Property taxes, levied for general purposes					1,976,660
Property taxes, levied for community service					121,599
Property taxes, levied for debt service					2,662,522
State aid-formula grants					10,382,357
Other general revenues					109,592
Investment income					86,596
Total general revenues					<u>15,339,326</u>
Change in net position					2,028,074
Net position - beginning					<u>(4,978,036)</u>
Net position - ending					<u>\$ (2,949,962)</u>

See notes to basic financial statements.

**Independent School District No. 2687**  
**Balance Sheet - Governmental Funds**  
**June 30, 2023**

	General	Debt Service	Building Construction	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments	\$ 882,686	\$ 2,031,662	\$ -	\$ 444,228	\$ 3,358,576
Cash with fiscal agent	-	-	8,533	-	8,533
Current property taxes receivable	832,095	1,660,606	-	71,094	2,563,795
Delinquent property taxes receivable	9,918	14,663	-	668	25,249
Accounts receivable	34,237	-	-	7,393	41,630
Due from Department of Education	1,613,020	38,802	-	20,015	1,671,837
Due from Federal Government through Department of Education	221,049	-	-	28,214	249,263
Due from other Minnesota school districts	51,713	-	-	16,204	67,917
Inventory	-	-	-	18,150	18,150
Prepaid items	8,145	-	-	5,925	14,070
<b>Total assets</b>	<b>\$ 3,652,863</b>	<b>\$ 3,745,733</b>	<b>\$ 8,533</b>	<b>\$ 611,891</b>	<b>\$ 8,019,020</b>
<b>Liabilities</b>					
Accounts payable	\$ 116,680	\$ -	\$ -	\$ 10,062	\$ 126,742
Salaries and benefits payable	1,441,798	-	-	78,065	1,519,863
Loan payable	11,299	-	-	-	11,299
Due to other Minnesota school districts	35,987	-	-	-	35,987
Unearned revenue	-	-	-	60,192	60,192
<b>Total liabilities</b>	<b>1,605,764</b>	<b>-</b>	<b>-</b>	<b>148,319</b>	<b>1,754,083</b>
<b>Deferred Inflows of Resources</b>					
Property taxes levied for subsequent year's expenditures	1,476,540	3,110,751	-	147,873	4,735,164
Unavailable revenue - delinquent taxes	9,918	14,663	-	668	25,249
<b>Total deferred inflows of resources</b>	<b>1,486,458</b>	<b>3,125,414</b>	<b>-</b>	<b>148,541</b>	<b>4,760,413</b>
<b>Fund Balances</b>					
Nonspendable	8,145	-	-	24,075	32,220
Restricted	168,798	620,319	8,533	408,396	1,206,046
Assigned	5,750	-	-	-	5,750
Unassigned	377,948	-	-	(117,440)	260,508
<b>Total fund balances</b>	<b>560,641</b>	<b>620,319</b>	<b>8,533</b>	<b>315,031</b>	<b>1,504,524</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 3,652,863</b>	<b>\$ 3,745,733</b>	<b>\$ 8,533</b>	<b>\$ 611,891</b>	<b>\$ 8,019,020</b>

**Independent School District No. 2687**  
**Reconciliation of the Balance Sheet to**  
**the Statement of Net Position - Governmental Funds**  
**June 30, 2023**

Total fund balances - governmental funds	\$ 1,504,524
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	60,695,327
Less accumulated depreciation	(15,947,707)
Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current financial assets.	
Equity interest in joint venture - Wright Technical Center	135,187
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable	(33,290,000)
Premium on bonds payable	(644,917)
Financed purchase agreements payable	(3,855,462)
Capital note payable	(525,000)
Compensated absences payable	(33,125)
Severance payable	(125,285)
Total OPEB liability	(435,666)
Net pension liability	(11,359,518)
Deferred outflows of resources and deferred inflows of resources are created as a result of differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	3,569,147
Deferred inflows of resources related to pensions	(2,021,004)
Deferred outflows of resources and deferred inflows of resources are created as a result of differences related to OPEB that are not recognized in the governmental funds.	
Deferred outflows of resources related to OPEB	40,735
Deferred inflows of resources related to OPEB	(149,847)
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.	
	25,249
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	
	<u>(532,600)</u>
Total net position - governmental activities	<u>\$ (2,949,962)</u>

**Independent School District No. 2687**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2023**

	General	Debt Service	Building Construction	Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>					
Local property taxes	\$ 1,977,804	\$ 2,664,762	\$ -	\$ 121,689	\$ 4,764,255
Other local and county revenues	1,399,446	13,469	-	497,786	1,910,701
Revenue from state sources	13,275,810	388,070	-	205,619	13,869,499
Revenue from federal sources	399,360	-	-	548,296	947,656
Sales and other conversion of assets	-	-	-	434,281	434,281
Total revenues	<u>17,052,420</u>	<u>3,066,301</u>	<u>-</u>	<u>1,807,671</u>	<u>21,926,392</u>
<b>Expenditures</b>					
Current					
Administration	603,955	-	-	-	603,955
District support services	649,538	-	-	-	649,538
Elementary and secondary regular instruction	7,762,106	-	-	-	7,762,106
Vocational education instruction	490,538	-	-	-	490,538
Special education instruction	2,766,059	-	-	-	2,766,059
Instructional support services	558,306	-	-	-	558,306
Pupil support services	2,384,400	-	-	-	2,384,400
Sites and buildings	1,768,170	-	-	-	1,768,170
Fiscal and other fixed cost programs	111,131	-	-	-	111,131
Food service	-	-	-	1,134,099	1,134,099
Community education and services	644	-	-	823,801	824,445
Capital outlay					
Elementary and secondary regular instruction	36,649	-	-	-	36,649
Vocational education instruction	41,279	-	-	-	41,279
Instructional support services	87,123	-	-	-	87,123
Pupil support services	237	-	-	-	237
Sites and buildings	13,321	-	433,407	-	446,728
Food service	-	-	-	15,694	15,694
Debt service					
Principal	398,108	1,770,000	-	-	2,168,108
Interest and fiscal charges	114,332	1,301,354	-	-	1,415,686
Total expenditures	<u>17,785,896</u>	<u>3,071,354</u>	<u>433,407</u>	<u>1,973,594</u>	<u>23,264,251</u>
Excess of revenues under expenditures	(733,476)	(5,053)	(433,407)	(165,923)	(1,337,859)
<b>Fund Balances</b>					
Beginning of year	<u>1,294,117</u>	<u>625,372</u>	<u>441,940</u>	<u>480,954</u>	<u>2,842,383</u>
End of year	<u>\$ 560,641</u>	<u>\$ 620,319</u>	<u>\$ 8,533</u>	<u>\$ 315,031</u>	<u>\$ 1,504,524</u>

**Independent School District No. 2687  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances to  
the Statement of Activities - Governmental Funds  
Year Ended June 30, 2023**

Net change in fund balances - total governmental funds	\$ (1,337,859)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	423,059
Depreciation expense	(1,319,913)
Net income from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds.	
	18,653
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	
	(14,518)
Severance benefits are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	
	(3,741)
OPEB are recognized as they are paid in the governmental funds but are recognized as the expense in incurred in the Statement of Activities	
	(4,944)
Governmental funds recognize 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.	
	2,000,691
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 Net Position.	
	2,168,108
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.	
	34,117
Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	
	67,895
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.	
	<u>(3,474)</u>
Change in net position - governmental activities	<u>\$ 2,028,074</u>

**Independent School District No. 2687**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2023**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 1,897,324	\$ 1,897,524	\$ 1,977,804	\$ 80,280
Other local and county revenues	1,052,818	1,186,641	1,399,446	212,805
Revenue from state sources	12,835,843	12,985,749	13,275,810	290,061
Revenue from federal sources	272,026	461,177	399,360	(61,817)
Total revenues	<u>16,058,011</u>	<u>16,531,091</u>	<u>17,052,420</u>	<u>521,329</u>
<b>Expenditures</b>				
Current				
Administration	634,855	641,467	603,955	(37,512)
District support services	555,685	611,323	649,538	38,215
Elementary and secondary regular instruction	7,485,307	7,617,438	7,762,106	144,668
Vocational education instruction	405,011	452,645	490,538	37,893
Special education instruction	2,805,378	2,859,554	2,766,059	(93,495)
Instructional support services	498,946	550,237	558,306	8,069
Pupil support services	1,962,236	2,013,482	2,384,400	370,918
Sites and buildings	1,673,513	1,680,146	1,768,170	88,024
Fiscal and other fixed cost programs	103,548	102,190	111,131	8,941
Community education and services	-	-	644	644
Capital outlay				
Elementary and secondary regular instruction	26,925	33,525	36,649	3,124
Vocational education instruction	-	-	41,279	41,279
Instructional support services	100,000	84,000	87,123	3,123
Pupil support services	-	-	237	237
Sites and buildings	15,000	15,000	13,321	(1,679)
Debt service				
Principal	376,367	376,367	398,108	21,741
Interest and fiscal charges	135,373	135,373	114,332	(21,041)
Total expenditures	<u>16,778,144</u>	<u>17,172,747</u>	<u>17,785,896</u>	<u>613,149</u>
Excess of revenues under expenditures	<u>\$ (720,133)</u>	<u>\$ (641,656)</u>	(733,476)	<u>\$ (91,820)</u>
<b>Fund Balances</b>				
Beginning of year			<u>1,294,117</u>	
End of year			<u>\$ 560,641</u>	

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**A. Reporting Entity**

The 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.

**1. Joint Ventures**

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 10.

**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.

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

**Independent School District No. 2687**  
**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. 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. Major individual governmental funds are reported as separate columns in the fund financial 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner.

**1. Revenue Recognition**

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

**2. Recording of Expenditures**

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

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available, and applies unrestricted funds in this order: committed, assigned, and unassigned, with the exception that restricted, committed, or assigned fund balance spending may be deferred and unassigned resources spent first if fund balances need to be preserved to facilitate future expenditure plans.

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

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

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

**Description of Funds:**

Major Funds:

General Fund – This fund is the basic operating fund of the District and includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, and disabled accessibility projects.

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.

Building Construction Capital Projects Fund – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

Nonmajor Funds:

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.

**D. Deposits and Investments**

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

Cash and investments at June 30, 2023, were comprised of deposits, and shares in the Minnesota School District Liquid Asset Fund (MSDLAF).

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

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

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

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

**D. Deposits and Investments (Continued)**

In accordance with GASB Statement No. 79, the various MSDLAF securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF. 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.

**E. Property Tax Receivable**

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

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

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

**G. Inventory**

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

**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 an expenditure 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. Wright, McLeod, and Carver 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 financial statements.

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

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

**J. Capital Assets**

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

Capital assets are defined by the District as assets with an initial individual cost of more than \$3,000 with an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at its acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 15 years for equipment and 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. 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 related to pensions and deferred outflows of resources related to OPEB 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. 2687**  
**Notes to Basic Financial Statements**

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

**K. 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 years, 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 years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the Governmental Fund financial statements during the year for which they are levied, if available. The third item is a deferred inflows of resources related to pensions and is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. 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.

**L. Long-Term Obligations**

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

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

**M. Compensated Absences**

Vacation pay is earned at various rates by certain employees and accrued as compensated absences in the Statement of Net Position.

Substantially all employees are entitled to sick leave at various rates. Most employees are not compensated for unused sick leave upon a qualified termination of employment.

**N. Severance Benefits**

Severance benefits consist of lump sum retirement payments.

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

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

**N. Severance Benefits (Continued)**

Principals are eligible for severance pay upon retirement once he/she has completed five years of service with the District. Severance pay is equal to 35 days of pay. One additional day of severance pay shall be added for every year of employment thereafter.

**O. Pensions**

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

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

**P. Risk Management**

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

**Q. Fund Equity**

**1. Classification**

In the fund financial statements, governmental funds report various levels of spending constraints.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact and include prepaid items and inventory.
- Restricted Fund Balances – These are subject to externally enforceable legal restrictions set by either statute or creditors.
- Committed Fund Balances – These are amounts that can be used for specific purposes pursuant to the constraint imposed by the School Board, the highest level of decision making authority. Such designations will be approved by a majority vote of the School Board.

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

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

**Q. Fund Equity (Continued)**

**1. Classification (Continued)**

- Assigned Fund Balances – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. The School Board, by majority vote, may assign fund balances to be used for a specific purpose when appropriate. The board also delegates the power to assign fund balances to the Superintendent.
- Unassigned Fund Balances – These are amounts that represent 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.

**2. Minimum Fund Balance Policy**

The District will strive to construct an adequate unassigned General Fund balance of a minimum of 8% of the prior year's expenditures and a maximum of 20% of the prior year's expenditures. When the unassigned General Fund balance is projected to drop below 8%, the District shall initiate measures to generate additional revenue or reduce expenditures through a budget reduction or a combination of both. If there is a need to move below the set reserved minimum, the action must be temporary and the District must regain a minimum 8% fund balance by the close of the ensuing year. If there is a need to move above the set reserved maximum, the Finance Committee along with the School Board will develop a plan to spend down the excess fund balance in a manner that benefits the District and the increase must be approved by a majority vote of the School Board, stipulating the amount of the increase, and the duration of time it is to be maintained.

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

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

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

**Q. Fund Equity (Continued)**

**T. Budgetary Information**

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Prior to July 1, the School Board adopts an annual budget for the following year for the General, Food Service, Community Service, Building Construction, and Debt Service Funds. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Director of Finance and Operation submits to the School Board prior to July 1, a proposed operating budget for the year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Budget revisions are presented and approved by the School Board in the spring.

Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at a decentralized level.

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Deficit Fund Balance**

The Community Service Fund had a negative fund balance of \$80,101 at June 30, 2023.

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

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

**Custodial Credit Risk – Deposits:** This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* § 118.03 for an amount exceeding Federal Deposit Insurance Corporation (FDIC), SAIF, BIF, FCUA, or other federal deposit coverage. As of June 30, 2023, the District's bank balance was not exposed to custodial credit risk because it was properly insured and collateralized.

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**A. Deposits (Continued)**

The District's deposits had a book balance as listed below.

Checking - pooled	\$ 355,179
Cash with fiscal agent - checking - non-pooled	<u>8,533</u>
Total deposits	<u><u>\$ 363,712</u></u>

**B. Investments**

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

Investment Type	Type	Investment Maturity (In Years)		Ratings
		Fair Value	Less than 1 Year	
Pooled				
MSDLAF - Liquid Class	LAF	\$ 746,721	\$ 746,721	AAAm
MSDLAF - MAX Class	MAX	<u>2,254,751</u>	<u>2,254,751</u>	AAAm
Total		<u><u>\$ 3,001,472</u></u>	<u><u>\$ 3,001,472</u></u>	

**Credit Risk:** This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy refers to *Minnesota Statutes* §§ 118A.04 through 118A.05. *Minnesota Statutes* outline allowable investments. The District will minimize credit risk by limiting investments to those allowed by statutory constraints. As of June 30, 2023, the District's investments were rated as noted in the table above.

**Interest Rate Risk:** This is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District's investment policy states the portfolio shall be managed in a manner to attain a market rate of return through budgetary and economic cycles while preserving and protecting capital in the overall portfolio. Investment maturities shall be scheduled to coincide with projected cash flow needs.

**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 investments should be diversified to avoid incurring risks inherent in over investing to avoid over concentration in securities from a specific issuer or business sector, limiting investments in securities that have a high credit risk, investing in securities with varying maturities and investing a portion of the portfolio in readily available funds. The policy does not state the maximum percentage of the District's portfolio that may be invested in a single type of investment.

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

**NOTE 3 – 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 states all investments shall be held in third party safekeeping by an institution designated as custodial agent as defined under *Minnesota Statutes* § 118A.06.

Below is a summary of total deposits and investments:

Petty cash	\$ 1,925
Deposits (Note 2.A.)	363,712
Investments (Note 2.B.)	<u>3,001,472</u>
Total deposits and investments	<u><u>\$ 3,367,109</u></u>

Deposits and investments at June 30, 2023, are presented as follows:

Statement of Net Position	
Cash and investments	\$ 3,358,576
Cash w fiscal agent	<u>8,533</u>
Total	<u><u>\$ 3,367,109</u></u>

**Independent School District No. 2687**  
**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	\$ 2,234,145	\$ -	\$ -	\$ 2,234,145
Construction in progress	87,206	329,149	416,355	-
Total capital assets not being depreciated	<u>2,321,351</u>	<u>329,149</u>	<u>416,355</u>	<u>2,234,145</u>
Capital assets being depreciated				
Land improvements	1,646,712	-	-	1,646,712
Buildings	54,516,124	435,109	-	54,951,233
Equipment and vehicles	1,875,895	75,156	87,814	1,863,237
Total capital assets being depreciated	<u>58,038,731</u>	<u>510,265</u>	<u>87,814</u>	<u>58,461,182</u>
Less accumulated depreciation for				
Land improvements	581,074	76,988	-	658,062
Buildings	12,881,516	1,128,720	-	14,010,236
Equipment and vehicles	1,253,018	114,205	87,814	1,279,409
Total accumulated depreciation	<u>14,715,608</u>	<u>1,319,913</u>	<u>87,814</u>	<u>15,947,707</u>
Total capital assets being depreciated, net	<u>43,323,123</u>	<u>(809,648)</u>	<u>-</u>	<u>42,513,475</u>
Governmental activities, capital assets, net	<u>\$ 45,644,474</u>	<u>\$ (480,499)</u>	<u>\$ 416,355</u>	<u>\$ 44,747,620</u>

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

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

Depreciation expense of \$1,319,913 for the year ended June 30, 2023, was charged to the following governmental functions:

District support services	\$ 445
Elementary and secondary regular instruction	35,624
Vocational education instruction	1,430
Special education instruction	1,074
Instructional support services	35,856
Pupil support services	5,823
Sites and buildings	1,230,749
Food service	8,912
	<u>8,912</u>
Total depreciation expense	<u><u>\$ 1,319,913</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						
2014A School Building Bonds	01/29/14	4.00%-4.25%	\$ 21,315,000	02/01/37	\$ 18,330,000	\$ 405,000
2014B School Building Refunding Bonds	12/30/14	2.00%-4.00%	22,360,000	02/01/32	13,910,000	1,360,000
2017A G.O. Facilities Maintenance Bonds	03/09/17	1.35%-2.85%	1,345,000	02/01/32	1,050,000	80,000
Total G.O. bonds					<u>33,290,000</u>	<u>1,845,000</u>
Bond premium					644,917	-
2021A G.O. Capital Notes	12/29/21	1.35%	525,000	08/01/31	525,000	58,000
Financed purchase agreements from direct borrowing					3,855,462	409,714
Compensated absences payable					33,125	33,125
Severance payable					125,285	-
					<u>38,473,789</u>	<u>2,345,839</u>
Total long-term liabilities					<u><u>\$ 38,473,789</u></u>	<u><u>\$ 2,345,839</u></u>

Long-term bond and loan liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. Other long-term liabilities such as lease purchase agreements, severance, and compensated absences payable are typically liquidated through the General Fund.

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

**NOTE 5 – LONG-TERM DEBT**

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

On May 19, 2015, the District entered into a financed purchase agreement related to the MAWSECO building. The agreement obligation and corresponding building totaled \$2,962,500. The agreement includes semi-annual principal payments of \$121,790.

On August 26, 2020, the District entered into a financed purchase agreement for the acquisition of modular classrooms. The agreement obligation and corresponding equipment totaled \$168,000. The agreement includes monthly principal payments of \$3,500.

On November 20, 2020, the District entered into a financed purchase agreement related to a gymnasium. The agreement obligation and corresponding building totaled \$1,927,100. The agreement includes semi-annual principal and interest payments of \$79,011.

On December 1, 2021, the District entered into a financed purchase agreement for the acquisition of farm site land. The agreement obligation and corresponding equipment totaled \$590,700. The agreement includes semi-annual principal and interest payments of \$34,068.

**B. Minimum Debt Payments for Bonds and Lease Purchase Agreement**

Minimum annual principal and interest payments required to retire bond, capital note, and lease purchase agreement liabilities:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2024	\$ 1,845,000	\$ 1,218,486	\$ 3,063,486
2025	1,930,000	1,142,316	3,072,316
2026	1,995,000	1,080,974	3,075,974
2027	2,065,000	1,017,524	3,082,524
2028	2,140,000	951,629	3,091,629
2029-2033	11,860,000	3,674,511	15,534,511
2034-2037	11,455,000	1,231,165	12,686,165
Total	<u>\$ 33,290,000</u>	<u>\$ 10,316,605</u>	<u>\$ 43,606,605</u>

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

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

**B. Minimum Debt Payments for Bonds and Lease Purchase Agreement (Continued)**

Year Ending June 30,	G.O. Capital Notes		
	Principal	Interest	Total
2024	\$ 58,000	\$ 6,892	\$ 64,892
2025	58,000	6,109	64,109
2026	58,000	5,326	63,326
2027	60,000	4,536	64,536
2028	60,000	3,726	63,726
2029-2032	231,000	6,554	237,554
Total	<u>\$ 525,000</u>	<u>\$ 33,143</u>	<u>\$ 558,143</u>

Year Ending June 30,	Financed Purchase Agreements from Direct Borrowing		
	Principal	Interest	Total
2024	\$ 409,714	\$ 102,024	\$ 511,738
2025	387,811	91,728	479,539
2026	388,596	81,143	469,739
2027	399,478	70,261	469,739
2028	410,665	59,074	469,739
2029-2033	1,406,361	143,455	1,549,816
2034-2036	452,837	21,231	474,068
Total	<u>\$ 3,855,462</u>	<u>\$ 568,916</u>	<u>\$ 4,424,378</u>

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

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	\$ 35,606,000	\$ -	\$ 1,770,000	\$ 33,290,000
Bond Premium	712,812	-	67,895	644,917
Capital Notes	525,000	-	-	525,000
Financed purchase agreements from direct borrowing	4,253,570	-	398,108	3,855,462
Compensated absences payable	18,607	85,072	70,554	33,125
Severance payable	121,544	3,741	-	125,285
Total Long-term liabilities	<u>\$ 40,691,533</u>	<u>\$ 88,813</u>	<u>\$ 2,306,557</u>	<u>\$ 38,473,789</u>

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

**NOTE 6 – FUND BALANCES**

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

**A. Fund Balance**

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

	General Fund	Debt Service Fund	Building Construction Fund	Nonmajor Funds	Total
Nonspendable for					
Inventory	\$ -	\$ -	\$ -	\$ 18,150	\$ 18,150
Prepaid items	8,145	-	-	5,925	14,070
Total nonspendable	<u>8,145</u>	<u>-</u>	<u>-</u>	<u>24,075</u>	<u>32,220</u>
Restricted/reserved for					
Student Activities	121,167	-	-	-	121,167
Long-term Facilities Maintenance	47,631	-	-	-	47,631
Debt Service	-	620,319	-	-	620,319
Building Construction	-	-	8,533	-	8,533
Food Service	-	-	-	372,414	372,414
Early Childhood and Family Education (ECFE)	-	-	-	28,142	28,142
Community Service	-	-	-	7,840	7,840
Total restricted/reserved	<u>168,798</u>	<u>620,319</u>	<u>8,533</u>	<u>408,396</u>	<u>1,206,046</u>
Assigned for Acts of Kindness	3,271	-	-	-	3,271
Assigned for Letter Club	2,479	-	-	-	2,479
Total assigned	<u>5,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,750</u>
Unassigned for Community Education	-	-	-	(98,378)	(98,378)
Unassigned for School Readiness	-	-	-	(19,062)	(19,062)
Unassigned	377,948	-	-	-	377,948
Total unassigned	<u>377,948</u>	<u>-</u>	<u>-</u>	<u>(117,440)</u>	<u>260,508</u>
Total fund balance	<u>\$ 560,641</u>	<u>\$ 620,319</u>	<u>\$ 8,533</u>	<u>\$ 315,031</u>	<u>\$ 1,504,524</u>

Nonspendable for Inventory – A portion of the fund balance has been spent on inventory and is not available for other uses.

Nonspendable for Prepaid Items – A portion of the fund balance has been spent on prepaid items and is not available for other uses.

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).

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

**NOTE 6 – FUND BALANCES (CONTINUED)**

**A. Fund Balance (Continued)**

Restricted for Debt Service – This balance represents resources available for payment of G.O. bond principal, interest, and related costs.

Restricted for Building Construction – This balance represents resources available for payment of building construction costs.

Restricted for Food Service – This balance represents resources available for payment of food service costs.

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

Restricted/Reserved for Community Service – This balance represents the remaining positive fund balance of the Community Service Fund that is not restricted for other purposes.

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, and extended day programs. This balance in the Community Service Fund was in deficit at June 30, 2023, and has been reclassified as an unassigned balance for financial statement presentation.

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* § 124D.16). This balance in the Community Service Fund was in deficit at June 30, 2022, and has been reclassified as an unassigned balance for financial statement presentation.

Unassigned amounts represent resources available to meet current and future year's expenditures.

**B. Net Position**

Net position restricted for other purposes is comprised of the total positive General Fund restricted/reserved fund balances plus the positive net position in the Food Service and Community Service Funds.

**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 (\$1,081,397). The components of pension expense are noted in the following plan summaries.

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

**Independent School District No. 2687  
Notes to Basic Financial Statements**

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

**Teachers' Retirement Association**

**A. Plan Description**

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

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

**B. Benefits Provided**

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

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

*Tier I Benefits*

Tier I	Step Rate Formula	Percentage
Basic	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).

**Independent School District No. 2687  
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*

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

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

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:

	<u>June 30, 2021</u>		<u>June 30, 2022</u>		<u>June 30, 2023</u>	
	<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%

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.

**Independent School District No. 2687**  
**Notes to Basic Financial Statements**

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

**C. Contribution Rate (Continued)**

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

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>

**Independent School District No. 2687  
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

**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.

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 table on the following page.

**Independent School District No. 2687  
Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

<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).

**F. Net Pension Liability**

On June 30, 2023, the District reported a liability of \$8,904,308 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.1112% at the end of the measurement period and 0.1129% for the beginning of the year.

**Independent School District No. 2687  
Notes to Basic Financial Statements**

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

**Teachers' Retirement Association (Continued)**

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

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	\$ 8,904,308
State's proportionate share of the net pension liability associated with the District	660,501

For the year ended June 30, 2023, the District recognized pension expense of (\$1,420,639). Included in this amount, the District recognized \$90,821 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 economic experience	\$ 127,045	\$ 77,907
Changes in actuarial assumptions	1,448,078	1,828,411
Net collective difference between projected and actual investments earnings	186,467	-
Change in proportion	343,522	78,746
Contributions paid to TRA subsequent to the measurement date	615,319	-
Total	\$ 2,720,431	\$ 1,985,064

The \$615,319 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. 2687  
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:

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2024	\$ (1,487,674)
2025	264,746
2026	127,263
2027	1,221,831
2028	<u>(6,118)</u>
Total	<u>\$ 120,048</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.

<u>District proportionate share of NPL</u>		
<u>1% Decrease in Discount Rate (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase in Discount Rate (8.0%)</u>
\$ 14,037,156	\$ 8,904,308	\$ 4,696,972

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. 2687**  
**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 plans are 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. 2687  
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 \$202,402. The District's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

General Employees Fund Pension Costs

At June 30, 2023, the District reported a liability of \$2,455,210 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 \$71,960.

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 0.0310% at the end of the measurement period and 0.0308% for the beginning of the period.

School's proportionate share of net pension liability	\$ 2,455,210
State of Minnesota's proportionate share of the net pension liability associated with the School	<u>71,960</u>
Total	<u><u>\$ 2,527,170</u></u>

For the year ended June 30, 2023, the District recognized pension expense of \$339,242 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$10,752 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. 2687**  
**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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 20,508	\$ 26,050
Changes in actuarial assumptions	552,182	9,890
Net collective difference between projected and actual investment earnings	47,635	-
Changes in proportion	25,989	-
Contributions paid to PERA subsequent to the measurement date	<u>202,402</u>	<u>-</u>
Total	<u><u>\$ 848,716</u></u>	<u><u>\$ 35,940</u></u>

The \$202,402 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:

<u>Year Ended June 30,</u>	<u>Pension Expense</u>
2024	\$ 234,716
2025	227,714
2026	(74,092)
2027	<u>222,036</u>
Total	<u><u>\$ 610,374</u></u>

**Independent School District No. 2687  
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 Expected Real Rate of Return</u>
Domestic equity	35.5 %	5.10 %
International equity	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	<u>100.0 %</u>	

**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.

**Independent School District No. 2687  
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)**

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

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

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

	1% Decrease in Discount Rate (5.5%)	Current Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
District's proportionate share of the PERA net pension liability	\$ 3,878,133	\$ 2,455,210	\$ 1,288,194

**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 financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**Independent School District No. 2687  
Notes to Basic Financial Statements**

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

**A. Plan Description**

The District provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The plan offers medical coverage. Medical coverage is administered by BlueCross BlueShield. 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. No assets are acclimated in a trust.

**B. Benefits Provided**

The District provides benefits to certain employees and retirees based on different bargaining groups. The General Fund, Food Service Fund and Community Service Fund typically liquidate the Liability related to OPEB.

**C. Members**

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

Retirees currently receiving benefits	2
Active employees	154
	<hr/>
Total	156
	<hr/> <hr/>

**D. Contributions**

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Blue Cross Blue Shield. The required contributions are based on projected pay-as-you-go financing requirements. For the fiscal year 2023, the District contributed \$18,952 to the plan.

**Independent School District No. 2687  
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 July 1, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

---

Discount rate	3.80%
Salary increases	Service graded table
Inflation	2.50%
Medical trend rate	6.25% in 2022 grading to 5.00% over five years and then 4.00% over the next 48 years
Mortality Assumption	Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale

The actuarial assumptions used in the valuation measured as of July 1, 2022, were based on the results of an actuarial experience study for the period July 1, 2021 to July 1, 2022.

The discount rate used to measure the total OPEB liability was 3.8% using the 20-year municipal bond yield.

**F. Total OPEB Liability**

The District's total OPEB liability of \$435,666 was measured as of July 1, 2022, and was determined by an actuarial valuation as of July 1, 2021.

**Independent School District No. 2687**  
**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:

	<u>Total OPEB Liability</u>
Balances at July 1, 2022	\$ 441,606
Changes for the year	
Service cost	43,276
Interest cost	10,003
Assumption changes	(42,017)
Benefit payments	<u>(17,202)</u>
Net changes	<u>(5,940)</u>
Balances at June 30, 2023	<u><u>\$ 435,666</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.1% in 2022 to 3.8% in 2022 and a change in the inflation rate from 2.0% in 2022 to 2.5% in 2023.

**G. OPEB Liability Sensitivity**

The following presents the District's total OPEB liability calculated using the discount rate of 3.8% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

<u>Total OPEB Liability</u>		
<u>1% Decrease in Discount Rate (2.8%)</u>	<u>Current in Discount Rate (3.8%)</u>	<u>1% Increase in Discount Rate (4.8%)</u>
\$ 467,219	\$ 435,666	\$ 405,494

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.

**Independent School District No. 2687  
Notes to Basic Financial Statements**

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

**G. OPEB Liability Sensitivity (Continued)**

Total OPEB Liability		
1% Decrease (5.25% Decreasing to 4.00%)	Current (6.25% Decreasing to 5.00%)	1% Increase (7.25% Decreasing to 6.00%)
\$ 382,552	\$ 435,666	\$ 499,521

**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 \$23,701. 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
Liability gains	\$ -	\$ 106,024
Assumption changes	21,783	43,823
Contributions subsequent to the measurement date	18,952	-
Total	\$ 40,735	\$ 149,847

**Independent School District No. 2687  
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 (Continued)**

The \$18,952 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2024. Remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ended	Total
2024	\$ (29,578)
2025	(29,578)
2026	(29,578)
2027	(15,479)
2028	(17,852)
Thereafter	(5,999)
Total	\$ (128,064)

**NOTE 9 – JOINT POWERS AGREEMENT**

The District entered into a joint powers agreement in February 1998 with Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, between and among eight other independent school districts and to finance the acquisition and betterment of the addition to the existing WTC facilities.

The addition is being financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost.

Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North, Buffalo, Minnesota 55313-1936.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Independent School District No. 2687**  
**Schedule of Changes in Total OPEB Liability**  
**and Related Ratios**

	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2020</u>
Total OPEB Liability			
Service cost	\$ 40,741	\$ 41,963	\$ 41,485
Interest cost	15,838	16,557	17,096
Differences between expected and actual experience	-	-	(80,514)
Assumption changes	-	-	(18,221)
Plan changes	-	-	83,814
Benefit payments	<u>(41,519)</u>	<u>(31,706)</u>	<u>(52,825)</u>
Net change in total OPEB liability	<u>15,060</u>	<u>26,814</u>	<u>(9,165)</u>
Beginning of year	<u>445,661</u>	<u>460,721</u>	<u>487,535</u>
End of year	<u>\$ 460,721</u>	<u>\$ 487,535</u>	<u>\$ 478,370</u>
Covered payroll	\$ 7,092,769	\$ 7,305,552	\$ 7,359,163
Total OPEB liability as a percentage of covered-employee payroll	6.50%	6.67%	6.50%

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

<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2023</u>
\$ 47,233	\$ 53,893	\$ 43,276
15,762	12,787	10,003
-	(100,126)	-
16,640	17,189	(42,017)
-	23,844	-
<u>(34,589)</u>	<u>(89,197)</u>	<u>(17,202)</u>
<u>45,046</u>	<u>(81,610)</u>	<u>(5,940)</u>
<u>478,370</u>	<u>523,416</u>	<u>441,606</u>
<u>\$ 523,416</u>	<u>\$ 441,806</u>	<u>\$ 435,666</u>
\$ 7,579,938	\$ 7,922,809	\$ 8,160,493
6.91%	5.58%	5.34%

**Independent School District No. 2687**  
**Schedule of District's and Non-Employer Proportionate Share**  
**of Net Pension Liability - General Employees Retirement Fund**  
**Last Ten Years**

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0380%	\$ 1,785,050	\$ -	\$ 1,785,050	\$ 1,997,503	89.4%	78.8%
2016	0.0362%	1,876,072	-	1,876,072	2,090,893	89.7%	78.2%
2017	0.0354%	2,874,304	37,474	2,911,778	2,194,080	131.0%	68.9%
2018	0.0333%	2,125,850	26,705	2,152,555	2,143,160	99.2%	75.9%
2019	0.0306%	1,697,563	55,677	1,753,240	2,058,053	82.5%	79.5%
2020	0.0295%	1,630,989	50,664	1,681,653	2,089,747	78.0%	80.2%
2021	0.0307%	1,840,605	56,853	1,897,458	2,191,947	84.0%	79.1%
2022	0.0308%	1,315,298	40,242	1,355,540	2,220,120	59.2%	87.0%
2023	0.0310%	2,455,210	71,960	2,527,170	2,322,253	105.7%	76.7%

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**  
**of Net Pension Liability - TRA Retirement Fund**  
**Last Ten Years**

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.1006%	\$ 4,635,576	\$ 326,176	\$ 4,961,752	\$ 4,590,543	101.0%	81.5%
2016	0.0951%	5,882,876	721,828	6,604,704	4,828,120	121.8%	76.8%
2017	0.1003%	23,923,943	2,402,047	26,325,990	5,216,187	458.6%	44.9%
2018	0.1059%	21,139,561	2,042,842	23,182,403	5,699,213	370.9%	51.6%
2019	0.1079%	6,777,130	636,530	7,413,660	5,962,987	113.7%	78.1%
2020	0.1071%	6,826,576	604,245	7,430,821	6,080,752	112.3%	78.2%
2021	0.1076%	7,949,632	666,104	8,615,736	6,255,328	127.1%	75.5%
2022	0.1129%	4,940,842	416,630	5,357,472	6,756,740	73.1%	86.6%
2023	0.1112%	8,904,308	660,501	9,564,809	6,875,348	129.5%	76.2%

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

**Independent School District No. 2687  
Schedule of District Contributions  
General Employees Retirement Fund  
Last Ten Years**

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 144,819	\$ 144,819	\$ -	\$ 1,997,503	7.25%
2015	156,817	156,817	-	2,090,893	7.50%
2016	164,556	164,556	-	2,194,080	7.50%
2017	160,737	160,737	-	2,143,160	7.50%
2018	154,354	154,354	-	2,058,053	7.50%
2019	156,731	156,731	-	2,089,747	7.50%
2020	164,396	164,396	-	2,191,947	7.50%
2021	166,509	166,509	-	2,220,120	7.50%
2022	174,169	174,169	-	2,322,253	7.50%
2023	202,402	202,402	-	2,698,693	7.50%

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

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 321,338	\$ 321,338	\$ -	\$ 4,590,543	7.00%
2015	362,109	362,109	-	4,828,120	7.50%
2016	391,214	391,214	-	5,216,187	7.50%
2017	427,441	427,441	-	5,699,213	7.50%
2018	447,224	447,224	-	5,962,987	7.50%
2019	468,826	468,826	-	6,080,752	7.71%
2020	495,422	495,422	-	6,255,328	7.92%
2021	549,323	549,323	-	6,756,740	8.13%
2022	573,404	573,404	-	6,875,348	8.34%
2023	615,319	615,319	-	7,196,713	8.55%

**Independent School District No. 2687**  
**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% 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. 2687**  
**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.

**Independent School District No. 2687**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund (Continued)**

**2015 Changes**

Changes of Benefit Terms

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

Changes in Actuarial Assumptions

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

**Independent School District No. 2687**  
**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. 2687**  
**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 changes prospectively, requiring \$16 million due per year through 2031.

**2018 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2017 Changes**

Changes in Actuarial Assumptions

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

**Independent School District No. 2687**  
**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 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.

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.

**Independent School District No. 2687**  
**Notes to the Required Supplementary Information**

**Post Employment Health Care Plan**

The District does not have any asset set aside in a trust fund to fund this liability.

**2022 Changes**

Assumption Changes

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

**2021 Changes**

Assumption Changes

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale.
- The salary increase rates for non-teachers were updated to reflect the latest experience study.
- The withdrawal rates were updated to reflect the latest experience study.
- The inflation rate was changed from 2.50% to 2.00%.
- The discount rate was changed from 2.40% to 2.10%.

Plan Changes

- The Superintendent's severance benefit was changed from 30 to 35 days times daily rate of pay at retirement which is payable as a lump sum to a VEBA/HRA account.
- Per a memorandum of understanding, the Community Education Director received a lump sum payment of \$22,500 payable to a VEBA/HRA account during the fiscal year ending June 30, 2021.

**2020 Changes**

Assumption Changes

- The discount rate was changed from 3.10% to 2.40%.

**2019 Changes**

Assumption Changes

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 3.40% to 3.10%.

Plan Changes

- Two teachers who retired during June 2019 received a one-time contribution of \$15,000 to a VEBA/HRA account.

**Independent School District No. 2687**  
**Notes to the Required Supplementary Information**

**Post Employment Health Care Plan (Continued)**

**2019 Changes (Continued)**

Plan Changes (Continued)

- Teachers who will retire by June 30, 2021, after attaining age 55 with 15 years of service (10 years with the District) will receive a one-time contribution of \$15,000 to a VEBA/HRA.

**2018 Changes**

None

**2017 Changes**

Assumption Changes

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2000 Combined Healthy Mortality Tables projected to 2014 with scale BB to the RP-2014 White Collar Mortality Tables (de-trended to 2006) and then projected beyond the valuation date using scale MP-2016.
- The discount rate was changed from 4.00% to 3.40%.
- The withdrawal table for all employees and retirement table for only employees eligible to retire with Rule of 90 also were updated.
- The percentage of future retirees who are assumed to continue on one of the District's medical plans post-employment was changed as follows:
  - The percentage was increased from 0% to 20% for Food Served employees and from 50% to 60% for the Superintendent.
  - The percentage was decreased from 25% to 20% for Paraprofessionals and from 65% to 60% for All Other employees.

Method Changes

- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

**SUPPLEMENTARY INFORMATION**

**Independent School District No. 2687**  
**Combining Balance Sheet -**  
**Nonmajor Governmental Funds**  
**June 30, 2023**

	Special Revenue Funds		Total Nonmajor Funds
	Food Service	Community Service	
<b>Assets</b>			
Cash and investments	\$ 382,543	\$ 61,685	\$ 444,228
Current property taxes receivable	-	71,094	71,094
Delinquent property taxes receivable	-	668	668
Accounts receivable	474	6,919	7,393
Due from Department of Education	3,399	16,616	20,015
Due from other Minnesota school districts	1,880	14,324	16,204
Due from federal government			
Through department of education	28,214	-	28,214
Inventory	18,150	-	18,150
Prepaid items	4,568	1,357	5,925
	<u>\$ 439,228</u>	<u>\$ 172,663</u>	<u>\$ 611,891</u>
<b>Liabilities</b>			
Accounts payable	\$ 3,597	\$ 6,465	\$ 10,062
Salaries and benefits payable	20,766	57,299	78,065
Unearned revenue	19,733	40,459	60,192
Total liabilities	<u>44,096</u>	<u>104,223</u>	<u>148,319</u>
<b>Deferred Inflows of Resources</b>			
Property taxes levied for subsequent year's expenditures	-	147,873	147,873
Unavailable revenue - delinquent taxes	-	668	668
Total deferred inflows of resources	<u>-</u>	<u>148,541</u>	<u>148,541</u>
<b>Fund Balances</b>			
Nonspendable	22,718	1,357	24,075
Restricted	372,414	35,982	408,396
Unassigned	-	(117,440)	(117,440)
Total fund balances	<u>395,132</u>	<u>(80,101)</u>	<u>315,031</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 439,228</u>	<u>\$ 172,663</u>	<u>\$ 611,891</u>

**Independent School District No. 2687  
Combining Statement of Revenues,  
Expenditures, and Changes in Fund Balances -  
Nonmajor Governmental Funds  
Year Ended June 30, 2023**

	<u>Special Revenue Funds</u>		Total Nonmajor Funds
	<u>Food Service</u>	<u>Community Service</u>	
<b>Revenues</b>			
Local property taxes	\$ -	\$ 121,689	\$ 121,689
Other local and county revenues	3,960	493,826	497,786
Revenue from state sources	45,341	160,278	205,619
Revenue from federal sources	548,296	-	548,296
Sales and other conversion of assets	434,281	-	434,281
Total revenues	<u>1,031,878</u>	<u>775,793</u>	<u>1,807,671</u>
<b>Expenditures</b>			
Current			
Food service	1,134,099	-	1,134,099
Community education and services	-	823,801	823,801
Capital outlay			
Food service	15,694	-	15,694
Total expenditures	<u>1,149,793</u>	<u>823,801</u>	<u>1,973,594</u>
Excess of revenues over (under) expenditures	(117,915)	(48,008)	(165,923)
<b>Fund Balances</b>			
Beginning of year	<u>513,047</u>	<u>(32,093)</u>	<u>480,954</u>
End of year	<u>\$ 395,132</u>	<u>\$ (80,101)</u>	<u>\$ 315,031</u>

**Independent School District No. 2687**  
**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	\$ 17,052,420	\$ 17,052,420	\$ -	Total revenue	\$ -	\$ -	\$ -
Total expenditures	17,785,896	17,785,892	4	Total expenditures	433,407	433,408	(1)
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable fund balance	8,145	8,145	-	4.60 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
4.01 Student Activities	121,167	121,167	-	4.07 Capital Projects Levy	-	-	-
4.02 Scholarships	-	-	-	4.13 Project Funded by COP/LP	-	-	-
4.03 Staff Development	-	-	-	4.67 LTFM	-	-	-
4.07 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
4.08 Cooperative Programs	-	-	-	4.64 Restricted fund balance	8,533	8,533	-
4.08 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
4.13 Building Projects Funded by COP/LP	-	-	-	4.63 Unassigned fund balance	-	-	-
4.14 Operating Debt	-	-	-				
4.16 Levy Reduction	-	-	-	<b>07 DEBT SERVICE FUND</b>			
4.17 Taconite Building Maintenance	-	-	-	Total revenue	\$ 3,066,301	\$ 3,066,299	\$ 2
4.24 Operating Capital	-	-	-	Total expenditures	3,071,354	3,071,354	-
4.26 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
4.27 Disabled Accessibility	-	-	-	4.60 Nonspendable fund balance	-	-	-
4.28 Learning and Development	-	-	-	<i>Restricted/reserved:</i>			
4.34 Area Learning Center	-	-	-	4.25 Bond refundings	-	-	-
4.35 Contracted Alternative Programs	-	-	-	4.33 Maximum effort loan aid	-	-	-
				4.67 LTFM	-	-	-
4.36 State Approved Alternative Program	-	-	-	4.51 QZAB payments	-	-	-
4.38 Gifted and Talented	-	-	-	<i>Restricted:</i>			
4.40 Teacher Development and Evaluation	-	-	-	4.64 Restricted fund balance	620,319	620,318	1
4.41 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
4.45 Career Technical Programs	-	-	-	4.63 Unassigned fund balance	-	-	-
4.46 First Grade Preparedness	-	-	-				
4.48 Achievement and Integration Revenue	-	-	-	<b>08 TRUST FUND</b>			
4.49 Safe School Crime	-	-	-	Total revenue	\$ -	\$ -	\$ -
4.51 QZAB Payments	-	-	-	Total expenditures	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
4.53 Unfunded Severance and Retirement Levy	-	-	-	4.01 Student Activities	-	-	-
4.59 Basic Skills Extended Time	-	-	-	4.02 Scholarships	-	-	-
4.67 Long-term Facilities Maintenance	47,631	47,631	-	4.22 Net position	-	-	-
4.72 Medical Assistance	-	-	-				
4.75 Title VII - Impact Aid	-	-	-	<b>18 CUSTODIAL</b>			
4.76 Payments in Lieu of Taxes	-	-	-	Total revenue	-	-	-
<i>Restricted:</i>				Total expenditures	-	-	-
4.64 Restricted fund balance	-	-	-	<i>Restricted/Reserved:</i>			
<i>Committed:</i>				4.01 Student Activities	-	-	-
4.18 Committed for separation	-	-	-	4.02 Scholarships	-	-	-
4.61 Committed fund balance	-	-	-	4.48 Achievement and Intergration	-	-	-
<i>Assigned:</i>				4.64 Restricted	-	-	-
4.62 Assigned fund balance	5,750	5,750	-				
<i>Unassigned:</i>				<b>20 INTERNAL SERVICE FUND</b>			
4.22 Unassigned fund balance	377,948	377,951	(3)	Total revenue	\$ -	\$ -	\$ -
				Total expenditures	-	-	-
<b>02 FOOD SERVICE FUND</b>				<i>Unassigned:</i>			
Total revenue	\$ 1,031,878	\$ 1,031,879	\$ (1)	4.22 Net position	-	-	-
Total expenditures	1,149,793	1,149,793	-				
<i>Nonspendable:</i>				<b>25 OPEB REVOCABLE TRUST</b>			
4.60 Nonspendable fund balance	22,718	22,718	-	Total revenue	\$ -	\$ -	\$ -
<i>Restricted/reserved:</i>				Total expenditures	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				4.22 Net position	-	-	-
4.64 Restricted fund balance	372,414	372,413	1				
<i>Unassigned:</i>				<b>45 OPEB IRREVOCABLE TRUST</b>			
4.63 Unassigned fund balance	-	-	-	Total revenue	\$ -	\$ -	\$ -
				Total expenditures	-	-	-
<b>04 COMMUNITY SERVICE FUND</b>				<i>Unassigned:</i>			
Total revenue	\$ 775,793	\$ 775,793	\$ -	4.22 Net position	-	-	-
Total expenditures	823,801	823,799	2				
<i>Nonspendable:</i>				<b>47 OPEB DEBT SERVICE</b>			
4.60 Nonspendable fund balance	1,357	1,357	-	Total revenue	\$ -	\$ -	\$ -
<i>Restricted/reserved:</i>				Total expenditures	-	-	-
4.26 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
4.31 Community Education	(98,378)	(98,378)	-	4.60 Nonspendable fund balance	-	-	-
4.32 ECFE	28,142	28,142	-	<i>Restricted:</i>			
4.40 Teacher Development and Evaluations	-	-	-	4.25 Bond refundings	-	-	-
4.44 School Readiness	(19,062)	(19,062)	-	4.64 Restricted fund balance	-	-	-
4.47 Adult Basic Education	-	1	(1)	<i>Unassigned:</i>			
4.52 OPEB Liabilities not Held in Trust	-	-	-	4.63 Unassigned fund balance	-	-	-
<i>Restricted:</i>							
4.64 Restricted fund balance	7,840	7,840	-				
<i>Unassigned:</i>							
4.63 Unassigned fund balance	-	-	-				

**Independent School District No. 2687**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2023**

Federal Funding Source	Federal Assistance Living Number	Grant Name	Expenditures
<b>Through Minnesota Department of Education</b>			
U.S. Department of Agriculture	10.555	Commodities programs (cluster)	\$ 68,678
U.S. Department of Agriculture	10.553	School breakfast program (cluster)	52,674
U.S. Department of Agriculture	10.555	Child nutrition type A lunch (cluster)	383,275
U.S. Department of Agriculture	10.555	COVID-19 - Supply chain assistance	42,142
U.S. Department of Agriculture	10.556	Special milk program (cluster)	1,527
Total Child Nutrition Cluster			<u>548,296</u>
U.S. Department of Treasury	21.027	COVID 19 - Coronavirus State and Local Fiscal Recovery Fund	15,894
U.S. Department of Education	84.010	Title I, Part A	116,394
U.S. Department of Education	84.424	Title IV, Part A	10,000
U.S. Department of Education	84.367	Title II, Part A	15,660
U.S. Department of Education	84.425C	COVID-19 - GEER II	9,880
U.S. Department of Education	84.425D	COVID-19 - ESSER II	16,338
U.S. Department of Education	84.425U	COVID-19 - ARP - Learning Recovery Emergency Relief	133,637
Total Education Stabilization Fund			<u>159,855</u>
<b>Through Meeker &amp; Wright Special Education Cooperative #938</b>			
U.S. Department of Education	84.027	Special education (cluster)	75,129
U.S. Department of Education	84.027X	COVID-19 ARP IDEA Part B, Section	18,060
U.S. Department of Education	84.173X	COVID-19 ARP IDEA Part B, Section	2,838
U.S. Department of Education	84.173	Special education early childhood (cluster)	9,151
Total Federal Special Education Cluster			<u>105,178</u>
Total Federal Expenditures			<u>\$ 971,277</u>

**Independent School District No. 277**  
**Notes to the Schedule of Expenditures of Federal Awards**

**NOTE 1 – BASIS OF PRESENTATION**

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

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

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

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

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

**NOTE 4 – INVENTORY**

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

**NOTE 5 – INDIRECT COST RATE**

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

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

**Independent Auditor's Report**

To the School Board  
Independent School District No. 2687  
Howard Lake-Waverly-Winsted, 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. 2687, Howard Lake-Waverly-Winsted, 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 November 7, 2023.

**Report on Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Corrective Action Plans on Internal Control as Audit Finding 2023-001 to be a material weakness.

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

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

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

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Corrective Action Plans on Internal Control. 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.

*BergankDV, Ltd.*

St. Cloud, Minnesota  
November 7, 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. 2687  
Howard Lake-Waverly-Winsted, Minnesota

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

**Opinion on Each Major Federal Program**

We have audited Independent School District No. 2687, Howard Lake-Waverly-Winsted, Minnesota compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2023. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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

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

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

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

**Responsibilities of Management for Compliance**

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

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of 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**

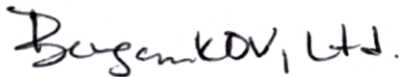
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.



St. Cloud, Minnesota  
November 7, 2023

**Independent School District No. 2687  
Schedule of Findings and Questioned Costs**

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

**Financial Statements**

Type of auditor's report issued: We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal control over financial reporting:  
• Material weakness(es) identified? Yes, Audit Finding 2023-001  
• Significant deficiency(ies) identified? None reported

Noncompliance material to basic 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

**Identification of Major Programs**

Assistance Listing No.: 10.553, 10.555, 10.556, and 10.559  
Name of Federal Program or Cluster: Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low risk auditee? No

**Independent School District No. 2687**  
**Schedule of Findings and Questioned Costs**

**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:*

The District has a lack of segregation of accounting duties due to a limited number of office employees. 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 financial statements.

Management and the School Board are aware of this condition and have taken certain steps to compensate for the lack of segregation but due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. However, the District must remain aware of this situation and should continually monitor the accounting system, including changes that occur. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. We recommend segregation or independent review be implemented whenever practical and cost effective.

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Business Manager has the ability to initiate and record manual journal entries without obtaining prior approval.
- The Business Manager can generate purchase orders, approve purchase orders or vouchers, enter invoices into the District's finance system, and has custody of checks before they are mailed.
- The payroll and benefits provider is responsible for all aspects of the payroll process. However, each payroll is reviewed by the Business Manager.

*Questioned Costs:*

None

*Context:*

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

*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.

**Independent School District No. 2867  
Schedule of Findings and Questioned Costs**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**Audit Finding 2023-001 (Continued)**

*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.

*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 review its accounting duties and implement changes when possible, to improve segregation of duties.
3. Official Responsible for Ensuring CAP  
Brad Sellner, Superintendent, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2023.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

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

There were no federal award findings or questioned costs.

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

There were no federal award findings or questioned costs.

**Minnesota Legal Compliance**

**Independent Auditor's Report**

To the School Board  
Independent School District No. 2687  
Howard Lake-Waverly-Winsted, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2687, Howard Lake-Waverly-Winsted, 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 November 7, 2023.

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

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

*BergankDV, Ltd.*

St. Cloud, Minnesota  
November 7, 2023