Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

Basic Financial Statements

June 30, 2023

Independent School District No. 877
Table of Contents

Independent School District No. 877
Table of Contents

Independent School District No. 877
Board of Education and Administration
June 30, 2023

Board of Education	Position	Term Expires
Melissa Brings	Chairperson	December 31, 2024
Bob Sansevere	Vice Chairperson	December 31, 2026
Adam Bjorklund	Clerk	December 31, 2024
Amanda Lawrence	Treasurer	December 31, 2024
Sue Lee	Director	December 31, 2024
Matt Hoffman	Director	December 31, 2026
Sheila Smude	Director	December 31, 2026

Administration	
Scott Thielman	Superintendent
Ryan Tangen	Director of Finance and Operations
Miranda Kramer	Controller

Independent Auditor's Report

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

<u>Report on the Audit of the Financial Statements</u>

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, 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. 877, Buffalo-Hanover-Montrose, Minnesota, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund 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. 877, Buffalo-Hanover-Montrose, Minnesota, 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. 877 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 Information
Management is responsible for the other district information identified in the Table of Contents. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 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.

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 17, 2023

This section of Independent School District No. 877's (the "District") annual financial report presents a 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 required supplementary information specified in the GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain comparative information between the current year (2022-2023) and the prior year (2021-2022) is required in the MD&A.

Financial Highlights

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

- The District's total combined net position increased 338.39% over the course of the year and was $11.02 million on June 30, 2023.
- During the year, the District's revenues were $90.48 million, and its expenditures were $74.83 million. Revenues increased by approximately $711,000 and expenses decreased by $4.6 million from the prior year.
- The General Fund reported an unassigned fund balance this year of $10.15 million, a decrease of $600,519 from the prior year.

Overview of the Financial Statements

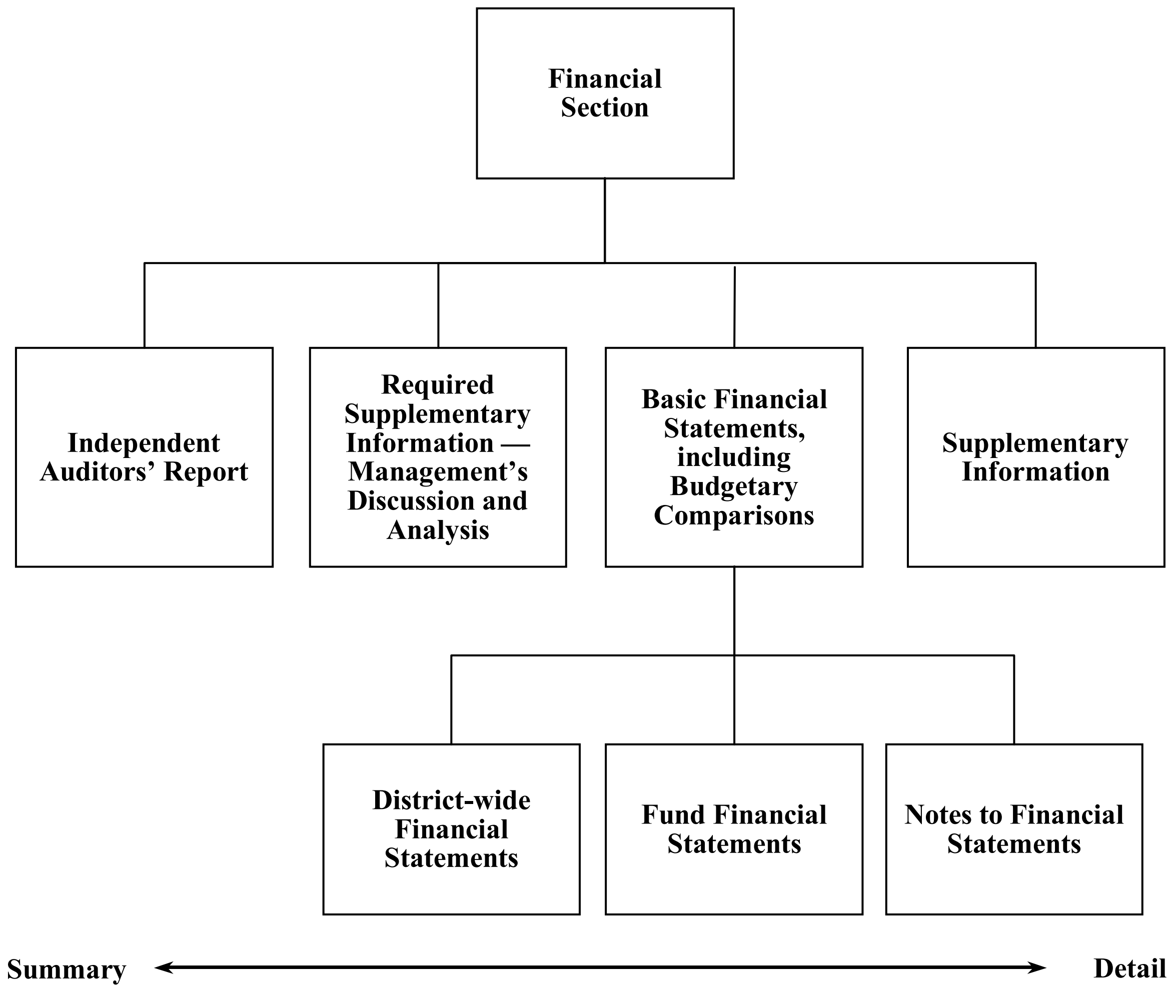
The financial section of the annual report consists of four parts: the Independent Auditor's Report, required supplementary information which includes the MD&A, the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different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

- The first two statements are the district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide financial 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.

Overview of the Financial Statements (Continued)
The financial statements also include notes that explain in more detail the information in the basic financial statements. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1

Annual Financial Report



Overview of the Financial Statements (Continued)
Figure A-2 summarizes 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. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

Figure A-2
Major Features of the District-Wide and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements - Governmental	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary, such as special education, building maintenance, food service and community education	Instances in which the District is the trustee or agent for someone else's resources
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Generally, assets expected to be consumed and liabilities paid during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

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

Overview of the Financial Statements (Continued)

District-Wide Statements (Continued)

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

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

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

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

- ***Governmental Activities*****:** Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state appropriations 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 that it is properly using certain revenues (e.g., federal grants).

The District has one type of fund:

- ***Governmental Funds*****:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view to determine whether the District's working capital will be sufficient to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide reconciliations between the governmental funds statements and the district-wide statements, which do present a long-term focus.

Financial Analysis of the District as a Whole

Net Position

The District's consolidated net position increased 338.39% and was $11,019,155 on June 30, 2023 (See Table A-1). The District's total assets and deferred outflows decreased 3.11% due to an increase in receivables offset by decreases in capital assets due to depreciation and deferred outflows for pensions. Total liabilities and deferred inflows decreased 13.30% due to decreases in bonds payable, net pension liability, salaries payable, and increases in deferred inflows of resources related to pensions. More information about the change in pension liability can be found in Note 6 of the financial statements.

The net investment in capital assets increased primarily due to the District paying off long-term debt faster than the rate of depreciation of assets. The restricted net position increased due to positive changes in debt service, food service, and community education. The unrestricted net position increased because of changes in the net pension liability and related deferred inflows and outflows of the District, revenues exceeding expenditures in non-restrictive programming areas, and decreases in salaries payable.

Table A-1
The District's Net Position

	Governmental Activities		Percentage
	2023	2022	Change
Assets			
Current and other assets	$ 47,439,941	$ 47,168,044	0.58%
Capital and non-current assets	77,390,438	81,928,795	-5.54%
Total assets	124,830,379	129,096,839	-3.30%
Deferred outflows	17,058,707	17,230,257	-1.00%
Total assets and deferred outflows of resources	$ 141,889,086	$ 146,327,096	-3.03%
Liabilities			
Current liabilities	$ 11,181,988	$ 11,527,910	-3.00%
Long-term liabilities	86,504,060	69,841,077	23.86%
Total liabilities	97,686,048	81,368,987	20.05%
Deferred inflows of resources	33,183,883	69,580,480	-52.31%
Total liabilities and deferred inflows of resources	130,869,931	150,949,467	-13.30%
Net Position			
Net investment in capital assets	$ 34,143,694	$ 31,978,155	6.77%
Restricted	7,049,165	6,200,834	13.68%
Unrestricted	(30,173,704)	(42,801,360)	29.50%
Total net position	11,019,155	(4,622,371)	338.39%
Total liabilities, deferred inflows of resources, and net position	$ 141,889,086	$ 146,327,096	-3.03%

Financial Analysis of the District as a Whole (Continued)

Change in Net Position

The change in net position for 2022-2023 was a positive $15,641,526 based on total revenues of $90.36 million and total expenses of $74.83 million. Table A-2 on the following page shows the breakdown of the various revenue and expense categories.

Tables A-2
Change in Net Position

	Governmental Activities		Percentage
	2023	2022	Change
Revenues			
Program revenues			
Charges for services	$ 6,464,072	$ 4,907,394	31.72%
Operating grants and contributions	17,027,501	18,241,677	-6.66%
Capital grants and contributions	2,144,383	2,201,632	-2.60%
General revenues			
Property taxes	19,733,132	20,243,924	-2.52%
Unrestricted state aid	42,717,614	42,968,151	-0.58%
Investment earnings	844,912	(31,950)	2544.48%
Other	1,543,404	1,233,595	25.11%
Total revenues	90,475,018	89,764,423	0.79%
Expenses			
Administration	1,599,489	1,757,668	-9.00%
District support services	1,760,325	1,578,610	11.51%
Regular instruction	28,361,824	33,328,809	-14.90%
Vocational education instruction	1,619,136	1,982,771	-18.34%
Special education instruction	12,179,547	12,466,853	-2.30%
Instructional support services	4,856,287	5,161,405	-5.91%
Pupil support services	6,920,392	6,654,513	4.00%
Sites and buildings	9,477,119	8,507,374	11.40%
Fiscal and other fixed cost programs	327,925	92,563	254.27%
Food service	3,491,573	3,368,408	3.66%
Community service	3,542,292	3,284,663	7.84%
Interest and fiscal charges on long-term liabilities	697,583	1,297,599	-46.24%
Total expenses	74,833,492	79,481,236	-5.85%
Change in net position	15,641,526	10,283,187	52.11%
Beginning net position	(4,622,371)	(14,905,558)	68.99%
Ending net position	$ 11,019,155	$ (4,622,371)	338.39%

Financial Analysis of the District as a Whole (Continued)

Revenues

The District's total revenues were approximately $90.48 million for the year ended June 30, 2023. Property taxes and state formula aid accounted for 69.1% of total revenue for the year (See Figure A-3). Another 2.5% came from other general revenues combined with investment earnings, and the remaining 28.4% came from program revenues.

Figure A-3
Sources of District's Revenues for Fiscal 2023

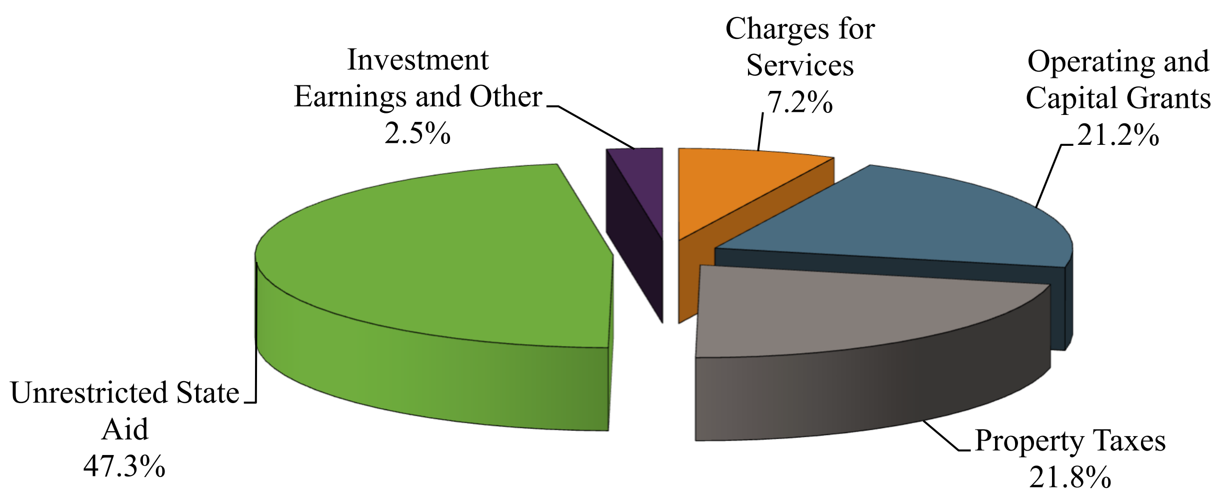
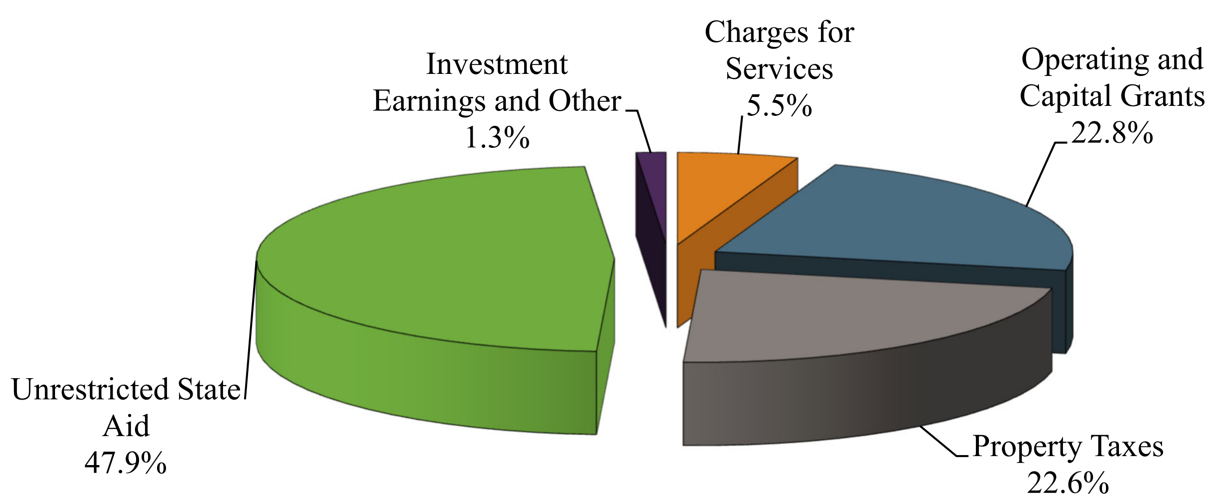


Figure A-3
Sources of District's Revenues for Fiscal 2022



Financial Analysis of the District as a Whole (Continued)

Expenses

The District's total expenditures were approximately $74.83 million for the year ended June 30, 2023. The District's expenses are predominantly related to educating, caring for, and transporting students. The administrative expenses of the District accounted for 4.5% of total costs for 2022-23 and for 4.2% of total costs for 2021-22 (see Figure A-4).

Figure A-4
District Expenses for Fiscal 2023

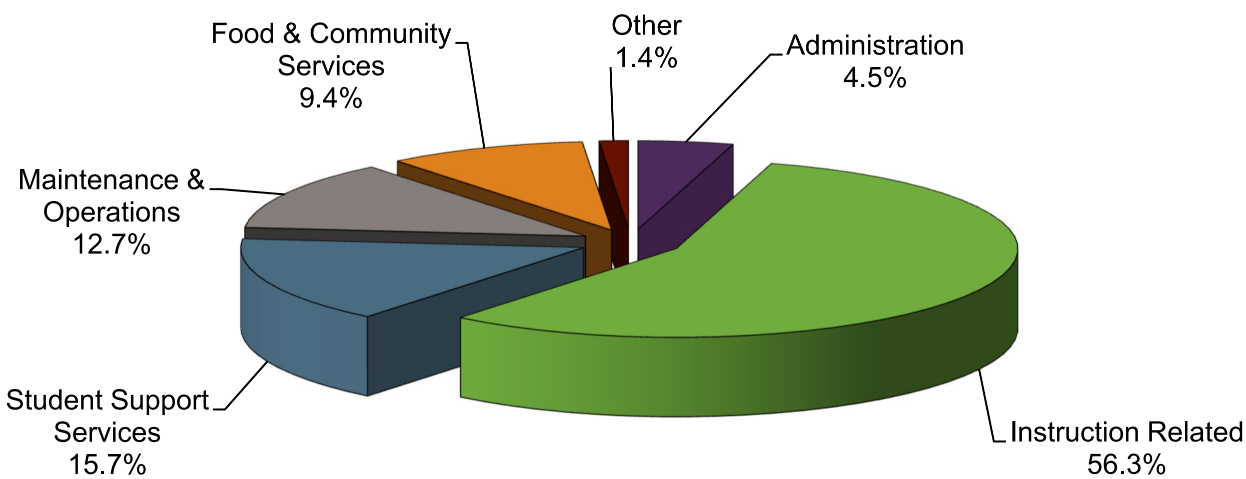
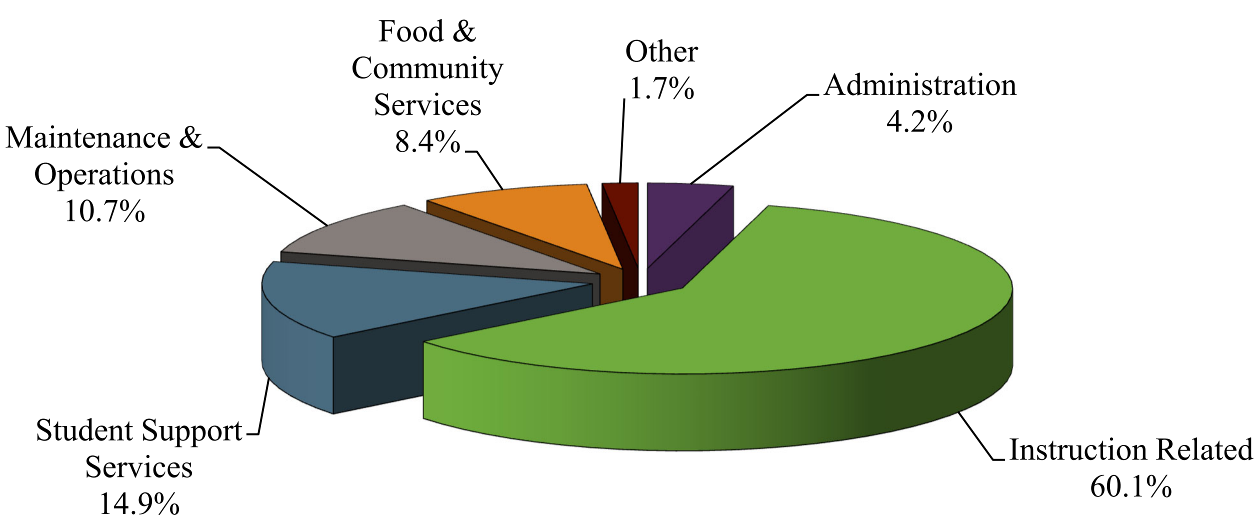


Figure A-4
District Expenses for Fiscal 2022



Financial Analysis of the District as a Whole (Continued)

Governmental Activities

Typically, the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received from entrepreneurial-type funds for food service and community education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 73.1% of those resources are spent on instruction and support services associated with the instruction.

Table A-3 presents the cost of 12 major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Users of District programs paid $6,464,072 to the District as shown in the Statement of Activities in the financial statements. The federal and state governments subsidized certain programs with grants and contributions ($17,027,501 for operating purposes and $2,144,383 for capital purposes). District taxpayers and the taxpayers of the State of Minnesota, however, paid for most of the District's costs with general revenue of $64,839,062. Of that amount, a major portion of governmental activities came from $19,733,132 in property taxes, $42,717,614 of state aid based on the statewide education aid formula, and $2,388,316 with investment earnings, other general revenues, and net change from the joint venture.

Tables A-3
Program Expenses and Net Cost of Services

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2023	2022	Change	2023	2022	Change
Administration	$ 1,599,489	$ 1,757,668	-9.00%	$ 1,599,489	$ 1,757,668	-9.00%
District support servic	1,760,325	1,578,610	11.51%	1,739,478	1,538,032	13.10%
Regular instruction	28,361,824	33,328,809	-14.90%	23,489,358	28,781,526	-18.39%
Vocational education instruction	1,619,136	1,982,771	-18.34%	863,761	1,276,789	-32.35%
Special education instruction	12,179,547	12,466,853	-2.30%	2,250,798	2,842,820	-20.83%
Instructional support services	4,856,287	5,161,405	-5.91%	4,474,117	4,843,669	-7.63%
Pupil support services	6,920,392	6,654,513	4.00%	6,390,389	6,391,818	-0.02%
Sites and buildings	9,477,119	8,507,374	11.40%	7,683,699	6,679,193	15.04%
Fiscal and other fixed cost programs	327,925	92,563	254.27%	327,925	92,563	254.27%
Food service	3,491,573	3,368,408	3.66%	(325,994)	(1,482,436)	-78.01%
Community service	3,542,292	3,284,663	7.84%	6,933	111,292	-93.77%
Interest and fiscal charges on long-term liabiliti	697,583	1,297,599	-46.24%	697,583	1,297,599	-46.24%
Total	$ 74,833,492	$ 79,481,236	-5.85%	$ 49,197,536	$ 54,130,533	-9.11%

Financial Analysis of the District's Funds
The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $23,447,454. Of this amount, $7,373,611 is restricted to cover building project costs, future debt obligations, and other purposes.

Revenues for the District's governmental funds were $90,103,668 while total expenditures were $90,456,762. After factoring in Other Financing Sources of $76,621, the District completed the year with a net change in fund balance of a negative $276,473. The most significant factors leading to the change in fund balance were student enrollment changes, capital projects, and increases in the Debt Service, Food Service, and Community Education funds from planned program modifications.

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

The following schedule presents a summary of General Fund revenues.

Tables A-4
General Fund Revenues

	Year Ended June 30,		Change	
	2023	2022	Increase (Decrease)	Percent
Property taxes	$ 11,525,162	$ 12,456,766	$ (931,604)	-7.48%
Other local and county revenues	3,116,169	2,384,594	731,575	30.68%
State sources	54,427,728	55,452,983	(1,025,255)	-1.85%
Federal sources	4,874,318	3,497,363	1,376,955	39.37%
Sales and other conversion of assets	37,690	28,102	9,588	34.12%
Total revenue	$ 73,981,067	$ 73,819,808	$ 161,259	0.22%

General Fund (Continued)
Total General Fund revenue increased from the previous year by $161,259, or 0.22%. Property tax revenue decreased by $931,604. Revenue from state sources decreased by $1,025,255 due to less General Education Revenue formula allowance resulting from a reduction of 96 average pupil units and a decrease in special education aid due to tuition billing. Federal sources increased by $1,376,955 due to increased utilization of federal special education and federal pandemic relief funds. The revenue from Other Local and County sources increased by $731,575, due to increases in revenue from interest income and student activities.

The following schedule presents a summary of General Fund expenditures.

Tables A-5
General Fund Expenditures

	Year Ended June 30,		Change	
	2023	2022	Increase (Decrease)	Percent
Salaries	$ 40,868,518	$ 39,479,604	$ 1,388,914	3.52%
Employee benefits	14,865,266	15,113,852	(248,586)	-1.64%
Purchased services	13,701,054	11,392,180	2,308,874	20.27%
Supplies and materials	3,492,919	3,379,522	113,397	3.36%
Capital expenditures	1,877,113	2,346,344	(469,231)	-20.00%
Other expenditures	637,348	683,246	(45,898)	-6.72%
Total expenditures	$ 75,442,218	$ 72,394,748	$ 3,047,470	4.21%

Total General Fund expenditures increased $3,047,470, or 4.21% from the previous year due primarily to salary and benefit negotiated increases, tuition paid to other districts, contracted services, capital projects, and costs necessary for building operations.

In the 2022-2023 school year, General Fund expenditures and other uses were higher than revenues and other sources by $1,384,530. As a result, the total fund balance on June 30, 2023, decreased to $18,211,317 of which $7,079,754 was restricted, committed, or assigned (negative balances are reported as unassigned but still considered restricted, committed, or assigned for fund balance analysis.) The combined unassigned and non-spendable fund balance increased from the prior year, ending at a balance of $11,131,563 on June 30, 2023, or 14.77% of expenditures with the non-spendable fund balance of $706,309 included. The District closely monitors its fund balance. The existing operating referendum is not inflationary, so a five-year plan was created for use of the funds generated by the voter-approved referendum. The change in fund balance was anticipated and within the scope of our financial planning.

General Fund Budgetary Highlights

The District typically revises its annual budget once each year. The budget amendment caused the changes shown between the original budget amount and the final budget amount which primarily fell into the following categories:

- Change in salaries and benefits from projected amounts due to staffing for enrollment and special education needs and contract settlements.
- Changes in revenue entitlements from state aid proration and enrollment changes.
- Changes in revenue from the Special Education program.
- Changes in revenue and expenditures for COVID-19 federal pandemic relief funds.

The District's final budget for the General Fund anticipated that expenditures would exceed revenues by $957,638, the actual results for the year show a deficit of $1,384,530. Revenues and other financing sources were under the District's final budget by 1.19% and expenditures were under budget by 0.51%.

- Actual revenues and other financing sources were lower than expected by $815,096 due primarily to decreases in the current year and prior year special education aid due to tuition billing and lower than anticipated state aid generated from average daily membership.
- Actual expenditures were under budget by $388,204. The District had lower than anticipated staffing expenditures and lower extended time payments for staff resulting in reduced staffing expenditures and lower than anticipated health insurance, TRA, FICA, and PERA expenditures. Open positions required contracted services to fulfill district obligations resulting in higher than anticipated purchased services. Utilities, snow removal, and capital projects were over budget. Supplies and curriculum purchases were under budget.

Capital Projects and Debt Service Funds

The Building Construction Fund recorded the revenues and expenditures for the high school tennis court project. The high school tennis court project was completed in 2022-2023. Revenue for the tennis court project was the result of lease financing proceeds recorded in 2020-2021. Expenditures for work completed in 2022-2023 totaled $42,400 for the high school tennis courts. The Building Construction Fund balance was $0 on June 30, 2023, which was a decrease of $42,400.

The Debt Service Fund balance increased by $401,552. The ending balance is $1,255,096 in total as of June 30, 2023. All of this balance is restricted to meet future debt obligations of the District.

The Post Employment Debt Service Fund increased by $19,921. The ending fund balance is $436,184 on June 30, 2023. The balance in this fund will be used for future debt service obligations.

Other Nonmajor Funds

The Food Service Fund revenues exceeded expenditures causing the fund balance to increase by $320,008 to $3,017,536. Food Service revenues were over budget by $38,731 and the expenditures were under budget by $344,338. Revenue was higher than anticipated due primarily to federal meal reimbursement. Meal participation was slightly lower than expected with actual total meals served 14,768 less than budgeted. Without the federal free meals for all students programming, the total meals served were 283,282 less than the prior year's total. Expenditures for the purchase of food were less due to lower than projected per meal cost based on current market conditions.

The Community Service Fund revenues exceeded expenditures and other financing sources by $408,976 and increased its fund balance to $527,321 as of June 30, 2023. Programming continues to increase post-pandemic resulting in a $421,922 increase in participation fees. Expenditures increased to meet the programming needs.

Fiduciary Funds

The District created a sunset clause in certain contracts for retiree insurance contributions. Individuals hired after the sunset date are no longer eligible for the grandfathered post-retirement insurance benefits. The new provisions require the District to make ongoing contributions to the new employee's HRA account held in an outside irrevocable trust. Each contract has a contribution limit for the individual employee. The value of the irrevocable trust was $3,805,800 as of June 30, 2023.

During the 2009-2010 school year, the District issued $10.845 million in OPEB Bonds and at the same time, created an irrevocable trust to fund the District's post-employment benefits. The District started to use the Trust in the 2012-2013 year to cover post-employment obligations. The amount held in trust for OPEB as of June 30, 2023, increased by $275,891 to $12,777,310.

Capital Asset and Debt Administration

Capital Assets

At the end of 2023, the District had invested approximately $160.95 million in a broad range of capital assets, including school buildings, athletic facilities, computers, and audio-visual equipment, (see Table A-6). This amount represents a net increase of $2.38 million or 1.50%, from last year. Total depreciation expense for the year was approximately $5.26 million. More detailed information about capital assets can be found in Note 3 to the financial statements.

Table A-6
The District's Capital Assets

	2023	2022	Percentage Change
Land	$ 4,222,035	$ 4,222,035	0.00%
Construction in progress	106,413	161,051	-33.93%
Land improvements	13,972,204	13,635,122	2.47%
Buildings and improvements	133,804,866	132,400,399	1.06%
Equipment and transportation vehicles	8,844,690	8,147,094	8.56%
Total historical cost	160,950,208	158,565,701	1.50%
Less accumulated depreciation	(86,481,086)	(81,240,270)	-6.45%
Total	$ 74,469,122	$ 77,325,431	-3.69%

Construction – Next Five Years

The District will continue to improve buildings and building sites utilizing Long Term Facilities Maintenance funding and bonded debt. The District has a $41.5 bonded debt referendum election on November 7, 2023.

Long-Term Debt

At year-end, the District had $40,111,074 in general obligation (G.O.) bonds and leases, a decrease of 14.17% from last year as shown in Table A-7. The District also had $1,411,988 in future post-employment severance benefits payable on June 30, 2023. The School Board has committed $2,576,411 for payment of future post-employment severance and health benefits. More detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.

Capital Asset and Debt Administration (Continued)

Long-Term Debt (Continued)

Table A-7
The District's Long-Term Liabilities

	2023	2022	Percentage Change
G.O. bonds	$ 38,675,000	$ 44,780,000	-13.63%
Net bond premium and discount	549,416	915,289	-39.97%
Net G.O. bonds	39,224,416	45,695,289	-14.16%
Obligations under capital leases	886,658	1,040,070	-14.75%
Net G.O. bonds and capital leases	40,111,074	46,735,359	-14.17%
Severance payable	1,064,413	1,081,263	-1.56%
Compensated absences payable	347,575	331,053	4.99%
Total	$ 41,523,062	$ 48,147,675	-13.76%

Bond Ratings
The District's G.O. bonds carry an MSDE enhanced rating of Aa1 according to the most recent Moody's Investor Service Rating. The District's rating was upgraded from Aa2 to Aa1 on July 29, 2022.

Limitations on Debt
The state limits the amount of General Obligation debt the District can issue to 15% of the market value of all taxable property within the District's corporate limits. The District's outstanding debt is significantly below this limit.

Factors Bearing on the District's Future
With the exception of the voter-approved operating referendum, the District depends on the State of Minnesota for its revenue authority. The 2023 MN legislative session enacted a record number of funding provisions with the most impactful for our district being special education cross-subsidy aid. The new aid will help offset, but will still not fully fund, special education programming expenditures requiring the use of other funding sources to cover the cost. Not unlike other school districts, enrollment projections indicate a declining enrollment phase that will also be a budgetary factor since many of the funding formulas are based on student enrollment. Enrollment follows the same trend as births recorded in Wright County. The total number of Wright County births in 2021 was 125 higher than the 2020 total and the highest total since 2012. A positive change in the birth rate trend should also result in a positive enrollment trend. The District will continue its conservative budgeting practices and explore additional sources of revenue.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 877, 214 1st Avenue NE, Buffalo, Minnesota 55313.

BASIC FINANCIAL STATEMENTS

Independent School District No. 877
Statement of Net Position
June 30, 2023

	Governmental
Assets	
Cash and investments	$ 29,093,036
Current property taxes receivable	9,775,936
Delinquent property taxes receivable	254,828
Accounts receivable	326,873
Interest receivable	13,575
Due from Department of Education	5,433,752
Due from Federal Government through Department of Education	1,394,054
Due from Federal Government directly	75,135
Due from other Minnesota school districts	235,683
Due from other governmental units	71,187
Inventory	192,038
Prepaid items	573,844
Equity interest in joint venture	508,233
Net OPEB asset	2,276,337
Capital assets not being depreciated	
Land	4,222,035
Construction in progress	106,413
Capital assets, net of accumulated depreciation/ amortization	
Land improvements	8,218,128
Buildings	58,685,441
Machinery and equipment	3,237,105
Leased equipment	136,746
Total assets	124,830,379
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	14,641,311
Deferred outflows of resources related to OPEB	2,417,396
Total deferred inflows of resources	17,058,707
Total assets and deferred outflows of resources	$ 141,889,086
Liabilities	
Accounts payable	$ 1,200,890
Salaries and benefits payable	1,382,640
Interest payable	495,816
Due to other Minnesota school districts	518,624
Due to other governmental units	501,451
Unearned revenue	343,513
Bond payable, net	
Payable within one year	6,055,000
Payable after one year	33,169,416
Lease payable	
Payable within one year	35,800
Payable after one year	112,620
Financed purchase from direct borrowing	
Payable within one year	216,014
Payable after one year	522,224
Compensated absences payable	
Payable within one year	347,575
Severance payable	
Payable within one year	84,665
Payable after one year	979,748
Net pension liability	51,720,052
Total liabilities	97,686,048
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	19,705,876
Deferred inflows of resources related to pensions	10,396,909
Deferred inflows of resources related to OPEB	2,729,998
Deferred inflows related to charge on refunding	351,100
Total deferred inflows of resources	33,183,883
Net Position	
Net investment in capital assets	34,143,694
Restricted for	
Debt service	1,299,763
Other purposes	5,749,402
Unrestricted	(30,173,704)
Total net position	11,019,155
Total liabilities, deferred inflows of resources, and net position	$ 141,889,086

Independent School District No. 877
Statement of Activities
For the Year Ended June 30, 2023

		Program Revenues			Net (Expense) Revenues and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Activities
Governmental activities					
Administration	$ 1,599,489	$ -	$ -	$ -	$ (1,599,489)
District support services	1,760,325	20,847	-	-	(1,739,478)
Elementary and secondary regular instruction	28,361,824	777,071	3,663,298	432,097	(23,489,358)
Vocational education instruction	1,619,136	741,118	14,257	-	(863,761)
Special education instruction	12,179,547	97,483	9,831,266	-	(2,250,798)
Instructional support services	4,856,287	50	382,120	-	(4,474,117)
Pupil support services	6,920,392	98,400	431,603	-	(6,390,389)
Sites and buildings	9,477,119	81,134	-	1,712,286	(7,683,699)
Fiscal and other fixed cost programs	327,925	-	-	-	(327,925)
Food service	3,491,573	1,789,961	2,027,606	-	325,994
Community education and services	3,542,292	2,858,008	677,351	-	(6,933)
Interest and fiscal charges on long-term debt	697,583	-	-	-	(697,583)
Total governmental activities	$ 74,833,492	$ 6,464,072	$ 17,027,501	$ 2,144,383	(49,197,536)
	General revenues				
	Taxes				
	Property taxes, levied for general purposes				11,527,201
	Property taxes, levied for community service				579,365
	Property taxes, levied for debt service				7,626,566
	State aid-formula grants				42,717,614
	Other general revenues				1,421,825
	Investment income				844,912
	Net change from joint venture				121,579
	Total general revenues				64,839,062
	Change in net position				15,641,526
	Net position - beginning				(4,622,371)
	Net position - ending				$ 11,019,155

Independent School District No. 877
Balance Sheet - Governmental Funds
June 30, 2023

	General	Debt Service	Other Nonmajor Funds	Governmental
Assets				
Cash and investments	$ 20,113,644	$ 4,548,206	$ 4,431,186	$ 29,093,036
Current property taxes receivable	6,252,816	3,208,958	314,162	9,775,936
Delinquent property taxes receivable	143,031	76,188	35,609	254,828
Accounts receivable	290,049	-	36,824	326,873
Interest receivable	13,575	-	-	13,575
Due from Department of Education	5,326,670	29,348	77,734	5,433,752
Due from Federal Government through Department of Education	1,322,391	-	71,663	1,394,054
Due from Federal Government directly	75,135	-	-	75,135
Due from other Minnesota school districts	170,987	-	64,696	235,683
Due from other governmental units	62,943	-	8,244	71,187
Inventory	134,246	-	57,792	192,038
Prepaid items	572,063	-	1,781	573,844
Total assets	$ 34,477,550	$ 7,862,700	$ 5,099,691	$ 47,439,941
Liabilities				
Accounts payable	$ 1,161,932	$ -	$ 38,958	$ 1,200,890
Salaries and benefits payable	1,204,601	-	178,039	1,382,640
Due to other Minnesota school districts	518,376	-	248	518,624
Due to other governmental units	501,397	-	54	501,451
Unearned revenue	139,390	-	204,123	343,513
Severance payable	84,665	-	-	84,665
Total liabilities	3,610,361	-	421,422	4,031,783
Deferred Inflows of Resources				
Unavailable revenue - property taxes levied for subsequent year's expenditures	12,512,841	6,531,416	661,619	19,705,876
Unavailable revenue - delinquent property taxes	143,031	76,188	35,609	254,828
Total deferred inflows of resources	12,655,872	6,607,604	697,228	19,960,704
Fund Balances				
Nonspendable	706,309	-	59,573	765,882
Restricted	2,118,746	1,255,096	3,999,769	7,373,611
Committed	2,576,411	-	-	2,576,411
Assigned	2,659,800	-	-	2,659,800
Unassigned	10,150,051	-	(78,301)	10,071,750
Total fund balances	18,211,317	1,255,096	3,981,041	23,447,454
Total liabilities, deferred inflows of resources, and fund balances	$ 34,477,550	$ 7,862,700	$ 5,099,691	$ 47,439,941

Independent School District No. 877
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2023

Total fund balances - governmental funds	$ 23,447,454
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	161,149,965
Less accumulated depreciation/ amortization	(86,544,097)
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	508,233
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	(38,675,000)
Net premium on bonds payable	(549,416)
Lease Payable	(148,420)
Financed purchase from direct borrowing	(738,238)
Compensated absences payable	(347,575)
Severance payable	(979,748)
Net pension liability	(51,720,052)
Net OPEB asset created through treatment of general obligation (G.O.) taxable OPEB bonds as employer contribution to defined benefit OPEB plan is not recognized in the governmental funds.	2,276,337
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions, OPEB and a bond refunding that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	14,641,311
Deferred inflows of resources related to pensions	(10,396,909)
Deferred outflows of resources related to OPEB	2,417,396
Deferred inflows of resources related to OPEB	(2,729,998)
Deferred inflows of resources related to bond refunding	(351,100)
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.	254,828
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	(495,816)
Total net position - governmental activities	$ 11,019,155

Independent School District No. 877
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2023

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds
Revenues				
Local property taxes	$ 11,525,162	$ 5,705,236	$ 2,503,167	$ 19,733,565
Other local and county revenues	3,116,169	90,432	3,174,016	6,380,617
Revenue from state sources	54,427,728	293,365	704,182	55,425,275
Revenue from federal sources	4,874,318	-	1,866,178	6,740,496
Sales and other conversion of assets	37,690	-	1,786,025	1,823,715
Total revenues	73,981,067	6,089,033	10,033,568	90,103,668
Expenditures				
Current				
Administration	2,038,815	-	-	2,038,815
District support services	1,707,219	-	-	1,707,219
Elementary and secondary regular instruction	32,716,757	-	-	32,716,757
Vocational education instruction	1,921,827	-	-	1,921,827
Special education instruction	14,786,374	-	-	14,786,374
Instructional support services	5,132,734	-	-	5,132,734
Pupil support services	7,110,384	-	-	7,110,384
Sites and buildings	7,750,216	-	750	7,750,966
Fiscal and other fixed cost programs	327,925	-	-	327,925
Food service	-	-	3,324,847	3,324,847
Community education and services	-	-	3,742,017	3,742,017
Capital outlay				
District support services	504	-	-	504
Elementary and secondary regular instruction	51,099	-	-	51,099
Instructional support services	412,345	-	-	412,345
Pupil support services	44,459	-	-	44,459
Sites and buildings	1,185,594	-	41,650	1,227,244
Food service	-	-	260,894	260,894
Community education and services	-	-	9,995	9,995
Debt service				
Principal	226,969	4,200,000	1,905,000	6,331,969
Interest and fiscal charges	28,997	1,487,481	41,910	1,558,388
Total expenditures	75,442,218	5,687,481	9,327,063	90,456,762
Excess of revenues over (under) expenditures	(1,461,151)	401,552	706,505	(353,094)
Other Financing Sources				
Proceeds from sale of capital assets	3,764	-	-	3,764
Proceeds from leases	72,857	-	-	72,857
Total other financing sources	76,621	-	-	76,621
Net change in fund balances	(1,384,530)	401,552	706,505	(276,473)
Fund Balances				
Beginning of year	19,595,847	853,544	3,274,536	23,723,927
End of year	$ 18,211,317	$ 1,255,096	$ 3,981,041	$ 23,447,454

Independent School District No. 877
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	$ (276,473)
Amounts reported for governmental activities in the Statement of Activities are different because: 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	2,476,014
Depreciation/ amortization expense	(5,303,672)
Net income from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds.	121,579
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(16,522)
Severance benefits are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	37,944
Proceeds of G.O. Taxable OPEB bonds issued during 2010 were contributed to the OPEB plan to retire the unfunded obligation. Governmental funds report such outlay as expenditures. The impact on the Statement of Activities is the creation of a new net OPEB asset which is a combination of the contribution to the irrevocable trust from the proceeds of the OPEB bond issue and the amortization of the net OPEB obligation for the current year.	(38,794)
Principal payments on long-term debt and leases are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	6,331,269
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. of when it is due.	169,077
Governmental funds report the effect of bond discounts and premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Activities.	365,873
Governmental funds report the effect of bond refundings when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	325,855
Proceeds from the issuance of long term debt are recognized as other financing sources in the governmental funds increasing fund balance but have no effect on net position in the Statement of Activities.	(72,857)
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.	11,522,666
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.	(433)
Change in net position - governmental activities	$ 15,641,526

Independent School District No. 877
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 11,355,167	$ 11,382,153	$ 11,525,162	$ 143,009
Other local and county revenues	2,594,641	3,021,691	3,116,169	94,478
Revenue from state sources	55,638,922	55,717,882	54,427,728	(1,290,154)
Revenue from federal sources	3,263,940	4,727,558	4,874,318	146,760
Sales and other conversion of assets	22,000	22,000	37,690	15,690
Total revenues	72,874,670	74,871,284	73,981,067	(890,217)
Expenditures				
Current				
Administration	1,944,158	2,008,359	2,038,815	30,456
District support services	1,844,763	1,778,778	1,707,219	(71,559)
Elementary and secondary regular instruction	32,715,909	33,441,818	32,716,757	(725,061)
Vocational education instruction	2,127,676	1,893,254	1,921,827	28,573
Special education instruction	14,202,413	15,002,758	14,786,374	(216,384)
Instructional support services	4,894,109	5,343,328	5,132,734	(210,594)
Pupil support services	7,275,878	7,127,965	7,110,384	(17,581)
Sites and buildings	6,209,864	6,174,087	7,750,216	1,576,129
Fiscal and other fixed cost programs	302,255	302,255	327,925	25,670
Capital outlay				
Administration	450	450	-	(450)
District support services	9,458	9,458	504	(8,954)
Elementary and secondary regular instruction	95,294	104,818	51,099	(53,719)
Vocational education instruction	5,000	5,000	-	(5,000)
Special education instruction	1,000	1,000	-	(1,000)
Instructional support services	325,272	434,672	412,345	(22,327)
Pupil support services	3,360	3,360	44,459	41,099
Sites and buildings	2,063,418	1,963,535	1,185,594	(777,941)
Debt service				
Principal	107,530	207,727	226,969	19,242
Interest and fiscal charges	23,890	27,800	28,997	1,197
Total expenditures	74,151,697	75,830,422	75,442,218	(388,204)
Excess of revenues under expenditures	(1,277,027)	(959,138)	(1,461,151)	(502,013)
Other Financing Sources				
Proceeds from sale of capital assets	1,500	1,500	3,764	2,264
Proceeds from leases	-	-	72,857	72,857
Total other financing sources	1,500	1,500	76,621	75,121
Net change in fund balance	$ (1,275,527)	$ (957,638)	(1,384,530)	$ (426,892)
Fund Balance				
Beginning of year			19,595,847	
End of year			$ 18,211,317	

Independent School District No. 877
Statement of Fiduciary Net Position
June 30, 2023

	Total Trust Funds
Assets	
Current	
Investments	
Brokered money market	$ 4,056,194
Fixed income	5,854,411
Equities	6,716,275
Total investments	16,742,976
Accounts and interest receivable	58,008
Total assets	$ 16,800,984
Liabilities	
Accounts payable	$ 217,874
Net Position	
Held in trust for OPEB	$ 12,777,310
Held in trust for HRA	3,805,800
Total net position	$ 16,583,110

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

	Total Trust Funds
Additions	
Contributions	$ 626,685
Investment income	
Interest, dividends, change in fair value	986,318
Total additions	1,613,003
Deductions	
Employee benefit deductions	934,524
Change in net position	678,479
Net Position	
Beginning of year	15,904,631
End of year	$ 16,583,110

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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.

B. Basic Financial Statement Information

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

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

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

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements and fiduciary fund 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 incurred. 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 resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned, and unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

Major Funds:

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

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

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.

Post Employment Debt Service Fund – This fund is used to account for the financial resources relating to the bond issued for post-employment benefits.

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

Fiduciary Funds:

OPEB Irrevocable Trust Fund – This fund is used to account for the financial resources relating to post-employment benefits.

HRA Trust Fund – This fund is used for reporting resources set aside and held in a trust arrangement for HRA contributions.

D. Deposits and Investments

The District's total deposits and investments are comprised of two major components, each with its own set of legal and contractual provisions as described below and on the following page.

1. District Funds Other than OPEB and HRA Trust Funds

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

The District's total deposits and investments are comprised of two major components, each with its own set of legal and contractual provisions as described below and on the following page.

1. District Funds Other than OPEB and HRA Trust Funds (Continued)

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

Cash and investments as of June 30, 2023, were comprised of deposits, shares in the Minnesota School District Liquid Asset Fund (MSDLAF) Liquid, MSDLAF+ Term, and MSDLAF Max securities, Minnesota Trust (MNTrust) investment shares, and a brokered certificate of deposit through MNTrust. MSDLAF securities and MNTrust investment shares are valued at amortized cost, which approximates fair value.

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.

In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF Liquid or MNTrust. 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. MSDLAF+ Term investments have a maturity of 60 days to one year and early withdrawal may result in substantial early redemption penalties.

2. OPEB and HRA Trust Funds

These funds represent investments administered by the District's OPEB and HRA Trust investment managers. As of June 30, 2023, they were comprised of brokered money markets, government agencies, corporate securities equities, and mutual funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

2. OPEB and HRA Trust Funds (Continued)

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

Minnesota Statutes authorize the OPEB and HRA Trust 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, corporate bonds, common stock and foreign stock of the highest quality, mutual funds, repurchase and reverse agreements, commercial paper of the highest quality with a maturity no longer than 270 days and in the State Board of Investments. Investments are stated at fair value.

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

G. Inventories

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 County and Hennepin County 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.

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 with an estimated useful life in excess of five years, including all computer equipment regardless of the value. 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 20 years for equipment.

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Right-to-Use Lease Assets/Lease Liabilities (Continued)

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

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

L. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate 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 five 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. A deferred charge on refunding is reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred inflows of resources related to pensions and OPEB are recorded for various estimate differences that will be amortized and recognized over future years.

M. Long-Term Obligations

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Long-Term Obligations (Continued)

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 or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Compensated Absences

Vacation pay is earned at various rates by employees and accrued as compensated absences in the Statement of Net Position. Substantially all employees are entitled to sick leave at various rates. Classified employees are not compensated for unused sick leave upon a qualified termination of employment.

Non-classified employees receive payment for a set number of sick days after reaching age 55 and completing 15 years of service. The amount of compensated absences for sick leave anticipated to be paid upon employees' retirements is recorded as severance payable in the Statement of Net Position.

O. Post Employment Severance and Health Benefits

Severance and health benefits consist of lump sum retirement payments and post employment health care benefits.

The District maintains various early retirement incentive payment plans for its employee groups. Teacher and administrator employee group plans contain benefit formulas based on years of service and/or minimum age requirements. No employee can receive early retirement incentive payments exceeding one year's salary.

Under the terms of certain collectively bargained employment contracts, the District is required to pay the medical and dental insurance premiums for retired teachers and administrators until they reach specific age requirements such as Medicare eligibility. The amount to be paid is equal to the full monthly premium cost for insurance coverage available under the appropriate current employment contract.

P. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Pensions (Continued)

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

Q. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, the District recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

R. 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.

S. Fund Equity

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

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, nonfinancial assets held for resale, or the permanent principal of endowment funds.

- Restricted Fund Balance – These are amounts that are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board by formal action. Constraints are only removed by formal board action.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Fund Equity (Continued)

- Assigned Fund Balance – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the Director of Finance and Operations or the School Board.

- Unassigned Fund Balance – These are amounts that are the residual amounts in the General Fund not reported in any other classification. Unassigned amounts in the General Fund are technically available for expenditure for any purpose. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

- Minimum Fund Balance Policy – The School Board shall strive to maintain a fund balance of between 8% and 12% of fund balance to total operating expenditures in the General Fund. The fund balance shall be defined as the sum of the unassigned fund balance, the restricted next year's approved budget deficit fund balance, and the nonspendable fund balances.

- The Business Office shall monitor the fund balance. If the fund balance falls below 8%, the School Board shall implement a procedure to stabilize the District's financial position. This shall involve:

    1. No new programs will be added at the District level unless matched by a like revenue source.
    2. Allocations such as textbooks, supplies, etc., shall be frozen.
    3. The District will review other measures which will not immediately affect delivery of programs but could have a cost savings. An example might be areas where expenses have historically been lower than budgeted levels.

- If the fund balance is projected to fall below 6%, the District shall take measures to either generate additional revenues or to reduce expenditures through budget cuts or a combination of both.

T. Net Position

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. 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.

V. Budgetary Information

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

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not required for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

District Funds Other than OPEB and HRA Trust Funds

A. Deposits

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

District Funds Other than OPEB and HRA Trust Funds (Continued)

A. Deposits (Continued)

Custodial Credit Risk – Deposits: This is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in possession of an outside party. *Minnesota Statutes* § 118A requires all deposits be protected by federal deposit insurance, corporate security bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The District has a deposit policy that requires the District's deposits to be collateralized as required by *Minnesota Statutes* § 118.03 for an amount exceeding FDIC or FSLIC coverage. *Minnesota Statutes* require all deposits be protected by federal depository insurance. As of June 30, 2023, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

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

Pooled Deposits	
Checking	$ 352,350
Certificates of deposit	1,385,000
Savings	2,941
Total pooled deposits	$ 1,740,291

B. Investments

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

Investment Type	Fair Value	Investment Maturities: Less than 1 Year	Investment Maturities: 1-5 Years	Credit Rating
MNTrust Investment Shares	$ 781,075	$ 781,075	$ -	N/A
MNTrust Negotiable Certificate of Deposit	244,963	-	244,963	N/A
MSDLAF - LAF	4,032,718	4,032,718	-	AAAm
MSDLAF - Term	5,000,000	5,000,000	-	AAAm
MSDLAF - Max	17,287,989	17,287,989	-	AAAm
Total investments	$ 27,346,745	$ 27,101,782	$ 244,963	

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.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

District Funds Other than OPEB and HRA Trust Funds (Continued)

B. Investments (Continued)

Credit Risk: This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District's investment policy refers to *Minnesota Statutes* §§ 118A.01 through 118A.06. Statutes limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The District will minimize credit risk by limiting investments to those allowed by statutory constraints. The District's investments are rated in the table above. Also as indicated in the table, there are certain investments that are not subject to credit risk and therefore, not rated.

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 places no limit on the amount the District may invest in any one issuer, though it does state the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities and that no more than 50% of the total portfolio will be with any one instrument.

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 investments shall be held by institutions designated by the School Board.

C. Trust Fund Investments

As of June 30, 2023, the District's OPEB and HRA Trust Fund had the following investments:

		Investment Maturities				
Investment Type	Fair Value	Less than 1 Year	1-2 Years	2-5 Years	5-10 Years	Greater than 10 years
Brokered Money Markets	$ 4,056,194	$ 4,056,194	$ -	$ -	$ -	$ -
Government Agencies	3,579,015	947,542	479,159	868,255	1,078,293	205,766
Corporate Securities	2,275,396	344,766	102,319	901,002	749,137	178,172
Equities	6,716,275	6,716,275	-	-	-	-
Bond Mutual Funds	116,096	116,096	-	-	-	-
Total investments	$16,742,976	$ 12,180,873	$ 581,478	$ 1,769,257	$ 1,827,430	$ 383,938

Interest Rate Risk: The District's OPEB Trust Investment Policy states the investment emphasis is on the current income requirements and capital preservation, with a secondary emphasis on capital appreciation. The District has a moderate risk tolerance. The asset allocation strategy for the trust is as follows:

Asset Class	Percent	Range
Cash equivalents	2%	0-100%
Bonds	48%	+/- 15%
Equities	50%	+/- 15%

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

District Funds Other than OPEB and HRA Trust Funds (Continued)

C. Trust Fund Investments (Continued)

Credit Risk: The District will minimize credit risk by limiting investments to those allowed in the Trust portfolio. The Trust's investments in government agencies and corporate securities were rated Baa3 or greater by Moody's. The remaining investments are not subject to credit risk and, therefore, not rated. The District's OPEB Investment Policy states investments must have a rating of Baa3 or greater.

Concentration of Credit Risk: The District's OPEB Trust Investment Policy states no single security, with the exception of a security issued by the U.S. Government, its agencies and/or instrumentalities, shall at the time of purchase, constitute more than 5% of the value of the portfolio. The Policy also indicates the District has an investment horizon which is considered to be long-term, in excess of ten years. The District's OPEB investments in Vanguard 500 Index Fund (11.8%), T Rowe Price Dividend Growth Fund Inc (5.6%), and Federal Farm Credit Banks Funding Corp (6.5%) exceeded 5% of total OPEB investments.

Custodial Credit Risk: The District's OPEB Trust Investment Policy does not address custodial credit risk.

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

- $10,888,565 of investments are valued using a quoted market prices (Level 1 inputs)
- $5,854,411 of investments are valued using a matrix pricing model (Level 2 inputs)
- $244,963 of investments are valued using interactive data (Level 2 inputs)

D. Deposits and Investments

The following is a summary of total deposits and investments:

District governmental funds	
Deposits - pooled (Note 2.A.)	$ 1,740,291
Investments pooled (Note 2.B.)	27,346,745
Petty cash	6,000
OPEB and HRA irrevocable trust funds	
Investments (Note 2.C.)	16,742,976
Total deposits and investments	$ 45,836,012

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

District Funds Other than OPEB and HRA Trust Funds (Continued)

D. Deposits and Investments (Continued)
Deposits and investments are presented in the June 30, 2023, basic financial statements as follows:

Statement of Net Position	
Cash and investments	$ 29,093,036
Statement of Fiduciary Net Position	
Trust funds	16,742,976
Total deposits and investments	$ 45,836,012

NOTE 3 – 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	$ 4,222,035	$ -	$ -	$ 4,222,035
Construction in progress	161,051	106,413	161,051	106,413
Total capital assets not being depreciated	4,383,086	106,413	161,051	4,328,448
Capital assets being depreciated				
Land improvements	13,635,122	337,082	-	13,972,204
Buildings	132,400,399	1,404,467	-	133,804,866
Equipment and vehicles	8,147,094	716,516	18,920	8,844,690
Total capital assets being depreciated	154,182,615	2,458,065	18,920	156,621,760
Less accumulated depreciation for				
Land improvements	5,134,624	619,452	-	5,754,076
Buildings	71,165,278	3,954,147	-	75,119,425
Equipment and vehicles	4,940,368	686,137	18,920	5,607,585
Total accumulated depreciation	81,240,270	5,259,736	18,920	86,481,086
Total capital assets being depreciated, net	72,942,345	(2,801,671)	-	70,140,674
Governmental activities, capital assets, net	$ 77,325,431	$ (2,695,258)	$ 161,051	$ 74,469,122

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Right-to-use assets being amortized				
Equipment	$ 127,170	$ 72,587	$ -	$ 199,757
Less accumulated amortization for				
Equipment	19,075	43,936	-	63,011
Governmental activities, right-to-use assets, net	$ 108,095	$ 28,651	$ -	$ 136,746

NOTE 3 – CAPITAL ASSETS (CONTINUED)

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

District support services	$ 632
Elementary and secondary regular instruction	2,567,771
Vocational education instruction	333
Special education instruction	1,687
Instructional support services	134,412
Pupil support	1,272
Sites and buildings	2,533,299
Food service	57,433
Community service	6,833
Total depreciation/ amortization expense	$ 5,303,672

NOTE 4 – 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, including						
2013A Alternative Facilities Bonds	05/01/13	1.00%-2.00%	$ 3,855,000	02/01/24	$ 2,115,000	$ 2,115,000
2015A School Building Bonds	02/04/15	2.75%-3.00%	32,620,000	02/01/30	32,620,000	-
2021A Refunding Bonds	11/18/21	5.00%	7,980,000	02/01/24	3,940,000	3,940,000
Total G.O. bonds					38,675,000	6,055,000
Unamortized bond premium					549,416	-
Net bonds payable					39,224,416	6,055,000
Financed purchases from direct borrowing					738,238	216,014
Leases payable					148,420	35,800
Severance payable					1,064,413	84,665
Compensated absences payable					347,575	347,575
Total all long-term liabilities					$ 41,523,062	$ 6,739,054

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

NOTE 4 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds. Financed Purchases and Leases

Minimum annual principal and interest payments required to retire bond, financed purchase, and lease liabilities:

Year Ending June 30,	G.O. Bonds Principal	G.O. Bonds Interest	G.O. Bonds Total
2024	$ 6,055,000	$ 1,196,223	$ 7,251,223
2025	5,035,000	956,923	5,991,923
2026	5,205,000	805,873	6,010,873
2027	5,365,000	649,723	6,014,723
2028	5,510,000	502,185	6,012,185
2029-2030	11,505,000	520,350	12,025,350
Total	$ 38,675,000	$ 4,631,276	$ 43,306,276

Year Ending June 30,	Financed Purchases Principal	Financed Purchases Interest	Financed Purchases Total
2024	$ 216,014	$ 14,062	$ 230,076
2025	70,546	9,336	79,882
2026	71,857	8,025	79,882
2027	73,193	6,690	79,883
2028	74,553	5,329	79,882
2029-2031	232,075	7,572	239,647
Total	738,238	51,014	789,252

Year Ending June 30,	Leases Principal	Leases Interest	Leases Total
2024	$ 35,800	$ 8,160	$ 43,960
2025	37,674	6,286	43,960
2026	39,662	4,297	43,959
2027	20,537	2,453	22,990
2028	14,747	1,297	16,044
Total	$ 148,420	$ 22,493	$ 170,913

NOTE 4 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

	Balance	Additions	Reductions	Balance
Long-term liabilities				
G.O. bonds	$ 44,780,000	$ -	$ 6,105,000	$ 38,675,000
Net premium	915,289	-	365,873	549,416
Financed purchases from direct borrowing	930,476	-	192,238	738,238
Leases payable	109,594	72,857	34,031	148,420
Severance payable	1,081,263	140,711	157,561	1,064,413
Compensated absences payable	331,053	592,921	576,399	347,575
Total long-term liabilities	$ 48,147,675	$ 806,489	$ 7,431,102	$ 41,523,062

Financed Purchases from Direct Borrowing

In April 2010, the District entered into an agreement for the remodel of the Montrose Early Childhood Building. The total financed was $726,750 with an interest rate of 5.55% and is to be paid through the General Fund. In April 2017, the District refinanced the purchase agreement. The total financed was $839,792 with an interest rate of 2.99% and is to be paid through the General Fund. The agreement requires the District to make annual payments through May 1, 2024.

In April 2021, the District entered into a purchase agreement for the tennis court reconstruction. The total financed was $1,324,474 with an interest rate of 1.85% and is to be paid through the General Fund. The agreement requires the District to make annual payments through April 1, 2031.

Leases payable

In October 2021, the District entered into a lease agreement for copiers. The total financed was $127,170 with an interest rate of 3.79% and is to be paid through the General Fund. The agreement requires the District to make annual payments through September 2026.

In June 2023, the District entered into a lease agreement for a turf robot. The total financed was $72,857 with an interest rate of 8.5% and is to be paid through the General Fund. The agreement requires the District to make annual payments through June 2028.

NOTE 5 – FUND BALANCES/NET POSITION

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

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

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balance

	General Fund	Debt Service	Other Nonmajor Funds	Total
Nonspendable for				
Inventory	$ 134,246	$ -	$ 57,792	$ 192,038
Prepaid items	572,063	-	1,781	573,844
Total nonspendable	706,309	-	59,573	765,882
Restricted/reserved for				
Student Activities	42,337	-	-	42,337
Operating Capital	1,749,715	-	-	1,749,715
Medical Assistance	326,694	-	-	326,694
Community Education	-	-	307,973	307,973
Early Childhood and Family Education	-	-	195,493	195,493
School Readiness	-	-	100,375	100,375
Food Service	-	-	2,959,744	2,959,744
Debt Service	-	1,255,096	436,184	1,691,280
Total restricted/reserved	2,118,746	1,255,096	3,999,769	7,373,611
Committed for				
Separation Benefits	2,576,411	-	-	2,576,411
Assigned for				
Carryover	1,352,588	-	-	1,352,588
Technology capital	853,208	-	-	853,208
Qcomp	25,072	-	-	25,072
Student Activities - Fund 9	428,932	-	-	428,932
Total assigned	2,659,800	-	-	2,659,800
Unassigned for				
Long-term facilities and maintenance*	(198,064)	-	-	(198,064)
Community service*	-	-	(78,301)	(78,301)
Dental insurance*	(70,774)	-	-	(70,774)
Unassigned	10,418,889	-	-	10,418,889
Total unassigned	10,150,051	-	(78,301)	10,071,750
Total fund balance	$ 18,211,317	$ 1,255,096	$ 3,981,041	$ 23,447,454

*Negative restricted/reserved and assigned fund balances have been reclassified to unassigned for the basic financial statements in accordance with GASB Statement No. 54.

NOTE 5 – FUND BALANCES (CONTINUED)

A. Fund Balance (Continued)

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

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

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

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

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

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

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

Committed for Separation Benefits – This balance represents the resources set aside for the payment of retirement benefits including compensated absences, pensions, OPEB, and termination benefits.

Assigned for Carryover – This balance represents unspent budget appropriations carried over for the subsequent year.

NOTE 5 – FUND BALANCES (CONTINUED)

A. Fund Balance (Continued)

Assigned for Technology Capital – This balance represents the resources set aside for capital costs.

Assigned for QComp – This balance represents resources set aside for QComp.

Assigned for Student Activities Fund 9 – This balance represents the accumulation of the student activity accounts that are under School Board control.

Unassigned 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). This balance was negative as of June 30, 2023.

Unassigned for Community Service – This balance represents the remaining negative fund balance of the Community Service Fund.

Unassigned for Dental Insurance – This balance represents the resources set aside for payment of dental insurance costs. This balance was negative as of June 30, 2023.

B. Net Position

Net position restricted for other purposes on the Statement of Net Position are comprised of the total positive restricted fund balances of the General and total fund balance of the Food Service and Community Service Funds.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2023, was ($7,502,136). The components of pension expense are noted in the following plan summaries.

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

Teachers' Retirement Association

A. Plan Description

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

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

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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 (DCR) 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 1 Benefits

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

With these provisions:

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

NOTE 6 – 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:

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

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

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

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

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

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation date	July 1, 2022
Measurement date	June 30, 2022
Experience study	June 5, 2019 (demographic and economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.00%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028, and 3.25% after June 30, 2028.
Projected salary increase	2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% after June 30, 2028.
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.
Mortality Assumptions	
Pre-retirement	RP 2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

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

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

Changes in actuarial assumptions since the 2021 valuation:

- None

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

Teachers' Retirement Association (Continued)

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 $40,822,087 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 0.5098% at the end of the measurement period and 0.5147% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 40,822,087
State's proportionate share of the net pension liability associated with the District	3,027,292

For the year ended June 30, 2023, the District recognized pension expense of ($8,873,278). Included in this amount, the District recognized $416,262 as pension expense for the support provided by direct aid.

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 601,202	$ 365,946
Net collective difference between projected and actual earnings on plan investments	1,008,690	-
Changes of assumptions	6,602,444	8,935,324
Changes in proportion	60,836	846,248
Contributions to TRA subsequent to the measurement date	2,771,311	-
Total	$ 11,044,483	$ 10,147,518

The $2,771,311 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

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

Year Ended June 30,	Pension Expense Amount
2024	$ (8,205,599)
2025	869,119
2026	150,894
2027	5,318,195
2028	(6,955)
Total	$ (1,874,346)

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

Teachers' Retirement Association (Continued)

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

District proportionate share of NPL		
1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
$ 64,353,798	$ 40,822,087	$ 21,533,422

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

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

Public Employees' Retirement Association

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

General Employees Retirement Plan

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

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

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

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

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.

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 $785,228. The District's contributions were equal to the required contributions as set by state statute.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2023, the District reported a liability of $10,897,965 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 $319,419.

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 0.1376% at the end of the measurement period and 0.1378% for the beginning of the period.

School's proportionate share of net pension liability	$ 10,897,965
State of Minnesota's proportionate share of the net pension liability associated with the School	319,419
Total	$ 11,217,384

For the year ended June 30, 2023, the District recognized pension expense of $1,371,142 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $47,729 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.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 91,028	$ 116,789
Changes in actuarial assumptions	2,469,884	45,259
Difference between projected and actual investments earnings	191,254	-
Change in proportion	59,434	87,343
Contributions paid to PERA subsequent to the measurement date	785,228	-
Total	$ 3,596,828	$ 249,391

The $785,228 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2024	$ 971,894
2025	956,213
2026	(351,454)
2027	985,556
Total	$ 2,562,209

NOTE 6 – 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:

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

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.

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

Public Employees′ Retirement Association (Continued)

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

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

General Employees Fund

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

Changes in Plan Provisions
- There have been no changes since the previous valuation.

G. Discount Rates
The discount rate used to measure the total pension liability in 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 proprionate share of the PERA net pension liability	$ 17,213,907	$ 10,897,965	$ 5,717,918

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

NOTE 7 – RETIREMENT PLANS

A. Post Retirement Health Care Savings Plan

The District's Post Retirement Health Care Savings Plan (the "Plan") allows employees to use individual accounts to save for medical expenses. The accounts are funded entirely with employer contributions. Employee participation is a voluntary process negotiated through the collective bargaining process. Employees cannot voluntarily contribute to this Plan. Amounts and how it will be funded must be mandated through collective bargaining or through a personnel policy. Any employee covered under the +Plan may draw down the balance of the account for reimbursement of eligible medical expenses including health care premiums. Contributions to the Plan by the District totaled $291,498 for the year.

B. Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's Defined Contribution Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. The District makes matching contribution for some administrative employees of $242,835. Contributions are invested to tax deferred annuities selected and owned by Plan participants. Employee contributions for the fiscal year totaled $1,147,285.

NOTE 8 – FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan which is classified as a "cafeteria plan" under Section 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their groups allows eligibility. Eligible employees can elect to participate by contributing pretax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

Before the beginning of the plan year, which runs December 31 to December 31, each participant designates a total amount of pretax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the plan, whether or not such contributions have been made.

Payments of insurance premiums (health and dental) are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund.

Amounts withheld for medical reimbursement and dependent care are held for the benefit of the flexible benefit plan. All assets of the plan are administered by an employee of the District. Payments are made by the District to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the participant. The medical reimbursement and dependent care activity is included in the basic financial statements in the General Fund.

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

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage. In addition, the plan provides severance benefits based on years of service that are placed directly in a medical savings account upon retirement. 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.

B. Benefits Provided

Teachers who apply for early retirement shall remain eligible to receive certain health insurance benefits until the end of the school year in which the teacher becomes Medicare eligible. Full vesting of such amounts occurs upon attaining 56 years of age. The General Fund, Food Service Fund and Community Service Fund typically liquidate the liability related to OPEB.

C. Members

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

Inactive employees or beneficiaries currently receiving benefits	46
Active employees	564
Total	610

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 contract terms. For the year-ended June 30, 2023, the District contributed $16,220 to the plan.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation dated June 30, 2022, with a measurement date of June 30, 2023, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Investment rate of return	6.00%, net of investment expense
Inflation	2.50%
Healthcare cost trend increases	6.8% for FY2023, gradually decreasing over several decades to an ultimate rate of 3.9% in FY2076 and later years.
Mortality Assumption	
Teachers	From the July 1, 2022 Teachers Retirement Association of Minnesota (TRA) actuarial valuation, mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments.
Non-Teachers	From the July 1, 2022 PERA of Minnesota General Employees Retirement Plan actuarial valuation, mortality rates were based on the Pub-2010 General mortality tables with projected mortality improvements based on scale MP-2021, and other adjustments.

The actuarial assumptions used in the June 30, 2022, valuation were based on the results of an actuarial experience study for the period July 1, 2021, through June 30, 2022.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

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

Asset Class	Target	Long-Term Expected Real Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic equity	35.5 %	4.91 %	7.41 %
International equity	13.5	5.32	7.82
Fixed income	48.0	2.30	4.80
Real estate and alternatives	1.0	3.79	6.29
Cash and equivalents	2.0	0.77	3.27
Total	100.0 %		6.62 %

The long-term expected nominal rate of return is reduced to 6.0% to account for assumed investment expense. The details of the investments and the investment policy are described in Note 2 of the District's basic financial statements. For the year ended June 30, 2023, the annual money-weighed rate of return on investments, net of investment expense, was 7.49%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Changes in actuarial assumptions since the previous valuation:

- The discount rate and long-term investment return assumption was changed from 5.00% to 6.00% based on updated capital market assumptions.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience.
- Mortality rates were updated from the rates used in the 7/1/2020 PERA General Employees Plan to the rates used in the 7/1/2022 valuation.
- The percent of future retirees not eligible for an explicit subsidy (ESP or Food Service contract) assumed to elect coverage at retirement changed from 0% to 10% to reflect recent plan experience.
- The inflation assumption was changed from 2.25% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Discount Rate

The discount rate used to measure the total OPEB liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

G. Changes in Net OPEB Asset

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2022	$ 9,141,549	$ 13,250,164	$ (4,108,615)
Changes for the year			
Service cost	381,603	-	381,603
Interest	453,378	-	453,378
Differences between expected and actual experience	1,833,116	-	1,833,116
Change in assumptions	(397,495)	-	(397,495)
Employer contributions	-	16,220	(16,220)
Net investment income	-	422,104	(422,104)
Benefit payments	(911,178)	(911,178)	-
Net changes	1,359,424	(472,854)	1,832,278
Balances at June 30, 2023	$ 10,500,973	$ 12,777,310	$ (2,276,337)

H. OPEB Sensitivity

The following presents the District's net OPEB asset calculated using the discount rate of 6.0% as well as the net OPEB asset measured using 1% lower and 1% higher than the current discount rate.

	1% Decrease in Discount Rate (5.0%)	Current Discount Rate (6.0%)	1% Increase in Discount Rate (7.0%)
Net OPEB liability (asset)	$ (1,678,691)	$ (2,276,337)	$ (2,856,160)

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. OPEB Sensitivity (Continued)

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

	1% decrease (5.8% decreasing to 2.9%)	Current (6.8% decreasing to 3.9%)	1% increase (7.8% decreasing to 4.9%)
Net OPEB liability (asset)	$ (2,937,065)	$ (2,276,337)	$ (1,525,813)

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the District recognized OPEB expense of $55,014. As of 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
Net difference between projected and actual earnings on OPEB plan investments	$ 554,356	$ -
Differences between expected and actual liability	1,823,611	1,383,715
Changes of assumptions	39,429	1,346,283
Total	$ 2,417,396	$ 2,729,998

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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

Year Ending June 30,	Total
2024	$ (131,097)
2025	(193,182)
2026	258,628
2027	(152,506)
2028	(152,562)
Thereafter	58,117
Total	$ (312,602)

NOTE 10 – COMMITMENTS

A. 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 to finance the acquisition and betterment of the addition to the existing WTC facilities.

The addition was financed through a financed purchase agreement. 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 basic financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North Buffalo, Minnesota 55313-1936.

B. Rental Agreement

The District entered into a rental agreement with the City of Buffalo, Minnesota (the "City") in 2001 for use of the Civic Center by the District.

NOTE 10 – COMMITMENTS (CONTINUED)

B. Rental Agreement (Continued)

The original agreement was for a period of 15 years commencing September 1, 2000. The District approved an amended agreement extending the agreement for an additional three years and has been operating on the same agreement since. The agreement calls for a minimum rental of 335 hours of ice time per year at the rate of $220 per hour and an annual payment of $41,000 for use of classrooms, team and locker rooms, and additional ice time during the day when school is in session. The annual payment increases by $1,000 annually on May 1st until it is capped at $45,000.

Any increase in the hourly rate of rental will be negotiated between the City and the District annually. Minimum annual payments to the City under this agreement are $115,700. The District is entitled to a percentage of gate receipts from tickets sold for attendance at District functions as part of the terms of this agreement.

C. Construction Commitments

As of June 30, 2023, the District had outstanding construction commitments as follows:

Project	Project Authorization	Expended through June 30, 2023	Commitment
Tatanka Elementary boiler	$ 919,000	$ 467,400	$ 451,600
Parkside and Discovery Elementary classroom remodel	94,500	-	94,500
Discovery Elementary roof	658,700	245,044	413,656
Total	$ 1,672,200	$ 712,444	$ 959,756

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 877
Schedule of Changes in Net OPEB Liability
and Related Ratios

	June 30, 2017	June 30, 2018	June 30, 2019
Total OPEB Liability			
Service cost	$ 571,820	$ 580,052	$ 647,543
Interest	708,616	741,570	705,963
Differenced between expected and actual experience	-	-	474,926
Changes of assumptions	(164,949)	154,281	(972,096)
Changes of benefit terms	-	-	(1,703)
Benefit payments	(883,563)	(1,223,984)	(1,177,820)
Net change in total OPEB liability	231,924	251,919	(323,187)
Beginning of year	11,799,528	12,031,452	12,283,371
End of year	$ 12,031,452	$ 12,283,371	$ 11,960,184
Plan Fiduciary Net Pension (FNP)			
Employer contributions	$ 142,146	$ 324,890	$ 375,317
Net investment income	1,013,962	714,809	851,971
Benefit payments	(883,563)	(1,223,984)	(1,177,820)
Other changes	(54,610)	-	-
Net change in plan fiduciary net position	217,935	(184,285)	49,468
Beginning of year	13,264,254	13,482,189	13,297,904
End of year	$ 13,482,189	$ 13,297,904	$ 13,347,372
Net OPEB liability	$ (1,450,737)	$ (1,014,533)	$ (1,387,188)
Plan FNP as a percentage of the total OPEB liability	112.06%	108.26%	111.60%
Covered-employee payroll	$ 36,004,117	$ 36,409,652	$ 36,946,495
Net OPEB liability as a percentage of covered-employee payroll	-4.03%	-2.79%	-3.75%

June 30, 2020	June 30, 2021	June 30, 2022	June 30, 2023
$ 539,822	$ 545,648	$ 379,229	$ 381,603
668,010	648,234	461,157	453,378
-	(2,060,899)	-	1,833,116
(415,739)	(446,131)	-	(397,495)
-	-	-	-
(1,014,013)	(1,038,455)	(1,085,498)	(911,178)
(221,920)	(2,351,603)	(245,112)	1,359,424
11,960,184	11,738,264	9,386,661	9,141,549
$ 11,738,264	$ 9,386,661	$ 9,141,549	$ 10,500,973
$ 286,132	$ 248,266	$ 300,921	$ 16,220
380,306	3,109,598	(1,299,680)	422,104
(1,014,013)	(1,038,455)	(1,085,498)	(911,178)
-	-	15,215	-
(347,575)	2,319,409	(2,069,042)	(472,854)
13,347,372	12,999,797	15,319,206	13,250,164
$ 12,999,797	$ 15,319,206	$ 13,250,164	$ 12,777,310
$ (1,261,533)	$ (5,932,545)	$ (4,108,615)	$ (2,276,337)
110.75%	163.20%	144.94%	121.68%
$ 35,294,307	$ 41,538,636	$ 38,080,609	$ 42,019,520
-3.57%	-14.28%	-10.79%	-5.42%

Independent School District No. 877
Schedule of Investment Returns

	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020	June 30, 2021	June 30, 2022	June 30, 2023
Annual money-weighted rate of return, net of investment expense	7.79%	5.42%	6.56%	2.90%	24.34%	-8.66%	7.49%

See notes to required supplementary information.

Independent School District No. 877
Schedule of District's and Non-Employer Proportionate Share
(if Applicable) of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1626%	$ 7,638,133	$ -	$ 7,638,133	$ 8,537,407	89.5%	78.75%
2015	0.1537%	7,965,532	-	7,965,532	8,884,053	89.7%	78.20%
2016	0.1484%	12,049,344	157,434	12,206,778	9,210,493	130.8%	68.90%
2017	0.1489%	9,505,678	119,554	9,625,232	9,594,720	99.1%	75.90%
2018	0.1448%	8,032,910	263,406	8,296,316	9,732,547	82.5%	79.50%
2019	0.1362%	7,530,193	233,990	7,764,183	9,636,173	78.1%	80.23%
2020	0.1405%	8,423,617	225,261	8,648,878	10,022,320	84.0%	79.10%
2021	0.1378%	5,884,677	179,696	6,064,373	9,920,613	59.3%	87.00%
2022	0.1376%	10,897,965	319,419	11,217,384	10,305,240	105.8%	76.67%

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

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

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.5473%	$ 25,219,190	$ 1,774,131	$ 26,993,321	$ 24,984,186	100.9%	81.50%
2015	0.5152%	31,870,215	3,909,225	35,779,440	26,147,587	121.9%	76.77%
2016	0.5235%	124,867,241	12,532,418	137,399,659	27,230,707	458.6%	44.88%
2017	0.5329%	106,376,507	10,282,834	116,659,341	28,687,733	370.8%	51.57%
2018	0.5273%	33,121,308	3,111,973	36,233,281	29,134,480	113.7%	78.07%
2019	0.5295%	33,750,441	2,987,024	36,737,465	30,063,515	112.3%	78.21%
2020	0.5144%	38,004,561	3,184,845	41,189,406	29,894,217	127.1%	75.48%
2021	0.5147%	22,524,811	1,899,684	24,424,495	30,799,053	73.1%	86.63%
2022	0.5098%	40,822,087	3,027,292	43,849,379	31,511,954	129.5%	76.17%

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

Independent School District No. 877
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 618,962	$ 618,962	$ -	$ 8,537,407	7.25%
2015	666,304	666,304	-	8,884,053	7.50%
2016	690,787	690,787	-	9,210,493	7.50%
2017	719,604	719,604	-	9,594,720	7.50%
2018	729,941	729,941	-	9,732,547	7.50%
2019	722,713	722,713	-	9,636,173	7.50%
2020	751,674	751,674	-	10,022,320	7.50%
2021	744,046	744,046	-	9,920,613	7.50%
2022	772,893	772,893	-	10,305,240	7.50%
2023	785,228	785,228	-	10,469,707	7.50%

Schedule of District Contributions
TRA Retirement Fund
Last Ten Years

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 1,748,893	$ 1,748,893	$ -	$ 24,984,186	7.00%
2015	1,961,069	1,961,069	-	26,147,587	7.50%
2016	2,042,303	2,042,303	-	27,230,707	7.50%
2017	2,151,580	2,151,580	-	28,687,733	7.50%
2018	2,185,086	2,185,086	-	29,134,480	7.50%
2019	2,317,897	2,317,897	-	30,063,515	7.71%
2020	2,367,622	2,367,622	-	29,894,217	7.92%
2021	2,503,963	2,503,963	-	30,799,053	8.13%
2022	2,628,097	2,628,097	-	31,511,954	8.34%
2023	2,771,311	2,771,311	-	32,412,994	8.55%

Independent School District No. 877
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 zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

TRA Retirement Fund (Continued)

2017 Changes

Changes in Actuarial Assumptions

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

2016 Changes

Changes in Actuarial Assumptions

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

TRA Retirement Fund (Continued)

2015 Changes
Changes of Benefit Terms
- The DTRFA was merged into TRA on June 30, 2015.

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

General Employees Fund

2022 Changes
Changes in Actuarial Assumptions
- The mortality improvement scale was changed from scale MP-2020 to scale MP-2021.

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

2021 Changes
Changes in Actuarial Assumptions
- The investment return and single discount rates were changed from 7.5% to 6.5% for financial reporting purposes.
- The mortality improvement scale was changed from scale MP-2019 to scale MP-2020.

Changes in Plan Provisions
- There have been no changes since the prior valuation.

2020 Changes
Changes in Actuarial Assumptions
- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changes as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retires electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

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.

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.

Post Employment Health Care Plan

2023 Changes

Changes in Actuarial Assumptions

- The discount rate and long-term investment return assumption was changed from 5.00% to 6.00% based on updated capital market assumptions.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience.
- Mortality rates were updated from the rates used in the 7/1/2020 PERA General Employees Plan to the rates used in the 7/1/2022 valuation.
- The percent of future retirees not eligible for an explicit subsidy (ESP or Food Service contract) assumed to elect coverage at retirement changed from 0% to 10% to reflect recent plan experience.
- The inflation assumption was changed from 2.25% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

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SUPPLEMENTARY INFORMATION

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual Detail - General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 11,355,167	$ 11,382,153	$ 11,525,162	$ 143,009
Other local and county revenues	2,594,641	3,021,691	3,116,169	94,478
Revenue from state sources	55,638,922	55,717,882	54,427,728	(1,290,154)
Revenue from federal sources	3,263,940	4,727,558	4,874,318	146,760
Sales and other conversion of assets	22,000	22,000	37,690	15,690
Total revenues	72,874,670	74,871,284	73,981,067	(890,217)
Expenditures				
Administration				
Salaries	1,357,960	1,394,127	1,408,463	14,336
Employee benefits	511,710	526,744	519,085	(7,659)
Purchased services	46,908	59,908	78,359	18,451
Supplies and materials	14,298	14,298	20,139	5,841
Capital expenditures	450	450	-	(450)
Other expenditures	13,282	13,282	12,769	(513)
Total administration	1,944,608	2,008,809	2,038,815	30,006
District support services				
Salaries	984,133	947,762	927,390	(20,372)
Employee benefits	413,555	378,870	408,429	29,559
Purchased services	395,380	395,751	344,867	(50,884)
Supplies and materials	25,345	29,045	5,811	(23,234)
Capital expenditures	9,458	9,458	504	(8,954)
Other expenditures	26,350	27,350	20,722	(6,628)
Total district support services	1,854,221	1,788,236	1,707,723	(80,513)
Elementary and secondary regular instruction				
Salaries	21,424,805	21,672,537	21,478,020	(194,517)
Employee benefits	8,491,043	8,580,881	8,037,472	(543,409)
Purchased services	1,258,979	1,576,189	1,628,145	51,956
Supplies and materials	1,221,752	1,269,628	1,308,877	39,249
Capital expenditures	95,294	104,818	51,099	(53,719)
Other expenditures	319,330	342,583	264,243	(78,340)
Total elementary and secondary regular instruction	32,811,203	33,546,636	32,767,856	(778,780)

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual Detail - General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Expenditures				
Vocational education instruction				
Salaries	$ 1,015,173	$ 925,849	$ 924,690	$ (1,159)
Employee benefits	372,301	342,653	342,058	(595)
Purchased services	711,919	594,469	619,156	24,687
Supplies and materials	27,409	29,409	35,828	6,419
Capital expenditures	5,000	5,000	-	(5,000)
Other expenditures	874	874	95	(779)
Total vocational education instruction	2,132,676	1,898,254	1,921,827	23,573
Special education instruction				
Salaries	9,840,581	9,994,504	9,803,512	(190,992)
Employee benefits	3,708,314	3,750,897	3,549,042	(201,855)
Purchased services	322,205	927,504	1,003,800	76,296
Supplies and materials	222,825	223,165	285,144	61,979
Capital expenditures	1,000	1,000	-	(1,000)
Other expenditures	108,488	106,688	144,876	38,188
Total special education instruction	14,203,413	15,003,758	14,786,374	(217,384)
Instructional support services				
Salaries	2,937,115	2,879,201	2,904,374	25,173
Employee benefits	859,847	836,685	866,126	29,441
Purchased services	544,076	550,626	321,124	(229,502)
Supplies and materials	453,506	977,251	983,207	5,956
Capital expenditures	325,272	434,672	412,345	(22,327)
Other expenditures	99,565	99,565	57,903	(41,662)
Total instructional support services	5,219,381	5,778,000	5,545,079	(232,921)
Pupil support services				
Salaries	1,244,399	1,251,021	1,254,752	3,731
Employee benefits	480,288	461,616	431,021	(30,595)
Purchased services	5,546,520	5,198,935	5,081,686	(117,249)
Supplies and materials	4,171	215,893	342,685	126,792
Capital expenditures	3,360	3,360	44,459	41,099
Other expenditures	500	500	240	(260)
Total pupil support services	7,279,238	7,131,325	7,154,843	23,518

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Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual Detail - General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Expenditures				
Sites and buildings				
Salaries	$ 2,277,942	$ 2,209,603	$ 2,167,317	$ (42,286)
Employee benefits	798,461	772,145	712,033	(60,112)
Purchased services	2,120,800	2,184,868	4,295,992	2,111,124
Supplies and materials	941,811	941,811	511,228	(430,583)
Capital expenditures	2,063,418	1,963,535	1,185,594	(777,941)
Other expenditures	70,850	65,660	63,646	(2,014)
Total sites and buildings	8,273,282	8,137,622	8,935,810	798,188
Fiscal and other fixed cost programs				
Purchased services	302,255	302,255	327,925	25,670
Debt service				
Principal	107,530	207,727	226,969	19,242
Interest and fiscal charges	23,890	27,800	28,997	1,197
Total debt service	131,420	235,527	255,966	20,439
Total expenditures	74,151,697	75,830,422	75,442,218	(388,204)
Excess of revenues under expenditures	(1,277,027)	(959,138)	(1,461,151)	(502,013)
Other Financing Sources				
Proceeds from sale of capital assets	1,500	1,500	3,764	2,264
Proceeds from leases	-	-	72,857	72,857
Total other financing sources	1,500	1,500	76,621	75,121
Net change in fund balance	$ (1,275,527)	$ (957,638)	(1,384,530)	$ (426,892)
Fund Balance				
Beginning of year			19,595,847	
End of year			$ 18,211,317	

Independent School District No. 877
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2023

	Special Revenue		Debt Service	
	Food Service	Community Service	Employment Benefits Debt Service Fund	Total Nonmajor Funds
Assets				
Cash and investments	$ 2,982,075	$ 1,013,993	$ 435,118	$ 4,431,186
Current property taxes receivable	-	314,162	-	314,162
Delinquent property taxes receivable	-	7,498	28,111	35,609
Accounts receivable	20,024	16,800	-	36,824
Due from Department of Education	5,786	70,882	1,066	77,734
Due from other Minnesota school districts	194	64,502	-	64,696
Due from Federal Government through Department of Education	66,439	5,224	-	71,663
Due from other governmental units	490	7,754	-	8,244
Inventory	57,792	-	-	57,792
Prepaid items	-	1,781	-	1,781
Total assets	$ 3,132,800	$ 1,502,596	$ 464,295	$ 5,099,691
Liabilities				
Accounts payable	$ 4,570	$ 34,388	$ -	$ 38,958
Salaries and benefits payable	15,734	162,305	-	178,039
Due to other Minnesota districts	-	248	-	248
Due to other governmental units	-	54	-	54
Unearned revenue	94,960	109,163	-	204,123
Total liabilities	115,264	306,158	-	421,422
Deferred Inflows of Resources				
Unavailable revenue - property taxes levied for subsequent year's expenditures	-	661,619	-	661,619
Unavailable revenue - delinquent property taxes	-	7,498	28,111	35,609
Total deferred inflows of resources	-	669,117	28,111	697,228
Fund Balances				
Nonspendable	57,792	1,781	-	59,573
Restricted	2,959,744	603,841	436,184	3,999,769
Unassigned	-	(78,301)	-	(78,301)
Total fund balances	3,017,536	527,321	436,184	3,981,041
Total liabilities, deferred inflows of resources, and fund balances	$ 3,132,800	$ 1,502,596	$ 464,295	$ 5,099,691

Independent School District No. 877
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2023

	Special Revenue		Debt Service	Capital Project	
	Food Service	Community Service	Post Employment	Building Construction	Total Nonmajor
Revenues					
Local property taxes	$ -	$ 579,413	$ 1,923,754	$ -	$ 2,503,167
Other local and county revenues	100,047	3,041,556	32,413	-	3,174,016
Revenue from state sources	163,061	530,457	10,664	-	704,182
Revenue from federal sources	1,856,616	9,562	-	-	1,866,178
Sales and other conversion of assets	1,786,025	-	-	-	1,786,025
Total revenues	3,905,749	4,160,988	1,966,831	-	10,033,568
Expenditures					
Current					
Sites and buildings	-	-	-	750	750
Food service	3,324,847	-	-	-	3,324,847
Community education and services	-	3,742,017	-	-	3,742,017
Capital outlay					
Sites and buildings	-	-	-	41,650	41,650
Food service	260,894	-	-	-	260,894
Community education and services	-	9,995	-	-	9,995
Debt service					
Principal	-	-	1,905,000	-	1,905,000
Interest and fiscal charges	-	-	41,910	-	41,910
Total expenditures	3,585,741	3,752,012	1,946,910	42,400	9,327,063
Net change in fund balances	320,008	408,976	19,921	(42,400)	706,505
Fund Balances					
Beginning of year	2,697,528	118,345	416,263	42,400	3,274,536
End of year	$ 3,017,536	$ 527,321	$ 436,184	$ -	$ 3,981,041

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Other local and county revenues	$ 8,400	$ 94,938	$ 100,047	$ 5,109
Revenue from state sources	201,440	160,270	163,061	2,791
Revenue from federal sources	1,124,112	1,726,068	1,856,616	130,548
Sales and other conversion of assets	2,495,935	1,885,742	1,786,025	(99,717)
Total revenues	3,829,887	3,867,018	3,905,749	38,731
Expenditures				
Food service				
Salaries	1,031,603	992,886	1,021,914	29,028
Employee benefits	554,503	563,038	507,872	(55,166)
Purchased services	152,675	175,808	173,448	(2,360)
Supplies and materials	2,385,821	1,851,047	1,602,784	(248,263)
Capital expenditures	308,000	326,300	260,894	(65,406)
Other expenditures	8,400	21,000	18,829	(2,171)
Total expenditures	4,441,002	3,930,079	3,585,741	(344,338)
Net change in fund balance	$ (611,115)	$ (63,061)	320,008	$ 383,069
Fund Balance				
Beginning of year			2,697,528	
End of year			$ 3,017,536	

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 581,274	$ 581,274	$ 579,413	$ (1,861)
Other local and county revenues	2,527,092	2,780,168	3,041,556	261,388
Revenue from state sources	542,590	538,685	530,457	(8,228)
Revenue from federal sources	-	-	9,562	9,562
Total revenues	3,650,956	3,900,127	4,160,988	260,861
Expenditures				
Community education and services				
Salaries	2,364,748	2,337,788	2,412,475	74,687
Employee benefits	819,219	824,430	817,732	(6,698)
Purchased services	279,067	318,784	331,510	12,726
Supplies and materials	138,540	168,279	175,849	7,570
Capital expenditures	17,500	12,500	9,995	(2,505)
Other expenditures	3,400	3,913	4,451	538
Total expenditures	3,622,474	3,665,694	3,752,012	86,318
Net change in fund balance	$ 28,482	$ 234,433	408,976	$ 174,543
Fund Balance				
Beginning of year			118,345	
End of year			$ 527,321	

Independent School District No. 877
Combining Statement of Fiduciary Net Position
June 30, 2023

	OPEB Irrevocable Trust Fund	HRA Trust Fund	Total Trust Funds
Assets			
Investments			
Brokered money market	$ 250,394	$ 3,805,800	$ 4,056,194
Fixed income	5,854,411	-	5,854,411
Equities	6,716,275	-	6,716,275
Mutual funds	116,096	-	116,096
Total investments	12,937,176	3,805,800	16,742,976
Accounts and interest receivable	58,008	-	58,008
Total assets	$ 12,995,184	$ 3,805,800	$ 16,800,984
Liabilities			
Accounts payable	$ 217,874	$ -	$ 217,874
Net Position			
Held in trust for OPEB	12,777,310	-	12,777,310
Held in trust for HRA	-	3,805,800	3,805,800
Total net position	$ 12,777,310	$ 3,805,800	$ 16,583,110

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

	OPEB Irrevocable Trust Fund	HRA Trust Fund	Total Trust Funds
Additions			
Contributions	$ 267,826	$ 358,859	$ 626,685
Investment income			
Interest, dividends, change in fair value	942,589	43,729	986,318
Total additions	1,210,415	402,588	1,613,003
Deductions			
Employee benefit deductions	934,524	-	934,524
Change in net position	275,891	402,588	678,479
Net Position			
Beginning of year	12,501,419	3,403,212	15,904,631
End of year	$ 12,777,310	$ 3,805,800	$ 16,583,110

Independent School District No. 877
Uniform Financial Accounting and Reporting Standards
Compliance Table
For the Year Ended June 30, 2023

	Audit	UFARS	Audit-UFARS
01 GENERAL FUND			
Total Revenue	$ 73,981,067	$ 73,981,067	$ -
Total Expenditures	75,442,218	75,442,221	(3)
Nonspendable:			
4.60 Nonspendable fund balance	706,309	706,309	-
Restricted/reserved:			
4.01 Student Activities	42,337	42,337	-
4.02 Scholarships	-	-	-
4.03 Staff Development	-	-	-
4.07 Capital Projects Levy	-	-	-
4.08 Cooperative Program	-	-	-
4.13 Building Projects Funded by COP/LP	-	-	-
4.14 Operating Debt	-	-	-
4.16 Levy Reduction	-	-	-
4.17 Taconite Building Maintenance	-	-	-
4.24 Operating Capital	1,749,715	1,749,715	-
4.26 $25 Taconite	-	-	-
4.27 Disabled Accessibility	-	-	-
4.28 Learning and Development	-	-	-
4.34 Area Learning Center	-	-	-
4.35 Contracted Alternative Programs	-	-	-
4.36 State Approved Alternative Program	-	-	-
4.38 Gifted and Talented	-	-	-
4.40 Teacher Development and Evaluations	-	-	-
4.41 Basic Skills Programs	-	-	-
4.45 Career Technical Programs	-	-	-
4.48 Achievement and Integration Revenue	-	-	-
4.49 Safe School Crime	-	-	-
4.51 QZAB Payments	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-
4.53 Unfunded Severance and Retirement Levy	-	-	-
4.59 Basic Skills Extended Time	-	-	-
4.67 Long-Term Facilities Maintenance	(198,064)	(198,064)	-
Restricted:			
4.72 Medical Assistance	326,694	326,694	-
4.64 Restricted fund balance	-	-	-
4.75 Title VII - Impact Aid	-	-	-
4.76 Payments in Lieu of Taxes	-	-	-
Committed:			
4.18 Committed for separation	2,576,411	2,576,411	-
4.61 Committed	-	-	-
Assigned:			
4.62 Assigned fund balance	2,589,026	2,589,027	(1)
Unassigned:			
4.22 Unassigned fund balance	10,418,889	10,418,887	2
02 FOOD SERVCICE FUND			
Total revenue	$ 3,905,749	$ 3,905,746	$ 3
Total expenditures	3,585,741	3,585,740	1
Nonspendable:			
4.60 Nonspendable fund balance	57,792	57,792	-
Restricted/reserved:			
4.52 OPEB liabilities not held in trust	-	-	-
Restricted:			
4.64 Restricted fund balance	2,959,744	2,959,742	2
Unassigned:			
4.63 Unassigned fund balance	-	-	-
04 COMMUNITY SERVICE FUND			
Total revenue	$ 4,160,988	$ 4,160,989	$ (1)
Total expenditures	3,752,012	3,752,009	3
Nonspendable:			
4.60 Nonspendable fund balance	1,781	1,781	-
Restricted/reserved:			
4.26 $25 Taconite	-	-	-
4.31 Community Education	307,973	307,973	-
4.32 ECFE	195,493	195,493	-
4.40 Teacher Development and Evaluation	-	-	-
4.44 School Readiness	100,375	100,375	-
4.47 Adult Basic Education	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
4.64 Restricted fund balance	-	-	-
Unassigned:			
4.63 Unassigned fund balance	(78,301)	(78,298)	(3)

	Audit	UFARS	Audit-UFARS
06 BUILDING CONSTRUCTION FUND			
Total revenue	$ -	$ -	$ -
Total expenditures	42,400	42,401	(1)
Nonspendable:			
4.60 Nonspendable fund balance	-	-	-
Restricted/Reserved:			
4.07 Capital Projects Levy	-	-	-
4.09 Alternative Facility Program	-	-	-
4.13 Building Projects Funded by COP	-	-	-
Restricted:			
4.64 Restricted fund balance	-	-	-
Unassigned:			
4.63 Unassigned fund balance	-	-	-
07 DEBT SERVICE FUND			
Total revenue	$ 6,089,033	$ 6,089,033	$ -
Total expenditures	5,687,481	5,687,481	-
Nonspendable:			
4.60 Nonspendable fund balance	-	-	-
Restricted/reserved:			
4.25 Bond refunding	-	-	-
4.33 Maximum effort load aid	-	-	-
4.51 QZAB Payments	-	-	-
4.67 LTFM	-	-	-
Restricted:			
4.64 Restricted fund balance	1,255,096	1,255,096	-
Unassigned:			
4.63 Unassigned fund balance	-	-	-
08 TRUST FUND			
Total revenue	$ 402,588	$ 402,589	$ (1)
Total expenditures	-	-	-
Unassigned:			
4.01 Student Activities	-	-	-
4.02 Scholarships	-	-	-
4.22 Net position	3,805,800	3,805,800	-
18 CUSTODIAL			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Restricted/Reserved:			
4.01 Student Activities	-	-	-
4.02 Scholarships	-	-	-
4.48 Achievement and Integration	-	-	-
4.64 Restricted	-	-	-
20 INTERNAL SERVICE FUND			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
4.22 Net position	-	-	-
25 OPEB REVOCABLE TRUST			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
4.22 Net position	-	-	-
45 OPEB IRREVOCABLE TRUST			
Total revenue	$ 1,210,415	$ 1,210,414	$ 1
Total expenditures	934,524	934,524	-
Unassigned:			
4.22 Net position	12,777,310	12,777,310	-
47 OPEB DEBT SERVICE			
Total revenue	$ 1,966,831	$ 1,966,831	$ -
Total expenditures	1,946,910	1,946,910	-
Nonspendable:			
4.60 Nonspendable fund balance	-	-	-
Restricted:			
4.64 Restricted fund balance	436,184	436,184	-
Unassigned:			
4.63 Unassigned fund balance	-	-	-

Independent School District No. 877
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Agency/Pass Through Agency/Program Title	Federal Assistance Listing Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
School Breakfast Program	10.553	$ 225,741
Commodities (noncash)	10.555	242,650
National School Lunch Program	10.555	1,148,859
COVID-19 - Supply Chain Assistance Funds	10.555C	186,395
Summer Food Service Program for Children	10.559	52,656
Total Child Nutrition Cluster and U.S. Department of Agriculture		1,856,301
U.S. Department of Treasury		
Through Minnesota Department of Education		
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Pandemic Enrollment Loss	21.027	309,672
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Summer Preschool Program	21.027	9,562
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Summer Academic Enrichment and Mental Health	21.027	96,352
Total Coronavirus Relief Fund and U.S. Department of Treasury		415,586
U.S. Federal Communications Commission		
Through Universal Service Administrative Co.		
Emergency Connectivity Fund	32.009	701,668

See notes to schedule of expenditures of federal awards.

Independent School District No. 877
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Agency/Pass Through Agency/Program Title	Federal Assistance Listing Number	Expenditures
U.S. Department of Education		
Through Minnesota Department of Education		
Title I Grants to Local Educational Agencies	84.010	$ 281,970
Supporting Effective Instruction State Grants	84.367	62,174
English Language Acquisition State Grants	84.365	13,849
Education Stabilization Fund		
COVID-19 - Governor's Emergency Education Relief (GEER) Fund	84.425C	664
COVID-19 - Elementary and Secondary School Education Relief (ESSER) Fund	84.425D	3,495
COVID-19 - ESSER II Fund	84.425D	514,728
COVID-19 - Expanded Summer Learning – ESSER Fund	84.425D	54,243
COVID-19 - American Rescue Plan (ARP) – ESSER III Fund – 90% Formula	84.425U	18,636
COVID-19 - ARP ESSER III - Learning Recovery – Lost Instructional Time	84.425U	400,166
COVID-19 - ARP ESSER III Fund – 90% Learning Loss	84.425U	77,965
Total Education Stabilization Fund		1,069,897
Through Minnesota Department of Education		
Special Education Cluster		
Special Education - Grants to States	84.027	1,398,395
Coordinated Early Intervening Services	84.027	169,510
Special Education - Preschool Grants	84.173	37,574
COVID-19 - American Rescue Plan (ARP) Individuals with Disabilities Education Act (IDEA) Part B Section 619 – Preschool Grants for Children with Disabilities	84.173X	10,840
IDEA Part B Section 619 - Centers of Excellence Discretionary Grant	84.173A	10,314
Total Special Education Cluster		1,626,633
Special Education - Grants for Infants and Families	84.181	25,812
Through Northwest Suburban Integration District		
Magnet Schools Assistance	84.165A	377,221
Total Department of Education		3,457,556
U.S. Department of Health & Human Services		
Through Minnesota Department of Education		
COVID-19 - Minnesota COVID-19 Testing Program	93.323	309,384
Total Federal Expenditures		$ 6,740,495

See notes to schedule of expenditures of federal awards.

Independent School District No. 877
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.

OTHER DISTRICT INFORMATION

Independent School District No. 877
Deferred Tax Levies
(Unaudited)

Calendar Year Levied	Collected	School Building Bonds of 2015	School Refunding Bonds of 2021 School Building Bonds of 2012	Alternative Facilities Bonds of 2013	Total
2022	2023	$ 1,004,769	$ 4,343,850	$ 2,265,165	$ 7,613,784
2023	2024	6,291,519	-	-	6,291,519
2024	2025	6,311,416	-	-	6,311,416
2025	2026	6,315,459	-	-	6,315,459
2026	2027	6,312,794	-	-	6,312,794
2027	2028	6,310,658	-	-	6,310,658
2028	2029	6,315,960	-	-	6,315,960
Total		$ 38,862,575	$ 4,343,850	$ 2,265,165	$ 45,471,590

Independent School District No. 877
Property Tax Levies, Rates, and Valuations
Last Ten Fiscal Years
(Unaudited)

Year Collectible	Net Tax Capacity Valuations	Tax Capacity Rates	General Fund	Community Service Fund	Debt Service Fund	OPEB Debt Service Fund	Total All Funds
2014	$ 26,369,245	0.3388	$ 5,040,652	$ 479,555	$ 6,259,996	$ 492,256	$ 12,272,459
2015	28,598,205	0.3538	5,102,489	444,304	7,363,703	496,186	13,406,682
2016	30,076,092	0.3449	6,299,838	464,451	5,807,758	1,290,641	13,862,688
2017	31,467,344	0.3289	6,260,288	488,197	5,914,677	1,272,597	13,935,759
2018	33,452,365	0.3247	6,963,233	493,467	5,334,875	2,069,902	14,861,477
2019	35,575,211	0.3095	7,360,503	455,473	5,398,465	2,035,660	15,250,101
2020	38,274,130	0.2918	11,795,773	476,953	5,332,883	2,030,744	19,636,353
2021	41,772,170	0.2720	12,166,462	597,305	5,363,609	2,006,174	20,133,550
2022	43,729,570	0.2655	11,294,456	582,216	5,886,980	1,935,558	19,699,210
2023	52,506,316	0.2158	13,221,891	661,619	6,531,416	-	20,414,926

Source: School Tax Report

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

Independent Auditor's Report

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ending June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 17, 2023.

Report on Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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.

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 17, 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. 877
Buffalo-Hanover-Montrose, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Independent School District No. 877's, Buffalo-Hanover-Montrose, 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 each of the District's major federal programs for the year ended June 30, 2023. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, Independent School District No. 877 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

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

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

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

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

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

Report on Internal Control over Compliance (Continued)
Our consideration of internal control over compliance was for the limited purpose described in Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified. Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 17, 2023

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Independent School District No. 877
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	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, 10.555C, 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
Assistance Listing No:	93.323
Name of Federal Program or Cluster:	MN COVID-19 Testing Program
Assistance Listing No:	84.425C, 84.425D, 84.425U
Name of Federal Program or Cluster:	Education Stabilization Fund
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	Yes

Independent School District No. 877
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no financial statement findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no Federal award findings.

There were no questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None

Minnesota Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, 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. 877, Buffalo-Hanover-Montrose, Minnesota as of and for the year ended June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District 's basic financial statements, and have issued our report thereon dated October 17, 2023.

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

The purpose of this report is solely to describe the scope of our testing of compliance and the result 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
October 17, 2023