INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA

FINANCIAL STATEMENTS

June 30, 2023

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CHATFIELD, MINNESOTA
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INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2023

<u>2022 - 2023</u>

Katie Priebe	Chairperson
Tom Keefe	Vice-Chairperson
Josh Thompson	Clerk
Jill Harstad	Treasurer
Mark Johnsrud	Director
David Sovinski	Director

<u>2021 - 2022</u>

Lanny Isensee	Chairperson
Katie Priebe	Vice-Chairperson
Josh Thompson	Clerk
Jill Harstad	Treasurer
Matthew McMahon	Director
Tom Keefe	Director

<u>Superintendent</u>

Edward Harris

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INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA

FINANCIAL SECTION

JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Independent School District #227
Chatfield, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District #227, Chatfield, Minnesota as of and for the year ended June 30, 2023, and the related notes to 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 the District, as of June 30, 2023, and the respective changes in financial position, and the budgetary comparison for the General Fund and each major special revenue fund for the year 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 the District and 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 District's management 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, that 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 form 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 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 substantial likelihood that, individually or in the aggregate, they would influence the judgement 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 judgement 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 judgement, there are conditions or events, considered in the aggregate, that 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 and the 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 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 supplementary information, Uniform Financial Accounting and Reporting Standards Compliance Table, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Supplementary Information (continued)

The supplementary information, Uniform Financial Accounting and Reporting Standards Compliance Table, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 supplementary information, Uniform Financial Accounting and Reporting Standards Compliance Table, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 information included in the report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. 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 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.

Report on Summarized Comparative Information

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statement for the year ended June 30, 2022, from which such partial information was derived.

We have previously audited the District's 2022 financial statements and our report, dated September 9, 2022, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 5, 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.

Smith, Schafer and Associates, Ltd.

Rochester, Minnesota
October 5, 2023

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Independent School District #227 – Chatfield Schools' annual financial report presents our discussion and analysis of the District's financial performance during the year that ended on June 30, 2023. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- Total Assets and Deferred Outflows of Resources: $42,175,494

- Overall revenues for the General Fund were $11,237,407 while overall expenses totaled $11,377,845.

- The General Fund Unassigned Fund Balance is $2,389,198. This represents a decrease of $312,822 from last year. The Restricted General Fund balances included State required restrictions for operating capital, gifted and talented, student activities and LTFM programming. These balances totaled $949,829 as compared to $747,743 last fiscal year.

- The General Fund total fund balance decreased by $108,713 from the prior year.

- The Food Service Fund total fund balance decreased by $88,312 from the prior year.

- The Community Service Fund total fund balance increased by $6,937 from the prior year.

- The Debt Service Fund total fund balance decreased by $709 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and other required reports. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund-financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

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

The two district-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements the District's activities are shown in one category: Governmental activities. Most of the District's basic services are included here, such as elementary and secondary regular instruction, special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements. The fund financial statements provide more detailed information about the District's funds – focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District establishes other funds to control and manage money for particular purposes (i.e. scholarship trust fund).

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The District has two kinds of funds:

- ***Governmental funds.*** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or difference) between them.
- ***Fiduciary funds.*** The District is the trustee, or fiduciary, for assets that belong to others, such as the trust fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The district's combined net position from Governmental activities was $(2,499,210) for the year ended June 30, 2023. This was an increase of $1,411,196 from the prior year due to the reduction of the net pension liability.

	Total	
	2023	2022
Assets		
Current and other assets	$ 8,340,881	$ 9,869,171
Capital assets	28,471,126	27,823,451
Total assets	36,812,007	37,692,622
Deferred Outflows of Resources		
Total deferred outflows of resources	5,363,487	3,174,583
Liabilities		
Current liabilities	1,314,683	1,350,826
Long-Term liabilities	35,828,187	33,355,482
Total liabilities	37,142,870	34,706,308
Deferred inflows of resources		
Total deferred inflows of resources	7,531,834	10,071,303
Net Position		
Net investment in capital assets	789,220	632,458
Restricted	1,248,798	1,093,131
Unrestricted	(4,537,228)	(5,635,995)
Total net position	$ (2,499,210)	$ (3,910,406)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

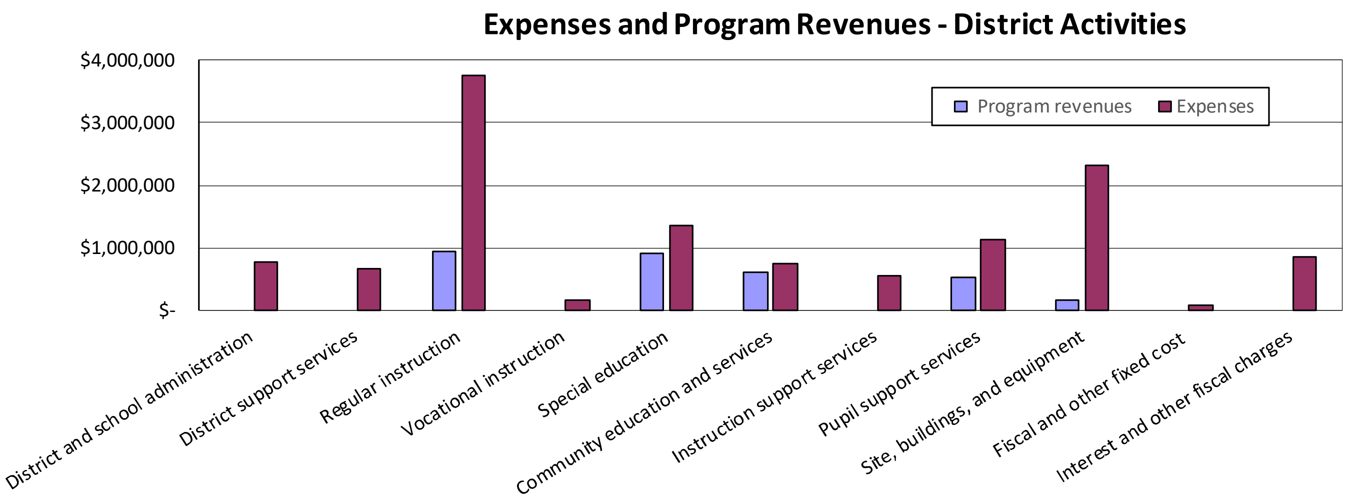
District's Revenue. The District's total revenues were $14,463,296 for the year ended June 30, 2023; compared to $13,963,074 for the year ending June 30, 2022. Local property taxes (levies) accounted for 18% percent of the total revenue for the current year and 19% for the prior year, with the remaining revenue coming from other sources – primarily the State formula aid.

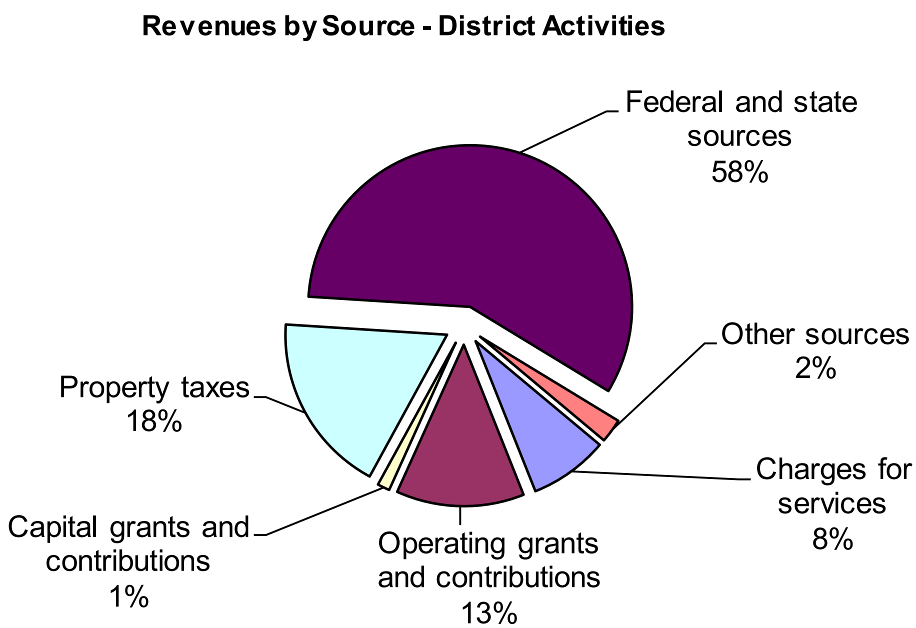
A condensed version of the Statement of Activities follows:

	Total	
	2023	2022
Revenue		
Program revenues:		
Charges for services	$ 1,137,124	$ 958,839
Operating grants and contributions	1,847,178	2,063,158
Capital grants and contributions	175,136	146,002
General revenues:		
Property taxes	2,610,077	2,660,791
Federal and state sources	8,350,143	7,960,662
Other sources	343,638	173,622
Total revenues	14,463,296	13,963,074
Expenses		
District and school administration	775,603	896,451
District support services	663,705	612,114
Regular instruction	3,768,710	4,484,190
Vocational instruction	158,465	213,151
Special education	1,365,603	1,331,044
Community education and services	750,261	616,724
Instruction support services	546,466	514,128
Pupil support services	1,133,584	1,256,158
Food service	612,371	484,456
Site, buildings, and equipment	2,317,657	2,070,057
Fiscal and other fixed cost programs	86,307	136,261
Interest and other fiscal charges	873,368	944,518
Total expenses	13,052,100	13,559,252
Change in net position	1,411,196	403,822
Net position, beginning	(3,910,406)	(4,314,228)
Net position, end of year	$ (2,499,210)	$ (3,910,406)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Below are specific graphs that provide comparisons of the district activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.





FUND BASIS FINANCIAL ANALYSIS

Financial Analysis of the District's Funds

The financial performance of the District as a school is reflected in its governmental funds as well. As the District completed the year, its Governmental Funds reported a combined fund balance of $4,167,372.

The District enrollment increased more than projected in 2022-2023, adding approximately 20 students and appears to be decreasing in 2023-2024 and stable in 2024-2025 before a slight decrease again in 2025-2026.

History of adjusted average daily membership:

Fiscal Year	ADM	% Change
2014	905.07	
2015	892.20	-1.4%
2016	913.87	2.4%
2017	903.38	-1.1%
2018	906.14	0.3%
2019	867.48	-4.3%
2020	873.55	0.7%
2021	882.41	1.0%
2022	894.61	1.4%
2023	914.84	2.3%

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

Total General Fund Operating Revenue increased $568,355 from the previous year (being $11,237,407 in 2023, and $10,669,052 in 2022).

Local property taxes are impacted by the state provided funds for school property tax relief. This relief was provided in two principal ways: 1) removal of the general education revenue property tax via a funding model of greater state aid; and 2) roll in of additional aid for referendum revenue into the basis formula for general education revenue.

FUND BASIS FINANCIAL ANALYSIS (Continued)

General fund revenues were as follows:

	2023	2022	Increase/ (Decrease)
Local property tax levies	$ 1,283,189	$ 1,260,012	$ 23,177
Other local and county sources	480,897	501,979	(21,082)
State sources	8,780,527	8,338,152	442,375
Federal sources	576,614	557,204	19,410
Investment income	114,203	10,635	103,568
Sales and other conversions of assets	1,977	1,070	907
Total General Fund Revenues	$ 11,237,407	$ 10,669,052	$ 568,355

Total General Fund expenditures increased $605,916 from the previous year. The increase in the General Fund expenditures was, in large part, from COVID-related funding such as additional staffing and expanded intervention services for students, and technology; as well as an overall increase in supply costs.

General fund expenditures were as follows:

	2023	2022	Increase/ (Decrease)
District and school administration	$ 920,031	$ 909,811	$ 10,220
District support services	637,582	648,177	(10,595)
Regular instruction	4,983,384	4,633,034	350,350
Vocational instruction	223,343	211,601	11,742
Special education	1,555,990	1,364,821	191,169
Instructional support services	599,563	516,009	83,554
Pupil support services	969,728	1,026,637	(56,909)
Site, buildings, and equipment	1,401,917	1,348,039	53,878
Fiscal and other fixed cost programs	86,307	113,800	(27,493)
Total General Fund Expenditures	$ 11,377,845	$ 10,771,929	$ 605,916

The total General Fund balance on June 30, 2023, is $3,341,050 compared to $3,449,763 on June 30, 2022 (decrease of $108,713). Of the amount, $951,852 is nonspendable or restricted – leaving an amount of $2,389,198 in the Unassigned General Fund Balance.

FUND BASIS FINANCIAL ANALYSIS (Continued)

Food Service Fund. The Food Service Fund accounts for the activities related to providing child nutrition services to support K-12 academic programs. The fund operates with the goal that revenues exceed expenditures on day-to-day school breakfast and lunch operations so that the excess can be used to systematically replace and upgrade kitchen equipment. The goal for the food service fund is that the child nutrition services program is self-supporting and does not rely upon resources from K-12 instruction programs other than for use of school facilities. Beginning with the 1999-2000 school year, the district contracted its food service vendor to provide breakfast and noon lunches for students and staff.

The Food Service Fund Balance decreased by $88,312. On June 30, 2023 the balance was $191,256; compared to the prior year balance of $279,568.

The Food Service revenue for 2022-2023 totaled $524,059 compared to $670,722 the previous year – an decrease of $146,663.

The Food Service expenditures for 2022-2023 totaled $612,371 compared to $484,456 the previous year – an increase in expenditures of $127,915.

Community Service Fund. The Community Service Fund accounts for the activities related to providing education and recreation programs for Pre-Kindergarten and Post-Grade 12 students. The fund operates on the goal of breaking even on a yearly basis so that is does not rely upon resources from K-12 instruction programs other than for use of school facilities.

The Community Service Fund realized an increase in fund balance of $6,937.

Community Service Fund revenues for 2022-2023 totaled $748,882; compared to $703,722 in the previous year. This was an increase of revenue of $45,160.

Community Service Fund expenditures for 2022-2023 totaled $741,945; compared to $671,009 in the previous year. This was an increase of expenditures of $70,936.

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

The Debt Service Restricted Fund Balance decreased by $709 in 2022-2023. As debt is retired, this fund balance should become smaller on a year-to-year basis because less levy is necessary to service remaining debt.

The restricted balance of $455,144 as of June 30, 2023 along with the 2022-2023 levy and state aid is sufficient to make pending principal and interest payments on the remaining debt.

***Fiduciary Funds**.* Private-purpose trust (scholarship trust) fund is ISD #227's fiduciary fund. The net position of the scholarship trust is $26,297 (compared to $25,897 in the previous year).

GENERAL FUND BUDGETARY HIGHLIGHTS

The District provided a Revised 2022-2023 Budget in April of 2023. The revenue was adjusted up $597,801 due primarily to COVID revenues being previously unbudgeted, and adjustments to the state aid formula based on enrollment.

The Actual 2023 revenue was $171,131 more than the Revised Budget Revenue, primarily due to adjustments for basic aid and special education aid.

The Revised 2023 Budget adjusted expenditures by an increase of $486,245, which was primarily due to COVID expenses being previously unbudgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2023, the District had invested $28,471,126 (net of accumulated depreciation) in a broad range of capital assets including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. Capital assets are recorded in the District-wide financial statements, but are not reported in the Fund financial statements.

	Total (Net of Depreciation)	
	2023	2022
Land	$ 410,000	$ 410,000
Construction in progress		2,000
Land improvements	2,414,089	993,868
Buildings	25,199,403	25,931,023
Machinery and equipment	447,634	486,560
Total	$ 28,471,126	$ 27,823,451

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Long Term Liabilities. As of June 30, 2023, the District had $27,871,081 in bonds payable and leases outstanding. A summary of outstanding long-term liabilities as of June 30, 2023, is as follows:

	Total	
	2023	2022
General obligation bonds	$ 27,080,000	$ 28,050,000
Bond premium, net	738,595	785,511
Capital leases payable	52,486	65,607
Total	$ 27,871,081	$ 28,901,118

FACTORS BEARING ON THE DISTRICT'S FUTURE

Like most public schools in Minnesota, the district is dependent on the State of Minnesota for the majority of its revenue. Recent legislative trends indicate that revenue levels will not increase fast enough to meet instruction needs and rising costs due to inflation.

General education aid received from the state is dependent primarily on enrollment. Early projections are that there will be a decrease in the district's enrollment over the next five years. In order for the district to maintain its present level of educational programs there will need to be tight controls over program costs, an increase in revenues and increase in local property taxes and fees as necessary to balance the districts revenue and expenditures.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office, Independent School District #227, 205 Union Street NE, Chatfield, Minnesota 55923.

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INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2023

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INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2023
With Comparative Data as of June 30, 2022

	Governmental Activities	
	2023	2022
Assets		
Cash and investments	$ 5,175,299	$ 7,141,603
Taxes receivable	1,849,700	1,656,904
Other receivables	68,060	42,897
Due from other governmental units	1,243,336	1,017,750
Inventory	2,463	10,017
Prepaid items	2,023	
Capital Assets:		
Nondepreciable	410,000	412,000
Depreciable	28,061,126	27,411,451
TOTAL ASSETS	36,812,007	37,692,622
Deferred Outflows of Resources		
Deferred outflows from pension activity	5,272,421	3,052,886
Deferred outflows from OPEB	91,066	121,697
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,363,487	3,174,583
Liabilities		
Accounts payable	86,248	148,299
Due to other governmental units	9,675	13,200
Accrued interest payable	377,397	401,242
Salaries and accrued liabilities payable	830,064	781,316
Unearned revenue	11,299	6,769
Long-Term Liabilities:		
Due within one year	1,093,121	983,121
Due in more than one year	26,777,960	27,917,997
Other post-employment benefits	459,251	522,429
Net pension liability	7,497,855	3,931,935
TOTAL LIABILITIES	37,142,870	34,706,308
Deferred Inflows of Resources		
Deferred inflows from pension activity	4,210,772	7,018,102
Deferred inflows from OPEB	88,785	65,861
Property taxes levied for subsequent year	3,232,277	2,987,340
TOTAL DEFERRED INFLOWS OF RESOURCES	7,531,834	10,071,303
Net Position		
Net investment in capital assets	789,220	632,458
Restricted:		
Operating capital purposes	518,866	401,902
State-mandated reserves	430,963	345,841
Food service	191,256	269,551
Community service	27,793	20,864
Debt Service	79,920	54,973
Unrestricted	(4,537,228)	(5,635,995)
TOTAL NET POSITION	$ (2,499,210)	$ (3,910,406)

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2023
With Partial Comparative Data for the Year Ended June 30, 2022

	2023			
		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
District and school administration	$ 775,603	$	$	$
District support services	663,705			
Regular instruction	3,768,710	335,756	611,027	
Vocational instruction	158,465			
Special education	1,365,603		905,970	
Community education and services	750,261	553,029	62,016	
Instruction support services	546,466			
Pupil support services	1,133,584			
Food service	612,371	248,339	268,165	
Site, buildings, and equipment	2,317,657			175,136
Fiscal and other fixed cost programs	86,307			
Interest and other fiscal charges	873,368			
Total governmental activities	$ 13,052,100	$ 1,137,124	$ 1,847,178	$ 175,136

General Revenues:
Property taxes levied for:
General purposes
Community service
Debt service
State aid not restricted to specific purposes
Investment income
Miscellaneous
Total general revenues

Change in net position

Net Position - beginning

Net Position - Ending

See Notes to Financial Statements

2023	2022
Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Total Governmental Activities	Total Governmental Activities
$ (775,603)	$ (896,451)
(663,705)	(612,114)
(2,821,927)	(3,500,926)
(158,465)	(213,151)
(459,633)	(490,856)
(135,216)	(88,473)
(546,466)	(514,128)
(1,133,584)	(1,256,158)
(95,867)	185,838
(2,142,521)	(1,924,055)
(86,307)	(136,261)
(873,368)	(944,518)
(9,892,662)	(10,391,253)
1,303,516	1,274,535
78,922	90,657
1,227,639	1,295,599
8,350,143	7,960,662
156,742	19,980
186,896	153,642
11,303,858	10,795,075
1,411,196	403,822
(3,910,406)	(4,314,228)
$ (2,499,210)	$ (3,910,406)

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2023
With Partial Comparative Data as of June 30, 2022

	General	Food Service	Community Service
Assets			
Cash and investments	$ 3,714,658	$ 182,392	$ 74,377
Current property taxes receivable	632,065		43,309
Delinquent property taxes receivable	1,669		104
Accounts receivable	8,169	16,975	42,916
Due from other Minnesota school districts	25,033		
Due from Minnesota Department of Education	1,082,786		5,622
Due from Federal through Minnesota Department of Education	56,505	1,317	
Due from other governments	6,349		
Inventory		2,463	
Prepaid items	2,023		
TOTAL ASSETS	$ 5,529,257	$ 203,147	$ 166,328
Liabilities, Deferred Inflows of Resources and Fund Balance Liabilities			
Accounts payable	$ 82,953	$ 592	$ 2,703
Salaries and accrued liabilities payable	801,602		28,462
Due to other Minnesota school districts	8,999		
Due to Minnesota Department of Education	676		
Unearned revenue		11,299	
TOTAL LIABILITIES	894,230	11,891	31,165
Deferred Inflows of Resources			
Unavailable revenue			
Delinquent taxes	1,669		104
Taxes levied for subsequent year	1,292,308		91,826
TOTAL DEFERRED INFLOWS OF RESOURCES	1,293,977		91,930
Fund Balances			
Nonspendable	2,023	2,463	
Restricted	949,829	188,793	83,667
Unassigned	2,389,198		(40,434)
TOTAL FUND BALANCES	3,341,050	191,256	43,233
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 5,529,257	$ 203,147	$ 166,328

See Notes to Financial Statements

Building Construction	Debt Service	Total Governmental Funds 2023	Total Governmental Funds 2022
$ 136,689	$ 1,067,183	$ 5,175,299	$ 7,141,603
	1,170,380	1,845,754	1,656,262
	2,173	3,946	642
		68,060	42,897
		25,033	21,534
	65,724	1,154,132	900,178
		57,822	79,535
		6,349	16,503
		2,463	10,017
		2,023	
$ 136,689	$ 2,305,460	$ 8,340,881	$ 9,869,171
$	$	$ 86,248	$ 148,299
		830,064	781,316
		8,999	13,200
		676	
		11,299	6,769
		937,286	949,584
	2,173	3,946	642
	1,848,143	3,232,277	2,987,340
	1,850,316	3,236,223	2,987,982
		4,486	10,017
136,689	455,144	1,814,122	3,272,277
		2,348,764	2,649,311
136,689	455,144	4,167,372	5,931,605
$ 136,689	$ 2,305,460	$ 8,340,881	$ 9,869,171

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2023
With Partial Comparative Data for the Year Ended June 30, 2022

	General	Food Service	Community Service
Revenues			
Local sources:			
Property tax levies	$ 1,283,189	$	$ 78,922
Other local and county sources	480,897		538,159
Investment income	114,203	7,555	1,945
State sources	8,780,527	20,938	95,443
Federal sources	576,614	247,227	34,413
Sales and other conversions of assets	1,977	248,339	
TOTAL REVENUES	11,237,407	524,059	748,882
Expenditures			
District and school administration	920,031		
District support services	637,582		
Regular instruction	4,983,384		
Vocational instruction	223,343		
Special education	1,555,990		
Community education and services			741,945
Instructional support services	599,563		
Pupil support services	969,728	612,371	
Site, buildings, and equipment	1,401,917		
Fiscal and other fixed cost programs	86,307		
Debt service:			
Principal			
Interest and fiscal			
TOTAL EXPENDITURES	11,377,845	612,371	741,945
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(140,438)	(88,312)	6,937
Other Financing Sources			
Sale of capital assets	31,725		
Proceeds from sale of bonds			
Bond premiums, net			
TOTAL OTHER FINANCING SOURCES	31,725		
NET CHANGE IN FUND BALANCES	(108,713)	(88,312)	6,937
FUND BALANCE - BEGINNING	3,449,763	279,568	36,296
FUND BALANCE - ENDING	$ 3,341,050	$ 191,256	$ 43,233

See Notes to Financial Statements

Building Construction	Debt Service	Total Governmental Funds 2023	Total Governmental Funds 2022
$	$ 1,227,639	$ 2,589,750	$ 2,646,268
		1,019,056	964,752
4,499	28,540	156,742	19,980
	657,241	9,554,149	9,037,844
		858,254	1,159,703
		250,316	136,416
4,499	1,913,420	14,428,267	13,964,963
		920,031	909,811
		637,582	648,177
		4,983,384	4,633,034
		223,343	211,601
		1,555,990	1,364,821
		741,945	671,009
		599,563	516,009
		1,582,099	1,511,093
1,577,935		2,979,852	1,350,039
		86,307	113,800
	970,000	970,000	940,000
	944,129	944,129	993,852
1,577,935	1,914,129	16,224,225	13,863,246
(1,573,436)	(709)	(1,795,958)	101,717
		31,725	
			1,725,000
			93,311
		31,725	1,818,311
(1,573,436)	(709)	(1,764,233)	1,920,028
1,710,125	455,853	5,931,605	4,011,577
$ 136,689	$ 455,144	$ 4,167,372	$ 5,931,605

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
DISTRICT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
June 30, 2023

Amounts reported for governmental activities in the statement of net position are different because:

Total governmental fund balances (pages 17 and 18)		$ 4,167,372
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	$ 40,481,213	
Less: Accumulated depreciation	12,010,087	
		28,471,126
Certain long-term assets not available to pay for current-period expenditures and, therefore, are unavailable in the funds:		
Delinquent property taxes		3,946
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	$(27,080,000)	
OPEB benefits payable	(456,970)	
Bond premium, net	(738,595)	
Capital leases payable	(52,486)	
Net pension liability	(6,436,206)	
Accrued interest	(377,397)	
		(35,141,654)
Net position of governmental activities (page 14)		$ (2,499,210)

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2023

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (pages 19 and 20)		$ (1,764,233)
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 1,631,685	
Depreciation expense	(958,335)	
		673,350
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.		(25,675)
Certain revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Delinquent property taxes		3,304
The governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligations bonds and related items is as follows.		
Principal retirement on long-term debt	$ 970,000	
Change in accrued interest	23,845	
Amortization of bond premium	48,386	
Amortization of bond discount	(1,470)	
		1,040,761
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		
Repayment of capital lease principal		13,121
In the statement of activities, certain operating expenses - net pension liability, compensated absences, and other postemployment benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
Net pension liability	$ 1,460,945	
Change in OPEB benefits payable	9,623	
		1,470,568
Change in net position of governmental activities (pages 15 and 16)		$ 1,411,196

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2023
With Partial Comparative Data for the Year Ended June 30, 2022

	Budgeted Amounts		2023	Over (Under)	2022
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$1,300,721	$1,297,252	$1,283,189	$ (14,063)	$1,260,012
Other local and county sources	288,168	434,406	480,897	46,491	501,979
Investment income	10,000	50,000	114,203	64,203	10,635
State sources	8,389,565	8,711,042	8,780,527	69,485	8,338,152
Federal sources	479,519	572,356	576,614	4,258	557,204
Sales and other conversions of assets	502	1,220	1,977	757	1,070
TOTAL REVENUES	10,468,475	11,066,276	11,237,407	171,131	10,669,052
Expenditures					
District and school administration	927,359	946,625	920,031	(26,594)	909,811
District support services	587,180	629,051	637,582	8,531	648,177
Regular instruction	4,873,434	4,903,029	4,983,384	80,355	4,633,034
Vocational instruction	203,205	209,713	223,343	13,630	211,601
Special education	1,406,235	1,541,643	1,555,990	14,347	1,364,821
Instructional support services	442,408	587,763	599,563	11,800	516,009
Pupil support services	923,140	918,161	969,728	51,567	1,026,637
Site, buildings, and equipment	1,032,457	1,178,602	1,401,917	223,315	1,348,039
Fiscal and other fixed cost programs	119,231	86,307	86,307		113,800
TOTAL EXPENDITURES	10,514,649	11,000,894	11,377,845	376,951	10,771,929
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(46,174)	65,382	(140,438)	(205,820)	(102,877)
Other Financing Sources					
Sale of capital assets		28,225	31,725	3,500	
NET CHANGE IN FUND BALANCE	(46,174)	93,607	(108,713)	(202,320)	(102,877)
FUND BALANCE - BEGINNING	3,449,763	3,449,763	3,449,763		3,552,640
FUND BALANCE - ENDING	$3,403,589	$3,543,370	$3,341,050	$ (202,320)	$3,449,763

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOOD SERVICE FUND
For the Fiscal Year Ended June 30, 2023
With Partial Comparative Data for the Year Ended June 30, 2022

	Budgeted Amounts		2023	Over (Under)	2022
	Original	Final	Actual	Final Budget	Actual
Revenues					
State sources	$ 11,747	$ 20,226	$ 20,938	$ 712	$ 12,664
Federal sources	476,503	251,769	247,227	(4,542)	522,284
Food sales	144,967	254,703	248,339	(6,364)	135,346
Investment income			7,555	7,555	428
TOTAL REVENUES	633,217	526,698	524,059	(2,639)	670,722
Expenditures					
Pupil support services	510,185	593,781	612,371	18,590	484,456
NET CHANGE IN FUND BALANCES	123,032	(67,083)	(88,312)	(21,229)	186,266
FUND BALANCES - BEGINNING	279,568	279,568	279,568		93,302
FUND BALANCES - ENDING	$ 402,600	$ 212,485	$ 191,256	$ (21,229)	$ 279,568

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
For the Fiscal Year Ended June 30, 2023
With Partial Comparative Data for the Year Ended June 30, 2022

	Budgeted Amounts		2023	Over (Under)	2022
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$ 81,410	$ 79,547	$ 78,922	$ (625)	$ 90,657
Other local and county sources	420,271	532,330	538,159	5,829	462,773
Investment income	100	100	1,945	1,845	100
State sources	60,515	89,747	95,443	5,696	69,977
Federal sources		31,100	34,413	3,313	80,215
TOTAL REVENUES	562,296	732,824	748,882	16,058	703,722
Expenditures					
Community education and services	579,319	724,336	741,945	17,609	671,009
NET CHANGE IN FUND BALANCES	(17,023)	8,488	6,937	(1,551)	32,713
FUND BALANCES - BEGINNING	36,296	36,296	36,296		3,583
FUND BALANCES - ENDING	$ 19,273	$ 44,784	$ 43,233	$ (1,551)	$ 36,296

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2023
With Partial Comparative Data as of June 30, 2022

	Private - Purpose Trust	
	2023	2022
ASSETS		
Cash and investments	$ 26,297	$ 25,897
Total Assets	$ 26,297	$ 25,897
NET POSITION		
Held in trust for scholarships and library donations	$ 26,297	$ 25,897
Total Net Position	$ 26,297	$ 25,897

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Year Ended June 30, 2023
With Partial Comparative Data for the Year Ended June 30, 2022

	Private - Purpose Trust	
	2023	2022
ADDITIONS		
Gifts and donations	$ 15,400	$ 15,500
Total Additions	15,400	15,500
DEDUCTIONS		
Scholarships awarded	15,000	14,400
Total Deductions	15,000	14,400
Change in Net Position	400	1,100
Net Position - Beginning	25,897	24,797
Net Position - Ending	$ 26,297	$ 25,897

See Notes to Financial Statements

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INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

1. Summary of Significant Accounting Policies

The Independent School District #227 was formed and operates pursuant to applicable Minnesota laws and statutes.

The governing body consists of a six-member board elected by the voters of the District to serve four-year terms.

The financial statements of District conform with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments. The following is a summary of the more significant accounting policies:

Financial Reporting Entity

Independent School District #227 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting principles generally accepted in the United States of America (GAAP) require that the District's financial statements include all funds, account groups, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. Based on the aforementioned criteria, the District has no component units.

Student Activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

Basic Financial Statement Presentation

The District-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 fund. Fiduciary funds are reported only in the Statements of Fiduciary Net Position and Changes in Fiduciary Fund Net Position at the fund financial statement level.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) 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*. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense, and is reported separately on the Statement of Activities. Generally, the effect of material inter-fund activity has been removed from the District-wide financial statements.

Separate Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

1. Summary of Significant Accounting Policies (Continued)

Basic Financial Statement Presentation (Continued)

Fiduciary funds are presented in the fiduciary fund financial statements by type; private purpose trust. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory “tax shift” described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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:

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 the accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenue when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

Governmental fund types are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when susceptible to accrual, i.e. both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual are property taxes, state aids, fees, and interest. For this purpose, the District considers all revenues to be available if collected within 60 days after the end of the current period.

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

When both restricted and unrestricted resources are available for use, it is the District's policy to use the restricted resources first, then unrestricted resources as they are needed.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transaction, in which the District receives value without directly giving equal value in return, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year in when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

Unearned revenue is recorded when asserts are recognized before revenue recognition criteria have been satisfied. Grants received before eligibility requirement other than time requirements are met and recorded as unearned revenue. Grants received before time requirements are met are recorded as a deferred inflow of resources.

Description of Funds

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, net position/fund balance, revenues and expenditures. District resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources and transactions except those required to be accounted for in other funds.

The *food service fund* accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

The *community service fund* accounts for the resources designated for programs other than those for elementary and secondary students.

The *building construction fund* accounts for the resources designated to the building construction.

The *debt service fund* accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

1. Summary of Significant Accounting Policies (Continued)

Description of Funds (Continued)

The District reports the following fiduciary fund:

The *private purpose trust fund* is an expendable trust fund for assets held in a trustee capacity. Contributions to the District are maintained in various scholarship funds in which the annual scholarships are awarded from principal and interest to students based on requirements established by the contributor. The fund is accounted for using modified accrual basis of accounting.

Budgets and Budgetary Accounting

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

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board. Total fund expenditures in excess of the budget require approval of the School Board. Spending control for most funds is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

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

Cash and Investments

Cash and investments consist of cash on hand, demand deposit accounts, time/savings accounts and deposits in the Minnesota School District Liquid Asset Fund (MSDLAF) per page 36. Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Summary of Significant Accounting Policies (Continued)

Inventories

Inventories are recorded using the consumption method of accounting and consist of food and commodities on hand at June 30, 2023. The food is recorded at the invoice cost. The food inventories are valued using the latest invoice cost, which approximates FIFO inventory method. Surplus commodities are stated at standardized commodities cost as determined by the U.S. Department of Agriculture.

Property Taxes

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1. Taxes are due on May 15 and October 15. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the “tax shift”, which periodically changes the District’s recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year’s levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $98,029 of the property tax levy collectible in 2023 as revenue to the District in fiscal year 2022-2023. The remaining portion of the taxes collectible in 2023 is recorded as deferred inflows of resources.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred inflows of resources because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2023, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Capital Assets

Capital 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 their estimated acquisition value at the date of donation. The District maintains a capitalization threshold level of $1,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Capital assets are recorded in the District-wide financial statement, but are not reported in the Fund financial statements. 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 purposes. Deprecation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	Useful Life in Years
Buildings	20 - 50
Furniture and fixtures	5 - 20

Capital assets not being depreciated include land.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

Compensated Absences

Under the terms of the engagement contracts, eligible employees accrue vacation at varying rates, portions of which may be carried over the future years. Employees are reimbursed for any unused, accrued vacation upon termination. Vacation leave does not vest and is accounted for as an expenditure when paid. Sick leave does not vest and is accounted for as an expenditure when paid, except as discussed below. At June 30, 2023, unpaid vacation payable totaling $19,656 is recorded in the governmental funds financial statements.

Long-term Obligations

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

Bond issuance cost are reported as an expense in the period they are incurred.

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

Leases

For leases with a term exceeding 12 months, the District recognizes a lease liability and a right to use lease asset in the government-wide financial statements.

1. Summary of Significant Accounting Policies (Continued)

Leases (continued)

The right to use lease asset is calculated at the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus certain initial direct costs incurred, minus any lease incentives received. Subsequently, the right to use lease asset is amortized on a straight-line basis over its useful life. The District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of the lease payments made. Remeasurement of the right to use lease asset and lease liability occurs when certain changes occur that are likely to have a significant impact on the lease liability.

Right to use lease assets are reported with capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Other Postemployment Benefits Payable

Under the provisions of the various employee contracts, the District provides for partial payment of medical insurance premiums of employees who retire with 17 years of full time equivalent service with the District and who have not qualified for Medicare benefits. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB 75.

Unearned Revenue

Unearned revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The District has reported the following items as unearned revenue: student fees prepaid for food service for the next year.

Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned and unassigned fund balances. Nonspendable portions of fund balance are related to prepaid items and inventory. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The District currently doesn't report any committed fund balances. The Board of Education passed a resolution authorizing the Superintendent the ability to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

In accordance with the District's fund balance policy, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available; it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the District's policy to use committed first, then assigned and finally unassigned fund balance.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses or revenues/income initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses or revenues/income in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

1. Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

Financial instruments which expose the District to a concentration of credit risk consist primarily of cash and investments. Credit risk associated with cash and investments are discussed in Note 3.

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 investments 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 statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net asset 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 types of items. The types of deferred outflows of resources is pension and OPEB related and are reported in the statement of net asset.

Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate financial statement element, deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net asset 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 two items which occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year-end) under the modified accrual basis of accounting. The third type, *pension related,* is reported in the statement of net asset.

Pension

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2019. Additional information can be found in Note 8.

1. Summary of Significant Accounting Policies (Continued)

Comparative Data

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data has not been presented since their inclusion would not provide meaningful comparisons. Certain amounts in the prior year totals column have been reclassified to conform with current year presentation.

Implementation of New Accounting Principles

During the year, the District implemented *GASB Statement No. 96, Subscription-Based Information Technology Arrangements.* This Statement provides guidance on accounting and financial reporting for subscription-based information technology. Under this Statement, government organizations are required to recognize a subscription liability and a right-to-use capitalized asset. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. This Statement establishes uniform accounting and financial reporting requirements for Subscription Based Information Technology Arrangements; improves the comparability of government financial statements; and enhances the relevance, understandability, reliability, and consistency of information regarding these arrangements. The Statement has been implemented.

2. Stewardship and Accountability

Excess expenditures over appropriations at the individual fund level during the fiscal year ended June 30, 2023 is as follows:

General Fund	$	376,951
Food Service Fund		18,590
Community Service Fund		17,609

3. Cash and Investments

Summary of Cash and Investments

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the Balance Sheet and Statement of Net Position as "Cash and Investments." In accordance with Minnesota Statutes the District maintains deposits at financial institutions which are authorized by the School District's Board.

Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

The District's deposits in financial institutions at June 30, 2023 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

3. Cash and Investments (Continued)

Summary of Cash and Investments (continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. Government Agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank of other financial institution that is not owned or controlled by the financial institution furnishing the collateral. It is required that the District sign authorizations releasing collateral once it is pledge.

Investments Authorized by Minnesota Statutes

The District is authorized by Minnesota Statutes to invest idle funds as follows:

a) Direct obligations or obligations guaranteed by the United States or its agencies.

b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency and all of the investments have a final maturity of thirteen months or less.

c) General obligations rated "A" or better; revenue obligations rated "AA" or better.

d) General obligations of the Minnesota Housing Finance Agency rated "A" or better.

e) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.

f) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.

g) Repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

h) Guaranteed Investments Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories.

The district has funds invested in pooled mutual funds with the State Board of Investment at June 30, 2023. These investments are reported at fair value per share.

3. Cash and Investments (Continued)

Concentration of Credit Risk

Concentration of Credit Risk – The District places no limit on the amount that may be invested with any one issuer or depository.

As of June 30, 2023, the District's cash and investments consisted of the following items.

Deposits	$	784,101
MSDLAF+ Liquid Class		677,436
MSDLAF+ Max Class		3,740,059
	$	5,201,596

Cash and Investments per Statement of Net Position	$	5,175,299
Cash and Investments per Statement of Fiduciary Net Position		26,297
Total cash and investments	$	5,201,596

Fair Value Measurement

The District uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The District follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the District has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset

3. Cash and Investments (Continued)

Fair Value Measurement (Continued)

The District had the following investments at year-end:

Investment Type	Credit Risk Rating	Credit Risk Agency	Fair Value Measurements Using	Interest Risk - Maturity Duration in Years: No Maturity Date	Less Than 1	1 to 5	6 to 10	Total
MSDLAF+ Liquid Class	AAAa	S&P	N/A	$ 677,436	$	$	$	$ 677,436
MSDLAF+ Max Class	AAAa	S&P	N/A	3,740,059				3,740,059
Total Investments				$ 4,417,495	$	$	$	$ 4,417,495

N/A - Not applicable

Minnesota School District Liquid Asset Fund (MSDLAF) Plus Liquid Class, and MSDLAF Plus Max Class are external investment pools not registered with the Securities and Exchange Commission regulated by Minnesota Statues. The District's investments in these investment pools are measured at the net asset value per share provided by the pool, which is based on amortized cost method that approximates fair value. For the MSDLAF Plus Liquid Class and MSDLAF Plus Max Class investment pools, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice required.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in possession of an outside party.

Interest Rate Risk

Interest rate risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. The District does have a formal investment policy for cash and investment help by trustee. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District requires purchases of securities to be laddered with staggered maturity dates as needed to meet cash flow requirements. The District's cash and investments held by trustee have maturities of one year or less at June 30, 2023.

4. Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2023 are as follows:

Fund	Minnesota Department of Education	Federal Government Through MDE	Other Minnesota School Districts	Other Governmental Units	Total
General	$ 1,082,786	$ 56,505	$ 25,033	$ 6,349	$ 1,170,673
Food Service		1,317			1,317
Community Service	5,622				5,622
Debt Service	65,724				65,724
	$ 1,154,132	$ 57,822	$ 25,033	$ 6,349	$ 1,243,336

5. Capital Assets

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

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 410,000	$	$	$ 410,000
Construction in progress	2,000		2,000	
Total capital assets, not being depreciated	412,000		2,000	410,000
Capital assets, being depreciated:				
Buildings	34,795,471		6,985	34,788,486
Land improvements	2,491,214	1,571,798	108,079	3,954,933
Equipment	1,398,884	61,887	132,977	1,327,794
Total capital assets, being depreciated	38,685,569	1,633,685	248,041	40,071,213
Less accumulated depreciation for:				
Buildings	8,864,448	729,290	4,655	9,589,083
Land improvements	1,497,346	151,008	107,510	1,540,844
Equipment	912,324	78,037	110,201	880,160
Total accumulated depreciation	11,274,118	958,335	222,366	12,010,087
Total capital assets, being depreciated, net	27,411,451	675,350	25,675	28,061,126
Governmental activities capital assets, net	$ 27,823,451	$ 675,350	$ 27,675	$ 28,471,126

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
District support services	$ 5,904
Regular instruction	29,302
Vocational instruction	637
Instructional support services	1,654
Pupil support services	7,089
Site, buildings and equipment	913,749
Total depreciation expense - governmental activities	$ 958,335

6. Long-Term Liabilities

The long-term debt obligations outstanding and related maturities and interest rates are summarized in the following schedules. General Obligation Bonds are serviced by the Debt Service Fund. They are backed by the full faith and credit of the District.

A summary of interest rates, maturities and June 30, 2023 balances is as follows:

	Original Amount of Debt	Range of Interest Rates	Final Maturity	Balance June 30, 2023
General Obligation Bonds:				
Refunding Bonds, 2011A	$ 1,260,000	2.0%-2.25%	2/1/2024	$ 120,000
School Building Refunding Bonds, 2016A	15,720,000	3.0%-5.0%	2/1/2037	12,590,000
School Building Bonds, 2016B	3,785,000	3.0%-5.0%	2/1/2039	3,785,000
School Building and Facility Maintenance, 2017A	9,685,000	3.0%-4.0%	2/1/2044	8,860,000
Tax Abatement Bonds, 2022A	1,725,000	2.0%-4.0%	2/1/2038	1,725,000
Bond Premium, 2016A				493,875
Bond Discount, 2016B				(23,509)
Bond Premium, 2017A				179,480
Bond Premium, 2022A				88,749
Capital Lease:				
John Deere Equipment	65,607		7/1/2026	52,486
Total				$ 27,871,081

6. Long-Term Liabilities (Continued)

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2023:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds Payable:					
General Obligation Bonds:					
Refunding Bonds, 2011A	$ 245,000	$	$ 125,000	$ 120,000	$ 120,000
School Building Refunding Bonds, 2016A	13,260,000		670,000	12,590,000	690,000
School Building Bonds, 2016B	3,785,000			3,785,000	
School Building and Facility Maintenance, 2017A	9,035,000		175,000	8,860,000	180,000
Tax Abatement Bonds, 2022A	1,725,000			1,725,000	90,000
Bond Premium, 2016A	529,152		35,277	493,875	
Bond Discount, 2016B	(24,979)		(1,470)	(23,509)	
Bond Premium, 2017A	188,027		8,547	179,480	
Bond Premium, 2022A	93,311		4,562	88,749	
Capital Leases Payable:					
John Deere Equipment	65,607		13,121	52,486	13,121
Governmental Activities Long-term Liabilities	$ 28,901,118	$	$ 1,030,037	$ 27,871,081	$ 1,093,121

The annual requirements to amortize all long-term debt outstanding as of June 30, 2023, over the life of the debt, are summarized below:

	General Obligation Bonds		
Years	Principal	Interest	Total
2024	$ 1,080,000	$ 925,825	$ 2,005,825
2025	1,110,000	944,130	2,054,130
2026	1,160,000	920,412	2,080,412
2027	1,195,000	874,212	2,069,212
2028	1,235,000	823,362	2,058,362
2029-2033	6,520,000	3,547,000	10,067,000
2034-2038	6,480,000	2,575,012	9,055,012
2039-2043	6,785,000	1,557,600	8,342,600
2044-2046	1,515,000	316,925	1,831,925
Totals	$ 27,080,000	$ 12,484,478	$ 39,564,478

Year Ending June 30	Capital Lease Payable Principal
2024	$ 13,121
2025	13,121
2026	13,122
2027	13,122
	$ 52,486

6. Long-Term Liabilities (Continued)

Description of Long-Term Liabilities

General Obligation Bonds - These obligations were issued to finance acquisitions and/or construction of capital facilities or to refinance previous bond issues. Assets of the Debt Service Fund are dedicated for the retirement of these obligations. The annual future debt service levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law. Bond premiums are also included in this category.

Capital Lease Payable - On May 18, 2022 the District entered into a capital lease for John Deere equipment. Annual principal will be paid by the General Fund.

7. Net Position/Fund Balance

In accordance with Government Accounting Standards, the District classifies governmental fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained to due constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

Order of Fund Balance Spending Policy

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring for dollar spending. Additionally, the District would first use restricted, committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Minimum Fund Balance Policy

The District’s School Board Policy Manual has a minimum fund balance policy that administration shall strive for the general fund unassigned fund balance to be at two months of annual operating expenditures.

7. Net Position/Fund Balance (Continued)

Restricted Fund Balances

Restriction of fund balance indicates that a portion of the fund balance is legally segregated for a specific future use. The following is a summary of the restricted fund balances for the governmental funds:

Restricted for Operating Capital – Represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted for Gifted and Talented – Represents unspent restricted general education aid for the gifted and talented program.

Restricted for Long-Term Facilities Maintenance – Represents available resources to be used for LTFM projects in accordance with the 10-year plan.

Restricted for Community Education – Represents available resources within the Community Service Fund for enrichment programs for any age level that are not part of the K-12 education program which are not taken for credit or required for graduation.

Restricted for Early Child/Family Education – Represents available resources within the Community Service Fund whose focus is to improve parenting skills of new and expectant parents, and/or to provide learning experiences for parents and children.

Restricted for School Readiness – Represents the resources available to provide for services for school readiness programs.

Restricted for Food Service – Represents available resources within the Food Service Fund.

Restricted for Community Service – Represents available resources within the Community Service Fund.

Restricted for Building Construction – Represents available resources to be used only for the Building Construction.

Restricted for Debt Service – Represents available resources to be used only for the Debt Service Fund.

7. Net Position/Fund Balance (Continued)

The following is a summary of fund financial balances as of June 30, 2023 with comparative totals for June 30, 2022:

	General	Food Service	Community Service	Building Construction	Debt Service	2023 Totals	2022 Totals
Nonspendable							
Inventory	$	$ 2,463	$	$	$	$ 2,463	$ 10,017
Prepaid items	2,023					2,023	
Total nonspendable	2,023	2,463				4,486	10,017
Restricted							
Student Activities	81,283					81,283	82,757
Scholarships	24,000					24,000	16,000
Operating capital	518,866					518,866	401,902
Gifted and talented	42,800					42,800	35,314
Long-term facilities maintenance	282,880					282,880	211,770
Food service		188,793				188,793	269,551
Community education			22,163			22,163	33,864
Early childhood and family education			33,711			33,711	34,277
Community service			27,793			27,793	20,864
Building construction				136,689		136,689	1,710,125
Debt service					455,144	455,144	455,853
Total restricted	949,829	188,793	83,667	136,689	455,144	1,814,122	3,272,277
Unassigned	2,389,198		(40,434)			2,348,764	2,649,311
Total Fund Balance	$ 3,341,050	$ 191,256	$ 43,233	$ 136,689	$ 455,144	$ 4,167,372	$ 5,931,605

7. Net Position/Fund Balance (Continued)

The Uniform Financial Accounting and Reporting Standards (UFARS) fund balance reporting standards are slightly different from the reporting standards under GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Below is a reconciliation between the fund balances following GASB standards and UFARS Reporting Standards:

	GASB Balance	Reconciling Balance	2023 UFARS Balance	2022 UFARS Balance
Nonspendable				
Inventory	$ 2,463	$	$ 2,463	$ 10,017
Total nonspendable	4,486		4,486	10,017
Restricted				
Scholarships	24,000		24,000	16,000
Health and safety				
Student activities	81,283		81,283	82,757
Operating capital	518,866		518,866	401,902
Gifted and talented	42,800		42,800	35,314
Long-term facilities maintenance	282,880		282,880	211,770
Food service	188,793		188,793	269,551
Community education	22,163		22,163	33,864
Early childhood and family education	33,711		33,711	34,277
Community service	27,793		27,793	20,864
School readiness		(40,434)	(40,434)	(52,709)
Building construction	136,689		136,689	1,710,125
Debt service	455,144		455,144	455,853
Total restricted	1,814,122	(40,434)	1,773,688	3,219,568
Unassigned	2,348,764	40,434	2,389,198	2,702,020
Total Fund Balance	$ 4,167,372	$	$ 4,167,372	$ 5,931,605

8. Defined Benefit Pension Plans – Statewide

Plan Description

1. General Employees Retirement Fund

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

2. Teachers Retirement Association (TRA)

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

Educators employed in Minnesota's public elementary and secondary school, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect TRA coverage or coverage through Minnesota State's Individual Retirement Account Plan (IRAP) within one year of eligible employment.

Benefits Provided

1. General Employees Plan Benefits

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

General Employees Plan benefits 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 accrual rate of Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent 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.

8. Defined Benefit Pension Plans – Statewide (Continued)

Benefits Provided (Continued)

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

2. TRA Benefits

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

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

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

With these provisions:

a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

b) 3 percent per year early retirement reduction factors for all years under normal retirement age.

c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Or

8. Defined Benefit Pension Plans – Statewide (Continued)

<u>*Benefits Provided (Continued)*</u>

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for coordinated members and 2.7 percent 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 benefit 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 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 also 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.

<u>*Contributions*</u>

1. General Employees Fund Contributions

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2023 were $136,214. The District's contributions were equal to the required contributions as set by the state statute.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended were:

	Ending June 30, 2022		Ending June 30, 2023	
	Employee	Employer	Employee	Employer
Basic	11.00%	12.34%	11.00%	12.55%
Coordinated	7.50%	8.34%	7.50%	8.55%

The District contribution for the year ending June 30, 2023 was $359,501, equal to required contributions for each year as set by state statute.

8. Defined Benefit Pension Plans – Statewide (Continued)

Contributions (Continued)

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

Employer contributions reported in TRA's ACRF, Statement of Changes in Fiduciary Net Position	$	482,679,000
Employer contributions not related to future contribution effort		(2,178,000)
TRS's contributions not included in allocation		(572,000)
Total employer contributions	$	479,929,000
Total non-employer contributions		35,590,000
Total Contributions reported in Schedule of Employer and Non-Employer Allocations	$	515,519,000

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.

Pension Costs

1. General Employees Fund Pension Costs

At June 30, 2023, the District reported a liability of $1,916,648 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 $56,395.

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 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. At June 30, 2022, the District's proportion was 0.0242 percent which was a increase of 0.013 percent from its proportion measured as of June 30, 2021.

District's proportionate share of net pension liability	$	1,916,648
State's proportionate share of the net pension liability associated with the district	$	29,865

For the year ended June 30, 2023, the District recognized pension expense of $123,487 for its proportionate share of General Employees Plan's pension expense. In addition, the District recognized an additional $8,427 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

8. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (continued)

At June 30, 2023, the District reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 16,009	$ 19,360
Difference between projected and actual investment earnings	761,230	693,007
Changes in actuarial assumptions	470,277	7,313
Changes in proportion	47,632	17,968
Contributions paid to PERA subsequent to the measurement date	154,206	
Total	$ 1,449,354	$ 737,648

$154,206 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 ending June 30:	Pension Expense Amount
2024	$ 196,698
2025	221,554
2026	(34,085)
2027	173,333

2. TRA Pension Costs

At June 30, 2023, the District reported a liability of $5,581,207 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.0697% at the end of the measurement period and 0.0675% for the beginning of the period.

8. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (continued)

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

District's proportionate share of net pension liability	$	5,581,207
State's proportionate share of the net pension liability associated with the district	$	414,068

For the year ended June 30, 2023, the District recognized pension expense of ($1,584,432). It also recognized $2,790 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 82,170	$ 49,160
Difference between projected and actual investment earnings	2,256,487	2,032,101
Changes in actuarial assumptions	865,967	1,251,858
Changes in proportion	221,718	140,005
Contributions paid to TRA subsequent to the measurement date	396,725	
Total	$ 3,823,067	$ 3,473,124

$396,725 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 and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2024	$ (1,035,977)
2025	179,409
2026	85,615
2027	704,187
2028	19,984

8. Defined Benefit Pension Plans – Statewide (Continued)

Aggregate Pension Costs

Pension expense recognized by the District for the year ended June 30, 2023 is as follows:

General Employee Retirement Fund	$ 131,914
TRA	(1,581,642)
Total	$ (1,449,728)

Long-Term Expected Return on Investment

1. General Employees Fund Long-Term Expected Return on Investment

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	33.5%	5.10%
International Stocks	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100%	

2. TRA Long-Term Expected Return on Investment

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 rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	33.5%	5.10%
International Stocks	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100%	

8. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Methods and Assumptions

1. General Employees Fund Actuarial 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 percent. 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 percent was deemed to be within that range of reasonableness for financial reporting purposes.

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

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

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

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

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

Changes in Actuarial Assumptions:

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

Change in Plan Provisions:

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

2. TRA 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.

8. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Methods and Assumptions (Continued)

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation Date	July 1, 2022
Measurement Date	June 30, 2022
Experience Study	June 28, 2019 (demographic and economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Price Inflation	2.50%
Wage Growth Rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increases	2.85% - 8.85% before July 1, 2028 and 3.25% - 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 six years and female rates set back five years. Generational projections 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 adjustment of the rates. Generational projection uses the MP-2015 scale
Post-Disability:	RP-2014 disabled retiree morality table, without adjustment.

The TRA actuary has determined the average of the expected remaining service lives of all members for the fiscal year 2022 is six years. The *Difference Between Expected and Actual Experience, Changes of Assumptions*, and *Changes in Proportion* use the amortization period of six years in the schedule presented. The amortization period for *Net Difference Between Projected and Actual Investment Earnings on the Pension Plan Investments* is five years as required by GASB 68.

The following changes in TRA actuarial assumptions since the 2021 valuation:

- None.

8. Defined Benefit Pension Plans – Statewide (Continued)

Discount Rate

1. General Employees Fund Discount Rate

The discount rate used to measure the total pension liability in 2022 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates specified in Minnesota Statutes. Based on those assumptions, the fiduciary net position of the General Employees Fund 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.

2. TRA Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent. There was no change in 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 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).

Pension Liability Sensitivity

The following 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 one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
General Employees Retirement Fund Discount Rate	5.5%	6.5%	7.5%
District's proportionate share of the General Employees Retirement Fund net pension liability	$ 3,027,446	$ 1,916,648	$ 1,005,622
TRA Discount Rate	6.0%	7.0%	8.0%
District's proportionate share of the TRA net pension liability	$ 8,798,469	$ 5,581,207	$ 2,944,056

Pension Plan Fiduciary Net Position

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

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive 400, St. Paul, Minnesota, 55103-4000; or by calling (651) 296-2409 or 1-800-657-3669.

9. Severance Benefits

A liability is recorded for termination benefits (severance) for individuals who have retired prior to year-end and whom payment will be made. The liability for amount payable from available resources is recorded in the General Fund and the amount not expected to be aid from available resources, if any, is recorded in the district wide financial statements. At June 30, 2023, there were no severance benefits recorded in the district wide financial statements.

10. Other Postemployment Benefit Plan

The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions for the year ended June 30, 2023.

Plan Description

The District operates a single-employer retiree benefit plan ("the Plan") that provides partial payments of medical insurance premiums to eligible retired employees. There were 112 active participants and 4 retired participants at the valuation date. To be eligible to receive benefits, an employee must retire with 17 years of full-time equivalent service with the District and not qualify for Medicare benefits. The Plan does not issue a publicly available financial report.

Funding Policy

The district pays $150 per month towards the coverage of health insurance premiums for eligible retirees. No provisions have been made to the fund annual required contributions (ARC); all premiums are funded on a pay-as-you-go basis only.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of date. The components of the net OPEB liability of the District at year-end were as follows:

Total OPEB liability	$ 459,251
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
Liability discount rate	1.92%

10. Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

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

Discount rate	3.80%
Long-term expected investment return	N/A
Inflation rate	2.50%
Mortality	
Teachers	From the July 1, 2021 Teachers Retirement Association of Minnesota (TRA) actuarial valuation, RP-2014 mortality tables with projected morality improvements based on scale MP-2015, and other adjustments.
Non-Teachers	From the July 1, 2021 PERA of Minnesota General Employees Retirement Plan actuarial valuation, Pub-2010 General mortality tables with projected mortality improvements based on scale MP-2020, and other adjustments.
Health care cost trend rate	6.7% for FY2022, gradually decreasing over several decades to an ultimate rate of 3.7% in FY2075 and later years.

10. Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions (continued)

There were no changes in OPEB actuarial assumptions during fiscal year 2023:

Changes in Net OPEB Liability

	Total OPEB Liability
Beginning Balance 6/30/2022	$ 522,429
Service Cost	27,106
Interest	10,882
Changes in assumptions	(38,140)
Benefit Payouts	(63,026)
Net Changes	(63,178)
Balance End of Year 6/30/2023	$ 459,251

Net OPEB Liability Sensitivity to Discount and Health-Care Cost Trend Rate Changes

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	Total OPEB Liability
1% decrease in Discount Rate (1.40%)	$ 486,270
Current Discount Rate (2.40%)	459,251
1% increase in Discount Rate (3.40%)	433,054

10. Other Postemployment Benefit Plan (Continued)

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	Total OPEB Liability
1% decrease in Trend Rates	$ 430,492
Current Trend Rates	459,251
1% increase in Trend Rates	493,290

OPEB Related Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Outflows of Resources	Inflows of Resources
Difference between expected and actual liability	$ 27,896	$ 47,510
Change in actuarial assumption	18,799	41,275
Contributions paid to OPEB subsequent to the measurement date	44,371	
Total	$ 91,066	$ 88,785

The $67,431 reported as deferred outflows of resources related to contributions paid subsequent to the measurement date will be recognized in the year ended June 30, 2023. Other amounts reported as deferred outflows and inflows of resources will be recognized as expenses as follows:

Year ending June 30:	OPEB Expense Amount
2023	$ (3,407)
2024	(3,407)
2025	(3,407)
2026	(3,407)
2027	(3,407)
Thereafter	5,440

11. Flexible Benefit Plan

The District has a flexible benefit plan that 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 group allows eligibility.

Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the plan for health care and dependent care benefits. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant.

12. 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; injuries to employees; and natural disasters. The District carries insurance for employee health, liability, property, and automotive insurance. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There was no reduction in insurance coverage during 2023.

13. Commitments and Contingencies

The District participates in a number of federal and state agency assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District does not anticipate any audit adjustments or disallowed program expenditures that would be material in relation to the general purpose financial statements taken as a whole.

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INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA

REQUIRED SUPPLEMENTAL INFORMATION

JUNE 30, 2020

Other Post-Employment Benefits Plan
Schedule of Changes in the District's Net OPEB
Liability and Related Ratios

	2023	2022	2021	2020	2019	2018
Total OPEB Liability						
Service cost	$ 27,106	$ 34,054	$ 30,943	$ 27,010	$ 29,811	$ 29,811
Interest	10,882	11,049	13,293	17,016	14,480	14,480
Changes of assumptions	(38,140)	12,385	13,752	(10,200)	(3,419)	(3,419)
Difference between expected and actual		20,570		18,550	16,951	16,951
Plan changes		31,281		(85,518)	23,798	23,798
Benefit payments	(63,026)	(26,297)	(32,649)	(23,764)	(13,381)	(13,381)
Net change in total OPEB liability	(63,178)	83,042	25,339	(56,906)	68,240	68,240
Total OPEB Liability - beginning of year	522,429	439,387	414,048	452,190	383,950	383,951
Total OPEB Liability - end of year	$ 459,251	$ 522,429	$ 439,387	$ 395,284	$ 452,190	$ 452,191
Net OPEB Liability - End of Year	$ 459,251	$ 522,429	$ 439,387	$ 395,284	$ 452,190	$ 452,191
Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
OPEB-eligible payroll for measurement period	$ 5,643,697	$ 5,479,317	$ 5,284,870	$ 5,130,942	$ 5,430,151	$ 5,207,991
Net OPEB Liability as a Percentage of eligible payro	8%	10%	8%	8%	8%	9%

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA

Schedule of District's Contributions
PERA Retirement Funds
Last Ten Years

Fiscal Year Ended June 30	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Payroll
2015	PERA	$ 101,382	$ 101,382	$	$ 1,378,071	7.50%
2016	PERA	107,118	107,118		1,405,427	7.50%
2017	PERA	106,790	106,790		1,423,867	7.50%
2018	PERA	115,715	115,715		1,542,867	7.50%
2019	PERA	122,570	122,570		1,634,267	7.50%
2020	PERA	127,372	127,372		1,698,293	7.50%
2021	PERA	121,535	121,535		1,620,467	7.50%
2022	PERA	123,830	123,830		1,651,067	7.50%
2023	PERA	136,214	136,214		1,816,187	7.50%

Schedule of District's Contributions
TRA Retirement Funds
Last Ten Years

Fiscal Year Ended June 30	Pension Plan	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Payroll
2015	TRA	$ 277,651	$ 277,651	$	$ 3,690,773	7.50%
2016	TRA	276,808	276,808		3,737,048	7.50%
2017	TRA	280,330	280,330		3,737,733	7.50%
2018	TRA	294,797	294,797		3,930,627	7.50%
2019	TRA	306,118	306,118		4,081,573	7.50%
2020	TRA	322,871	322,871		4,187,691	7.71%
2021	TRA	323,616	323,616		4,086,061	7.92%
2022	TRA	328,188	328,188		4,036,753	8.13%
2023	TRA	359,501	359,501		4,310,564	8.34%

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
Public Employees PERA
Last Ten Years (presented prospectively)

Fiscal Year Ended June 30	District's Portion 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	Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0266%	$ 1,249,535	$	$ 1,249,535	$ 1,405,952	89%	78.70%
2015	0.0234%	1,212,709		1,212,709	1,378,071	88%	78.20%
2016	0.0229%	1,859,366	24,285	1,883,651	1,423,867	132%	68.90%
2017	0.0239%	1,525,760	19,225	1,544,985	1,542,867	100%	75.90%
2018	0.0243%	1,348,064	10,313	1,358,377	1,634,267	83%	79.50%
2019	0.0247%	1,326,906	41,165	1,368,071	1,698,293	81%	80.20%
2020	0.0227%	1,360,969	41,967	1,402,936	1,620,467	87%	79.06%
2021	0.0229%	977,933	29,865	1,007,798	1,651,067	61%	87.00%
2022	0.0242%	1,916,648	56,395	1,973,043	1,816,187	109%	76.70%

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
TRA
Last Ten Years (presented prospectively)

Fiscal Year Ended June 30	District's Portion 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	Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0780%	$ 3,594,184	$ 252,885	$ 3,847,069	$3,562,705	108%	81.50%
2015	0.0727%	4,497,214	551,509	5,048,723	3,690,773	137%	76.80%
2016	0.0719%	17,149,866	1,721,032	18,870,898	3,737,733	505%	44.90%
2017	0.0730%	14,572,124	1,409,403	15,981,527	3,930,627	407%	51.60%
2018	0.0739%	4,641,612	435,861	5,077,473	4,081,573	124%	78.10%
2019	0.0738%	4,704,027	416,131	5,120,158	4,187,691	122%	78.10%
2020	0.0703%	5,193,858	435,310	5,629,168	3,690,774	153%	75.48%
2021	0.0675%	2,954,002	249,161	3,203,163	4,036,753	79%	73.20%
2022	0.0697%	5,581,207	414,068	5,995,275	4,310,564	139%	76.17%

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA

SUPPLEMENTAL INFORMATION

JUNE 30, 2023

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
COMPARATIVE BALANCE SHEET
GENERAL FUND
June 30, 2023 and 2022

	2023	2022
Assets		
Cash and investments	$ 3,714,658	$ 3,962,112
Current property taxes receivable	632,065	598,461
Delinquent property taxes receivable	1,669	261
Accounts receivable	8,169	10,127
Due from other Minnesota school districts	25,033	21,534
Due from Minnesota Department of Education	1,082,786	833,822
Due from Federal through Minnesota Department of Education	56,505	72,171
Due from other governments	6,349	16,503
Prepaid items	2,023	
TOTAL ASSETS	$ 5,529,257	$ 5,514,991
Liabilities		
Accounts payable	$ 82,953	$ 98,789
Salaries and accrued liabilities payable	801,602	751,669
Due to other Minnesota school districts	8,999	13,200
Due to Minnesota Department of Education	676	
TOTAL LIABILITIES	894,230	863,658
Deferred Inflows of Resources		
Unavailable revenue		
Delinquent property taxes	1,669	261
Taxes levied for subsequent year	1,292,308	1,201,309
TOTAL DEFERRED INFLOWS OF RESOURCES	1,293,977	1,201,570
Fund Balances		
Nonspendable	2,023	
Restricted	949,829	747,743
Unassigned	2,389,198	2,702,020
TOTAL FUND BALANCES	3,341,050	3,449,763
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 5,529,257	$ 5,514,991

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2023
With Partial Comparative Data for the Year Ended June 30, 2022

	Budgeted Amounts		2023	Over (Under)	2022
	Original	Final	Actual	Final Budget	Actual
Revenues					
Local sources:					
Property tax levies	$ 1,231,723	$ 1,228,132	$ 1,227,639	$ (493)	$ 1,295,599
Investment income	1,500	1,500	28,540	27,040	1,409
State sources	613,670	647,780	657,241	9,461	617,051
TOTAL REVENUES	1,846,893	1,877,412	1,913,420	36,008	1,914,059
Expenditures					
Debt service:					
Principal	940,000	970,000	970,000		940,000
Interest and fiscal	925,825	944,129	944,129		925,825
TOTAL EXPENDITURES	1,865,825	1,914,129	1,914,129		1,865,825
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(18,932)	(36,717)	(709)	36,008	48,234
Other Financing Sources					
Proceeds from sale of bonds					45,567
NET CHANGE IN FUND BALANCES	(18,932)	(36,717)	(709)	36,008	93,801
FUND BALANCE - BEGINNING	455,853	455,853	455,853		362,052
FUND BALANCE - ENDING	$ 436,921	$ 419,136	$ 455,144	$ 36,008	$ 455,853

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
SUPPLEMENTAL COST SCHEDULES
For the Fiscal Years Ended June 30, 2023 and 2022
(Unaudited)

Fiscal Year Ended June 30, 2023	2022 - 2023 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	$ 920,031	$ 1,006
District support services	637,582	697
Regular instruction	4,983,384	5,447
Vocational instruction	223,343	244
Special education	1,555,990	1,701
Community education and services	741,945	811
Instructional support services	599,563	655
Pupil support services	1,582,099	1,729
Site, buildings, and equipment	1,401,917	1,532
Fiscal and other fixed cost programs	2,000,436	2,187
TOTALS	$ 14,646,290	$ 16,010

2022 - 2023 Adjusted Average Daily Membership - 914.84

Note: The expenditure amounts above and below exclude Building Construction Fund Expenditures

Fiscal Year Ended June 30, 2022	2021 - 2022 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
District and school administration	$ 909,811	$ 1,017
District support services	648,177	725
Regular instruction	4,633,034	5,179
Vocational instruction	211,601	237
Special education	1,364,821	1,526
Community education and services	671,009	750
Instructional support services	516,009	577
Pupil support services	1,511,093	1,689
Site, buildings, and equipment	1,145,813	1,281
Fiscal and other fixed cost programs	1,960,992	2,192
TOTALS	$ 13,572,360	$ 15,171

2021 - 2022 Adjusted Average Daily Membership - 894.61

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA

TAX LEVY HISTORY

	22 Pay 23 Fiscal 24	21 Pay 22 Fiscal 23	20 Pay 21 Fiscal 22	19 Pay 20 Fiscal 21	18 Pay 19 Fiscal 20
Tax Levy*					
General	$ 1,390,338	$ 1,309,241	$ 1,256,412	$ 1,197,230	$ 1,200,615
Community Service	91,826	81,410	91,804	87,469	80,296
General Debt Service	1,848,143	1,704,621	1,743,311	1,706,086	1,714,479
TOTAL TAX LEVY	$ 3,330,307	$ 3,095,271	$ 3,091,527	$ 2,990,784	$ 2,995,390

* The tax levy includes property tax apportionments from Olmsted, Winona, and Fillmore counties and state aid credits from the State of Minnesota.

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INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA

OTHER REQUIRED REPORTS

JUNE 30, 2023

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INDEPENDENT AUDITOR'S 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

To the Board of Education
Independent School District #227
Chatfield, Minnesota 55923

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Independent School District #227, Chatfield, Minnesota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprises the District's basic financial statements and have issued our report thereon dated October 5, 2023. We conducted our audit 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; and the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Section 6.65.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's 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 the attention of those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2016-001 and 2016-002 that we consider to be a significant deficiency.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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 Minn. Stat. § 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.

Other Matter

Districts response to internal control and legal compliance findings identified in our audit has been included in the Schedule of Findings and Responses. The District's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them

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.

Smith, Schafer and Associates, Ltd.

Rochester, Minnesota
October 5, 2023

SmithSchafer

Members of American Institute of CPAs, Private
Companies Practice Section, Minnesota Society of CPAs

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Education
Independent School District #227
Chatfield, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Independent School District #227, Chatfield, Minnesota's (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2023. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on 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.

Auditors' 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 a 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.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above 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.

Report on Internal Control over Compliance (Continued)

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.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2023, and the related notes to financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 5, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 5, 2023. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Smith, Schafer and Associates, Ltd.

Rochester, Minnesota
October 5, 2023

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INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor/Program	Federal ALN Number	Federal Expenditures
U.S. Department of Agriculture		
Pass-through from Minnesota Department of Education:		
Child Nutrition Cluster:		
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	$ 33,404
Cash Assistance:		
School Breakfast Program	10.553	21,819
National School Lunch Program	10.555	192,004
Subtotal for Child Nutrition Cluster:		247,227
Subtotal - U.S. Department of Agriculture		247,227
U.S. Department of Treasury		
Pass-through from Minnesota Department of Education:		
Emergency Connectivity Fund	32.009	168,780
Pass-through from Local Sources:		
Coronavirus Relief Fund	21.027	11,397
Subtotal - U.S. Department of Treasury		180,177
U.S. Department of Education		
Pass-through from Minnesota Department of Education:		
Title I Grants to Local Educational Agencies	84.010	60,591
Elementary and Secondary School Emergency Relief Fund	84.425DC	25,160
Elementary and Secondary School Emergency Relief Fund (ESSER II & III)	84.425UC	321,809
Pass-Through from Hiawatha Valley Education District		
Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	4,944
Special Education Cluster:		
Special Education - Grants to States	84.027	18,346
Subtotal - U.S. Department of Education		430,850
Total Expenditures of Federal Awards		$ 858,254

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. General

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Independent School District #227, Chatfield, Minnesota under programs of the federal government for the year ended June 30, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principals, 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 in assets, or cash flows of the District.

All pass-through entities listed in the Schedule use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

2. Summary of Significant Accounting Principles

Expenditures reported on the Schedule are reported on the 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.

3. Food Distribution

Nonmonetary assistance is reported in the schedule with the National School Lunch Program at the fair market value of the commodities received and disbursed which totaled $33,404.

4. Indirect Cost Rate

Independent School District #227 has not charged indirect costs to any of the federal programs. Therefore, the election of the 10 percent de minimis indirect cost rate is not applicable as allowed under the Uniform Guidance.

INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2023

FINDINGS – FINANCIAL STATEMENT AUDIT

FINDING – 2016-001 SEGREGATION OF DUTIES

Condition: The district does not have proper segregation of duties with regard to accounting and financial duties.

Criteria: Generally, a system of internal control contemplates a segregation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Context: In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements.

Effect: This lack of ideal segregation of duties subjects the District to a higher risk that error or fraud could occur and not be detected in a timely manner in the normal course of business.

Cause: The internal controls over accounting and financial duties are not properly segregated is primarily caused by the limited number of the District's business office staff.

Recommendation: We recommend the District segregate duties as best it can within the limits of the staff available. Any modifications in internal controls in this area should be viewed from a cost/benefit perspective.

CURRENT STATUS:
The finding recurred in 2023.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2023

FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

FINDING – 2016-002 OVERSIGHT OF THE FINANCIAL REPORTING PROCESS

Condition: Management does not have a system of internal controls that would enable them to conclude the financial statements and related disclosures are complete and presented in accordance with U.S. generally accepted accounting principles (GAAP).

Criteria: Auditing and financial reporting standards specify that management is responsible for establishing and maintaining internal controls for the fair presentation of the financial position and disclosures in the financial statements, in conformity with GAAP.

Context: In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements.

Effect: Management requested us to prepare a draft of the financial statements, including related footnote disclosures.

Cause: There are a limited number of employees with the expertise to prepare financial statements and related disclosures.

Recommendation: We recommend the District continue to take care when selecting and applying appropriate accounting principles to their financial records. The Board of Education should also continue to play an active role in in oversight of the District's finance.

CURRENT STATUS:
The finding recurred in 2023.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings.

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

1. Type of auditor's report issued:	Unmodified			
2. Internal control over financial reporting:				
- Material weakness(es) identified?		Yes	X	No
- Significant deficiency(ies) identified?	X	Yes		None reported
3. Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

1. Internal control over major federal programs:				
- Material weakness(es) identified?		Yes	X	No
- Significant deficiency(ies) identified?		Yes	X	None reported
2. Type of auditor's report issued on compliance for major federal programs:	Unmodified			
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		Yes	X	No

Programs Tested as a Major Program

CFDA Number(s)	**Name of Federal Program or Cluster**
- 10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000			
Auditee qualified as low-risk auditee?	X	Yes		No

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CORRECTIVE ACTION PLAN (CAP):

The District respectfully submits the following corrective action plan for the year ended June 30, 2023. The findings from the schedule of findings and responses is discussed below. The findings are numbered consistently with the number assigned in the schedule.

FINDING 2016-001

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

Actions Planned in Response to Finding:
The District will review segregation of duties procedures with regard to accounting and financial duties properly segregate assigned duties to the best of its ability.

Official Responsible for Ensuring CAP:
Edward Harris, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

Planned completion date for CAP:
The planned completion date is June 30, 2024.

Plan to Monitor Completion of CAP:
Edward Harris, Superintendent, will continue to monitor this deficient and segregate duties as best he can within the limits of the staff available.

FINDING 2016-002

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

Actions Planned in Response to Finding:
The District will review accounting procedures in place with the goal of ensuring that oversight of financial reporting process is maximized within the limits of the staff available with regard to accounting and financial duties properly segregate assigned duties to the best of its ability.

Official Responsible for Ensuring CAP:
Edward Harris, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

Planned completion date for CAP:
The planned completion date is June 30, 2024.

Plan to Monitor Completion of CAP:
Edward Harris, Superintendent, will continue to monitor this deficient and segregate duties as best he can within the limits of the staff available.

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INDEPENDENT SCHOOL DISTRICT #227
CHATFIELD, MINNESOTA

COMPLIANCE TABLE

JUNE 30, 2023

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Fiscal Compliance Report - 6/30/2023

Help Logoff

District: CHATFIELD (227-1)

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01 GENERAL FUND

	Audit	UFARS	Audit - UFARS
Total Revenue	$11,237,407	$11,237,408	($1)
Total Expenditures	$11,377,845	$11,377,846	($1)
Non Spendable:			
4.60 Non Spendable Fund Balance	$2,023	$2,023	$0
Restricted / Reserved:			
4.01 Student Activities	$81,283	$81,283	$0
4.02 Scholarships	$24,000	$24,000	$0
4.03 Staff Development	$0	$0	$0
4.07 Capital Projects Levy	$0	$0	$0
4.08 Cooperative Revenue	$0	$0	$0
4.13 Funded by COP/FP	$0	$0	$0
4.14 Operating Debt	$0	$0	$0
4.16 Levy Reduction	$0	$0	$0
4.17 Taconite Building Maint	$0	$0	$0
4.24 Operating Capital	$518,865	$518,866	($1)
4.26 $25 Taconite	$0	$0	$0
4.27 Disabled Accessibility	$0	$0	$0
4.28 Learning & Development	$0	$0	$0
4.34 Area Learning Center	$0	$0	$0
4.35 Contracted Alt. Programs	$0	$0	$0
4.36 State Approved Alt. Program	$0	$0	$0
4.38 Gifted & Talented	$42,800	$42,800	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.41 Basic Skills Programs	$0	$0	$0
4.48 Achievement and Integration	$0	$0	$0
4.49 Safe Schools Levy	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.53 Unfunded Sev & Retiremt Levy	$0	$0	$0
4.59 Basic Skills Extended Time	$0	$0	$0
4.67 LTFM	$282,880	$282,880	$0
4.72 Medical Assistance	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
4.75 Title VII Impact Aid	$0	$0	$0
4.76 Payments in Lieu of Taxes	$0	$0	$0
Committed:			
4.18 Committed for Separation	$0	$0	$0
4.61 Committed Fund Balance	$0	$0	$0
Assigned:			
4.62 Assigned Fund Balance	$0	$0	$0
Unassigned:			
4.22 Unassigned Fund Balance	$2,389,198	$2,389,197	$1

02 FOOD SERVICES

	Audit	UFARS	Audit - UFARS
Total Revenue	$524,059	$524,059	$0
Total Expenditures	$612,371	$612,370	$1
Non Spendable:			
4.60 Non Spendable Fund Balance	$2,463	$2,463	$0
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$188,793	$188,794	($1)
Unassigned:			
4.63 Unassigned Fund Balancee	$0	$0	$0

04 COMMUNITY SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$748,882	$748,882	$0
Total Expenditures	$741,945	$741,945	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.26 $25 Taconite	$0	$0	$0
4.31 Community Education	$22,163	$22,163	$0
4.32 E.C.F.E	$33,711	$33,711	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.44 School Readiness	($40,434)	($40,434)	$0
4.47 Adult Basic Education	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$27,793	$27,791	$2
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

06 BUILDING CONSTRUCTION

	Audit	UFARS	Audit - UFARS
Total Revenue	$4,499	$4,499	$0
Total Expenditures	$1,577,935	$1,577,934	$1
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.07 Capital Projects Levy	$0	$0	$0
4.13 Funded by COP/FP	$0	$0	$0
4.67 LTFM	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$136,689	$136,689	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

07 DEBT SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$1,913,420	$1,913,420	$0
Total Expenditures	$1,914,129	$1,914,129	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.25 Bond Refundings	$0	$0	$0
4.33 Maximum Effort Loan Aid	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
4.67 LTFM	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$455,144	$455,143	$1
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

08 TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$15,400	$15,400	$0
Total Expenditures	$15,000	$15,000	$0
Restricted / Reserved:			
4.01 Student Activities	$0	$0	$0
4.02 Scholarships	$3,200	$3,200	$0
4.22 Unassigned Fund Balance (Net Assets)	$23,097	$23,097	$0

18 CUSTODIAL

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Restricted / Reserved:			
4.01 Student Activities	$0	$0	$0
4.02 Scholarships	$0	$0	$0
4.48 Achievement and Integration	$0	$0	$0
4.64 Restricted Fund Balance	$0	$0	$0

20 INTERNAL SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

25 OPEB REVOCABLE TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

45 OPEB IRREVOCABLE TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

47 OPEB DEBT SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted:			
4.25 Bond Refundings	$0	$0	$0
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0