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Independent School District No. 111
Watertown-Mayer Schools
Watertown, Minnesota

Basic Financial Statements

June 30, 2023

Independent School District No. 111
Watertown-Mayer Schools
Table of Contents

Independent School District No. 111
Watertown-Mayer Schools
Table of Contents

Independent School District No. 111
Watertown-Mayer Schools
Board of Education and Administration
June 30, 2023

Board of Education	Position	Term Expires
Hunter Feldt	Chair	December 31, 2027
Jim Burns	Vice Chair	December 31, 2024
Katy Jo Danielson	Clerk	December 31, 2024
Erika Schulz	Treasurer	December 31, 2027
Heidi Guetzkow	Director	December 31, 2024
Lisa Neaton	Director	December 31, 2024
Jeff Onell	Director	December 31, 2027
Administration		
Darren Schuler	Superintendent	Appointed

Independent Auditor's Report

To the School Board
Independent School District No. 111
Watertown-Mayer Schools
Watertown, Minnesota

Report on the Audit of the Financial Statements

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of and for the year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of June 30, 2023, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independent School District No. 111 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management Responsibility for the Financial Statements

The management of Independent School District No. 111 is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 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.

BerganKDV, Ltd.

St. Cloud, Minnesota
November 22, 2023

Independent School District No. 111
Management's Discussion and Analysis

This section of Independent School District No. 0111 – Watertown-Mayer Public Schools' annual financial report presents the Management Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ended June 30, 2023. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

FINANCIAL HIGHLIGHTS

Key financial highlight for 2022 – 2023:

- District ADM remained stable with a slight increase of 1.34 from 2022.
- The District's total fund balance decreased by $4,642,483.
    - General Fund decrease by $1,592,019
    - Food Service increased slightly by $1,222
    - Community Education increased by $170,148
    - Construction decreased by $3,284,939
    - Debt Services increased by $63,105

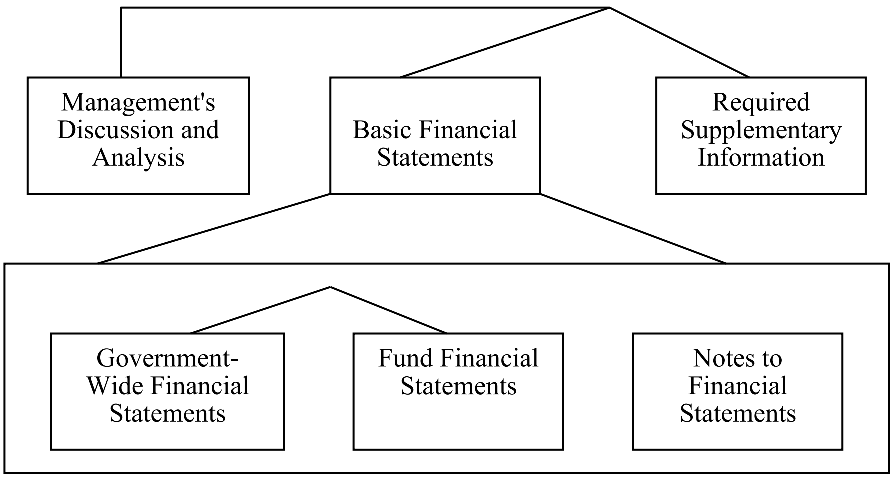
OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
    - The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements. The diagram on the next page shows how the various parts of this annual report are arranged and related to one another.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)



Summary < --- > Detail

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

Financial Statements		
	Government Wide	**Fund - Governmental**
Scope	Entire District (except fiduciary funds).	The activities of the District that is not proprietary or fiduciary, such as special education and building maintenance.
Required Financial Statements	❖ Statement of Net Position ❖ Statement of Activities	❖ Balance Sheet ❖ Statement of Revenues, Expenditures, and Changes in Fund Balances
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial focus.
Type of Assets/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, 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 government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- Governmental Activities – Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

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

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

The District has only one kind of fund

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position on June 30, 2023, was $25,845,064 (see details in Table A-1 below). This is an increase of $5,874,139 from June 30, 2022.

Table A-1

	2023	2022
Current and Other Assets	$ 18,894,056	$ 23,334,667
Capital Assets	73,778,853	70,431,930
Total Assets	92,672,909	93,766,597
Deferred Outflows of Resources	3,951,154	4,298,696
Total Assets and Deferred Outflows of Resources	$ 96,624,063	$ 98,065,293
Long-Term Liabilities	$ 55,718,051	$ 54,129,885
Current Liabilities	4,760,310	4,291,269
Total Liabilities	60,478,361	58,421,154
Deferred Inflow of Resources	10,300,638	19,673,214
Net Position		
Net Investment in Capital Assets	34,543,275	29,315,857
Restricted		
Capital projects	-	756,002
Other purposes	2,538,377	2,167,260
Unrestricted	(11,236,588)	(12,268,194)
Total Net Position	25,845,064	19,970,925
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 96,624,063	$ 98,065,293

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

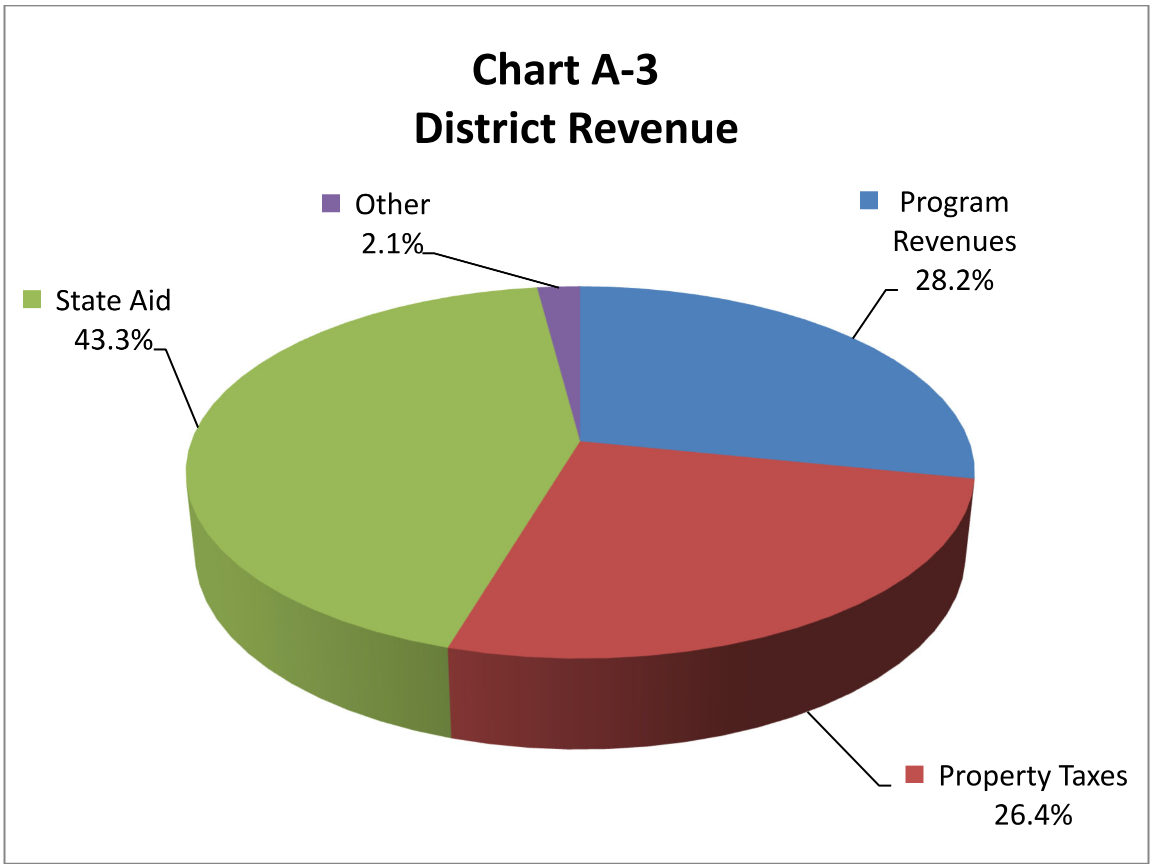
A summary of the District's revenues, expenses and change in net position are presented in Table A-2.

Table A-2

Revenues	**2023**	**2022**
Program revenues		
Charges for services	$ 2,203,742	$ 1,821,243
Operating grants and contributions	5,156,919	5,267,440
Capital grants and contributions	512,405	1,198,317
General revenues		
Property taxes	7,367,640	7,440,136
Aids and payments from state and other	12,092,479	11,715,354
Other sources	575,458	368,245
Total revenues	27,908,643	27,810,735
Expenses		
Administration	991,869	847,499
District support services	771,175	844,464
Elementary and secondary regular instruction	6,566,747	7,969,767
Vocational instruction	284,040	324,616
Special education instruction	2,766,937	2,879,297
Instructional support services	642,124	680,104
Pupil support services	1,749,521	1,893,948
Site, buildings, and equipment	4,652,383	2,419,735
Fiscal and other fixed cost programs	198,428	170,380
Food service	859,463	783,539
Community education and services	1,720,118	1,537,896
Interest and fiscal charges on long-term debt	831,699	183,981
Total expenses	22,034,504	20,535,226
Change in net position	5,874,139	7,275,509
Net position – beginning	19,970,925	12,695,416
Net position – ending	$ 25,845,064	$ 19,970,925

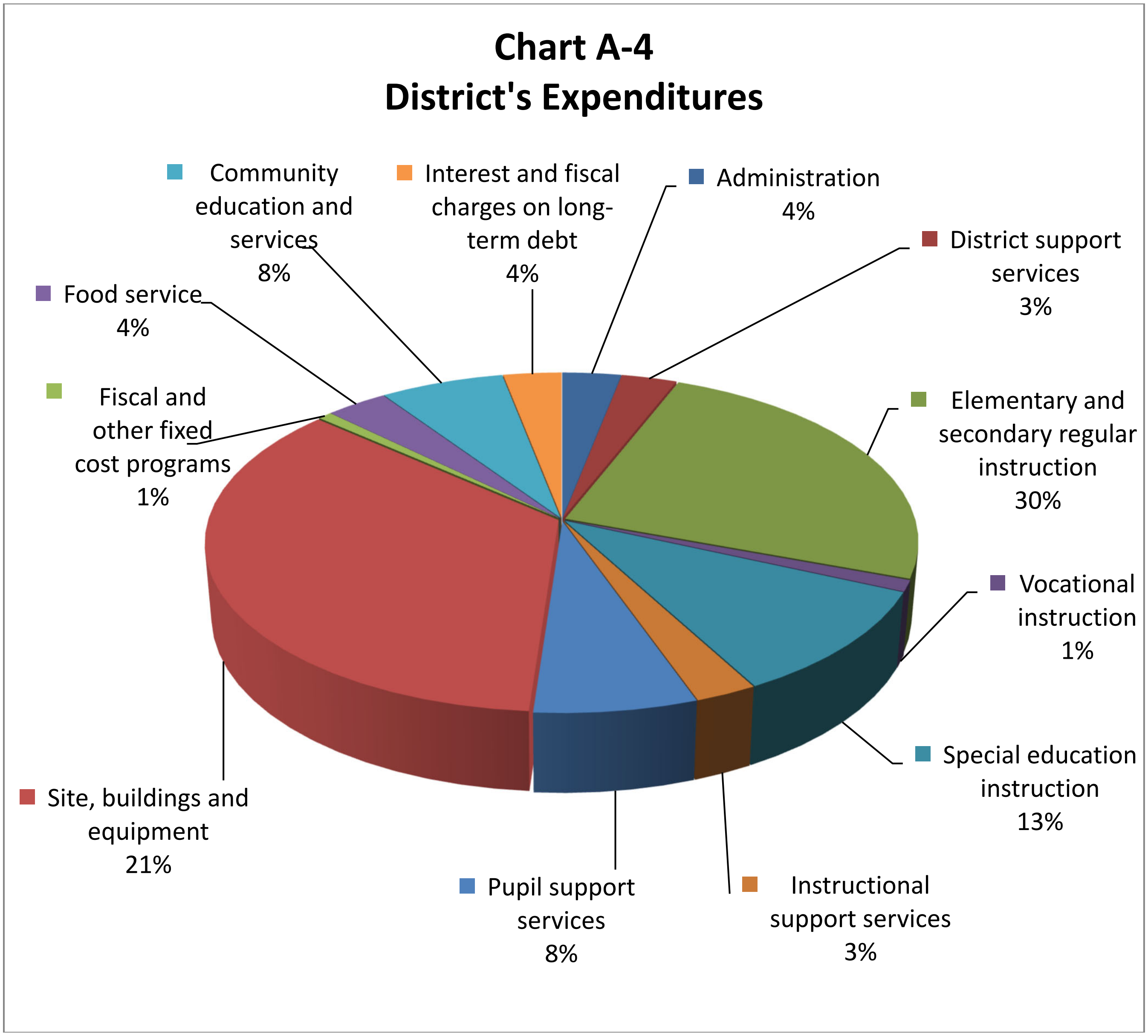
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The District's total revenue consisted of state aid payments of $12,092,479, program revenues of $7,873,066, property taxes of $7,367,640, and $575,458 from miscellaneous other sources.



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Expenses totaled $22,034,504. Instruction expenses consisted of regular, vocational, special education instruction, instructional support and pupil support cost totaled $12,009,369. Other areas of cost included: support services (district and administrative) totaling $1,763,044, sites, building and equipment $4,652,383, fiscal and other fixed cost of $198,428, food services activities $859,463, Community Education activities of $1,720,118 and interest and other fiscal changes on long-term, debt of $831,699.



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenue and Expenditures
A comparison of General Fund Revenue and Expenditures are below in Table A-5.

Total General Fund revenues increased by $721,985 or about 3.79% from the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. The increase in revenue is primarily due an increase in local sources due to resumed activity in student fees and increase in the general aid formula and special education revenue.

Total General Fund expenditures increased $1,368,856 or about 6.78%% from the prior year. Factors contributing to the increase:

- Increase in salary and benefits for staff
- Middle School Abatement project funded by Fund 01

General Fund Revenues

	June 30, 2023	June 30, 2022	Change Increase / (Decrease)	Change Percentage
Local sources	$ 1,385,607	$ 976,418	$ 409,189	41.91%
Property taxes	2,930,975	2,944,624	(13,649)	-0.46%
Other	454	177	277	156.50%
State sources	14,450,916	14,143,054	307,862	2.18%
Federal sources	1,015,262	996,956	18,306	1.84%
Total	$19,783,214	$19,061,229	$ 721,985	3.79%

General Fund Expenditures

	June 30,2023	June 30, 2022	Change Increase / (Decrease)	Change Percentage
Salaries	$ 10,171,496	$ 9,866,986	$ 304,510	3.09%
Employee benefits	3,161,589	2,947,226	214,363	7.27%
Purchased services	4,217,123	4,459,657	(242,534)	-5.44%
Supplies and materials	1,111,784	1,202,304	(90,520)	-7.53%
Capital expenditures	2,754,000	1,579,661	1,174,339	74.34%
Other expenditures	140,879	132,181	8,698	6.58%
Total	$ 21,556,871	$20,188,015	$ 1,368,856	6.78%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Fund Balance

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a decrease in combined fund balance of $4,642,483 for an overall combined District fund balance of $8,315,218.

Table A-6
District's Fund Balances

Fund	June 30, 2022 Fund Balance	Revenues and other financing sources	Expenditures and other financing uses	June 30, 2023 Fund Balance	Change
General	$ 5,442,731	$ 19,964,852	$ 21,556,871	$ 3,850,712	$ (1,592,019)
Food Service	320,443	881,431	880,209	$321,665	1,222
Community Ed	575,371	2,111,227	1,941,079	$745,519	170,148
Construction	5,686,428	300,209	3,585,148	$2,401,489	(3,284,939)
Debt Service	932,728	4,566,927	4,503,822	$995,833	63,105
Total	$ 12,957,701	$ 27,824,646	$ 32,467,129	$ 8,315,218	$ (4,642,485)

General Fund Budgetary Highlights

The District's final General Fund budget anticipated that expenditures would exceed revenues and other financing sources by $2,296,895. The actual result was a decrease in fund balance of $1,592,019. Revenues and other financing sources were $30,405 over budget (0.15% of the projected budget) and expenditures were $674,471 under budget (3.03% of the projected budget). The final budget was modified from the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

By the end of 2023, the District had invested $73,778,853 in a broad range of capital assets, including land, construction in progress; school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table A-7). Total accumulated depreciation increased $1,795,829 from 2022. See Note 3 in the financial statement for further detail.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Asset (Continued)

Table A-7
District's Capital Assets

	2023	2022
Land	$ 26,700	$ 26,700
Construction in Progress	27,847,585	22,895,360
Land improvements	772,351	772,351
Building and improvements	71,512,511	71,512,511
Leased Equipment	568,890	616,266
Equipment	2,856,265	2,618,362
Less: accumulated depreciation	(29,805,449)	(28,009,620)
Total	$73,778,853	$70,431,930

Long-Term Debt

At June 30, 2023 the District had $40,237,663 in general obligation bond payable. This is a decrease of $3,745,000 from June 30, 2022. Under current state statutes, the District's general obligation bonded debt issuances are subject to a legal limitation of 10 percent of the fair market value of property in the District. The District is within its legal authority for bonded debt. See Note 4 in the financial statements for further detail.

Table A- 8
District's Long-Term Debt

	2023	2022
General Obligation Bonds	$40,237,663	$43,982,663
Premiums on Bonds	1,006,180	1,389,675
Certificates of Participation	92,223	225,304
Lease Payable	301,001	448,858
Compensated Absences	160,359	120,879
Total	$41,797,426	$46,167,379
Long-Term Liabilities		
Due within one year	4,348,724	4,144,979
Due in more than one year	37,448,702	42,022,400
Total	$41,797,426	$46,167,379

FACTORS BEARING ON THE DISTRICT'S FUTURE

Enrollment is a critical factor in determining revenue, with approximately 75% of General Fund Revenue being determined by enrollment, therefore, understanding and making efforts to impact student enrollment choices is a key factor to the long-term fiscal health of the District. The district will need to remain diligent in watching the student count closely. The chart below displays the change in ADM for the past five years. 2023 shows a slight increase from 2022. Future enrollment will be monitored closely to assure accurate budgeting.

Table A-9
District's Adjusted Daily Membership (ADM)

Grade	2019	2020	2021	2022	2023
K	110.07	109.54	99.21	110.12	101.67
1-3	313.80	323.78	316.10	311.76	318.37
4-6	363.30	376.25	339.05	321.59	318.68
7-12	728.85	735.50	711.54	737.74	743.12
Total K - 12 ADM	1,516.02	1,545.07	1,465.90	1,481.21	1,482.72
ADM change	(30.54)	29.05	(79.17)	15.31	1.51

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

- This report is designed to provide the District's citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or would like additional information, contact the District Office, 1001 Highway 25, Watertown, Minnesota, 55735.

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BASIC FINANCIAL STATEMENTS

Independent School District No. 111
Statement of Net Position
June 30, 2023

	Governmental Activities
Assets	
Cash and investments (including cash equivalents)	$ 12,015,959
Current property taxes receivable	4,456,092
Delinquent property taxes receivable	234,285
Accounts receivable	36,696
Due from Department of Education	1,266,121
Due from Federal Government through Department of Education	746,028
Due from other Minnesota school districts	2,042
Inventory	13,962
Prepaid items	122,871
Capital assets, not being depreciated	
Land	26,700
Construction in progress	27,847,585
Capital assets, net of accumulated depreciation and amortization	
Land improvements	299,776
Buildings	44,443,556
Leased equipment	248,192
Equipment	913,044
Total assets	92,672,909
Deferred Outflows of Resources	
Deferred outflows related to OPEB	62,797
Deferred outflows related to pensions	3,888,357
Total deferred outflows of resources	3,951,154
Total assets and deferred outflows of resources	$ 96,624,063
Liabilities	
Accounts and contracts payable	$ 1,005,850
Salaries and benefits payable	1,551,093
Interest payable	2,030,516
Due to other Minnesota school districts	114,981
Due to other governmental units	35,373
Unearned revenue	22,497
Bond principal payable	
Payable within one year	3,965,000
Payable after one year	37,278,843
Certificates of participation	
Payable within one year	92,223
Lease payable	
Payable within one year	131,142
Payable after one year	169,859
Compensated absences payable	
Payable within one year	160,359
Total OPEB liability	524,711
Net pension liability	13,395,914
Total liabilities	60,478,361
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	7,640,630
Deferred inflows related to OPEB	156,296
Deferred inflows related to pensions	2,503,712
Total deferred inflows of resources	10,300,638
Net Position	
Net investment in capital assets	34,543,275
Restricted	
Other purposes	2,538,377
Unrestricted	(11,236,588)
Total net position	25,845,064
Total liabilities, deferred inflows of resources, and net position	$ 96,624,063

Independent School District No. 111
Statement of Activities
Year Ended June 30, 2023

		Program Revenues			Net (Expense) Revenues and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Administration	$ 991,869	$ -	$ -	$ -	$ (991,869)
District support services	771,175	-	-	-	(771,175)
Elementary and secondary regular instruction	6,566,747	240,086	1,769,345	-	(4,557,316)
Vocational education instruction	284,040	3,864	20,703	-	(259,473)
Special education instruction	2,766,937	147,061	2,350,462	-	(269,414)
Instructional support services	642,124	9,748	9,998	-	(622,378)
Pupil support services	1,749,521	1,775	101,745	-	(1,646,001)
Sites and buildings	4,652,383	-	-	512,405	(4,139,978)
Fiscal and other fixed cost programs	198,428	-	-	-	(198,428)
Food service	859,463	437,127	444,304	-	21,968
Community education and services	1,720,118	1,364,081	460,362	-	104,325
Interest and fiscal charges on long-term debt	831,699	-	-	-	(831,699)
Total governmental activities	$ 22,034,504	$ 2,203,742	$ 5,156,919	$ 512,405	(14,161,438)

General revenues	
Taxes	
Property taxes, levied for general purposes	2,940,515
Property taxes, levied for community service	287,718
Property taxes, levied for debt service	4,139,407
State aid-formula grants	12,092,479
Other general revenues	189,815
Investment income	384,099
Gain on disposal of capital assets	1,544
Total general revenues	20,035,577
Change in net position	5,874,139
Net position - beginning	19,970,925
Net position - ending	$ 25,845,064

Independent School District No. 111
Watertown, Minnesota
Balance Sheet - Governmental Funds
June 30, 2023

	General	Debt Service	Capital Project
Assets			
Cash and investments	$ 5,248,763	$ 2,769,958	$ 2,774,487
Current property taxes receivable	1,719,978	2,606,480	-
Delinquent property taxes receivable	70,061	154,459	-
Accounts receivable	13,862	-	-
Due from Department of Education	1,199,755	44,482	-
Due from Federal Government through Department of Education	690,611	-	-
Due from other Minnesota school districts	1,409	-	-
Inventory	5,007	-	-
Prepaid items	122,871	-	-
Total assets	$ 9,072,317	$ 5,575,379	$ 2,774,487
Liabilities			
Accounts and contracts payable	$ 597,068	$ -	$ 372,998
Salaries and benefits payable	1,446,787	-	-
Due to other Minnesota school districts	114,981	-	-
Due to other governmental units	35,373	-	-
Unearned revenue	-	-	-
Total liabilities	2,194,209	-	372,998
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	2,965,072	4,442,142	-
Unavailable revenue - delinquent property taxes	62,324	137,404	-
Total deferred inflows of resources	3,027,396	4,579,546	-
Fund Balances			
Nonspendable	127,878	-	-
Restricted	1,462,507	995,833	2,401,489
Assigned	387,584	-	-
Unassigned	1,872,743	-	-
Total fund balances	3,850,712	995,833	2,401,489
Total liabilities, deferred inflows of resources, and fund balances	$ 9,072,317	$ 5,575,379	$ 2,774,487

Nonmajor Funds	Total Governmental Funds
$ 1,222,751	$ 12,015,959
129,634	4,456,092
9,765	234,285
22,834	36,696
21,884	1,266,121
55,417	746,028
633	2,042
8,955	13,962
-	122,871
$ 1,471,873	$ 18,894,056
$ 35,784	$ 1,005,850
104,306	1,551,093
-	114,981
-	35,373
22,497	22,497
162,587	2,729,794
233,416	7,640,630
8,686	208,414
242,102	7,849,044
8,955	136,833
1,058,229	5,918,058
-	387,584
-	1,872,743
1,067,184	8,315,218
$ 1,471,873	$ 18,894,056

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Independent School District No. 111
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2023

Total fund balances - governmental funds	$ 8,315,218
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	103,584,303
Less accumulated depreciation and amortization	(29,805,450)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(40,237,663)
Premium on bonds payable	(1,006,180)
Certificates of participation	(92,223)
Lease payable	(301,001)
Compensated absences	(160,359)
Total OPEB liability	(524,711)
Net pension liability	(13,395,914)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions and OPEB that are not recognized in the governmental funds.	
Deferred outflows of resources related to OPEB	62,797
Deferred outflows of resources related to pensions	3,888,357
Deferred inflows of resources related to OPEB	(156,296)
Deferred inflows of resources related to pensions	(2,503,712)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	208,414
Governmental funds do not report a liability for accrued interest on bonds and other long term debt until due and payable.	(2,030,516)
Total net position - governmental activities	$ 25,845,064

Independent School District No. 111
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2023

	General	Debt Service	Capital Project
Revenues			
Local property taxes	$ 2,930,975	$ 4,122,121	$ -
Other local and county revenues	1,385,607	-	300,209
Revenue from state sources	14,450,916	444,806	-
Revenue from federal sources	1,015,262	-	-
Sales and other conversion of assets	454	-	-
Total revenues	19,783,214	4,566,927	300,209
Expenditures			
Current			
Administration	978,305	-	-
District support services	682,463	-	-
Elementary and secondary regular instruction	8,486,341	-	-
Vocational education instruction	360,938	-	-
Special education instruction	3,370,753	-	-
Instructional support services	687,335	-	-
Pupil support services	1,750,501	-	-
Sites and buildings	2,287,806	-	860,004
Fiscal and other fixed cost programs	198,428	-	-
Food service	-	-	-
Community education and services	-	-	-
Capital outlay			
District support services	188,576	-	-
Elementary and secondary regular instruction	58,032	-	-
Special education instruction	7,898	-	-
Instructional support services	5,812	-	-
Pupil support services	4,264	-	-
Sites and buildings	2,164,542	-	2,725,144
Food service	-	-	-
Debt service			
Principal	290,708	3,745,000	-
Interest and fiscal charges	34,169	758,822	-
Total expenditures	21,556,871	4,503,822	3,585,148
Excess of revenues over (under) expenditures	(1,773,657)	63,105	(3,284,939)
Other Financing Sources			
Proceeds from sale of capital assets	1,544	-	-
Insurance recovery	180,094	-	-
Total other financing sources	181,638	-	-
Net change in fund balances	(1,592,019)	63,105	(3,284,939)
Fund Balances			
Beginning of year	5,442,731	932,728	5,686,428
End of year	$ 3,850,712	$ 995,833	$ 2,401,489

Nonmajor Funds	Total Governmental Funds
$ 286,784	$ 7,339,880
1,425,492	3,111,308
402,125	15,297,847
441,130	1,456,392
437,127	437,581
2,992,658	27,643,008
-	978,305
-	682,463
-	8,486,341
-	360,938
-	3,370,753
-	687,335
102,764	1,853,265
-	3,147,810
-	198,428
845,497	845,497
1,838,315	1,838,315
-	188,576
-	58,032
-	7,898
-	5,812
-	4,264
-	4,889,686
34,712	34,712
-	4,035,708
-	792,991
2,821,288	32,467,129
171,370	(4,824,121)
-	1,544
-	180,094
-	181,638
171,370	(4,642,483)
895,814	12,957,701
$ 1,067,184	$ 8,315,218

Independent School District No. 111
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended June 30, 2023

Net change in fund balances - total governmental funds	$ (4,642,483)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities cost of those assets is allocated over the estimated useful lives as depreciation and amortization expense.	
Capital outlays	5,210,246
Depreciation expense and amortization	(1,863,324)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(39,480)
Total OPEB are recognized as paid in the governmental funds, but recognized as the expense is incurred in the Statement of Activities.	55,402
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	4,025,939
Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	383,494
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	3,138,787
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	27,760
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(422,202)
Change in net position - governmental activities	$ 5,874,139

Independent School District No. 111
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 2,920,776	$ 2,939,281	$ 2,930,975	$ (8,306)
Other local and county revenues	678,549	1,140,822	1,385,607	244,785
Revenue from state sources	14,688,200	14,638,586	14,450,916	(187,670)
Revenue from federal sources	1,105,165	1,049,977	1,015,262	(34,715)
Sales and other conversion of assets	-	(17)	454	471
Total revenues	19,392,690	19,768,649	19,783,214	14,565
Expenditures				
Current				
Administration	964,056	974,797	978,305	3,508
District support services	722,421	705,872	682,463	(23,409)
Elementary and secondary regular instruction	8,493,782	8,733,955	8,486,341	(247,614)
Vocational education instruction	338,993	338,993	360,938	21,945
Special education instruction	3,473,152	3,497,692	3,370,753	(126,939)
Instructional support services	989,991	956,332	687,335	(268,997)
Pupil support services	1,925,467	1,860,801	1,750,501	(110,300)
Sites and buildings	2,341,342	2,626,494	2,287,806	(338,688)
Fiscal and other fixed cost programs	195,964	195,964	198,428	2,464
Capital outlay				
District support services	184,600	190,405	188,576	(1,829)
Elementary and secondary regular instruction	33,543	53,543	58,032	4,489
Special education instruction	10,000	10,350	7,898	(2,452)
Instructional support services	-	-	5,812	5,812
Pupil support services	9,861	-	4,264	4,264
Sites and buildings	10,000	1,759,252	2,164,542	405,290
Debt service				
Principal	320,209	320,209	290,708	(29,501)
Interest and fiscal charges	6,683	6,683	34,169	27,486
Total expenditures	20,020,064	22,231,342	21,556,871	(674,471)
Excess of revenues over (under) expenditures	(627,374)	(2,462,693)	(1,773,657)	689,036
Other Financing Sources				
Proceeds from sale of capital assets	-	1,544	1,544	-
Insurance proceeds	-	164,254	180,094	15,840
Total other financing sources	-	165,798	181,638	15,840
Net change in fund balance	$ (627,374)	$ (2,296,895)	(1,592,019)	$ 704,876
Fund Balance				
Beginning of year			5,442,731	
End of year			$ 3,850,712	

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

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

B. Basic Financial Statement Information

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

1. Revenue Recognition

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

2. Recording of Expenditures

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

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District applies unrestricted funds in this order if various levels of restricted fund balances do not exist: committed, assigned, and unassigned.

Description of Funds:

Major Funds:

General Fund – This fund is the basic operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund accounts for: administration, kindergarten through 12th grade instruction, transporting students to and from school, maintenance of facilities, and equipment purchases.

Debt Service Fund – This fund accounts for the accumulation of resources for, and the payment of, general long-term obligation principal and interest. Assets of the Debt Service Fund are restricted to the payment of bond principal and interest.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds: (Continued)

Major Funds: (Continued)

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

Nonmajor Funds:

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures. Revenues consist of state and federal aids and grants and sales to pupils and adults.

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, K-6 extended day programs, or other similar services. Revenues consist of state and federal aids and grants and program participant fees.

D. Deposits and Investments

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

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

Cash and investments at June 30, 2023, were comprised of deposits and investments as detailed in Note 2.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

In accordance with GASB Statement No. 79, the various MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MNTrust Investment Shares Portfolio. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series.

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

G. Inventories

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

H. Prepaid Items

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

I. Property Taxes

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available Wright, Hennepin, and Carver Counties are the collecting agency for the levy and remit(s) the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $2,500 and an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Deferred Outflows/Inflows of Resources

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

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

M. Long-Term Obligations

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Compensated Absences

Employees earn vacation pay at rates dependent upon each employee labor contract. Outstanding vacation liabilities are payable upon termination of employment. Vacation that is earned and unused as of June 30, 2023, is shown as a liability in the Statement of Net Position. Sick pay does not vest and is accounted for as an expenditure when paid.

O. Other Postemployment Benefits (OPEB)

The District provides postemployment health insurance benefits to some retired employees as established by contracts with bargaining units or other employment contracts.

P. Pensions

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

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

Q. Risk Management

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

R. Fund Balance

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

- Nonspendable Fund Balances – These amounts are comprised of funds that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact and include inventory and prepaid items.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Balance (Continued)

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

- Committed Fund Balances – These are amounts comprised of unrestricted funds that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the School Board and that remain binding unless removed by the School Board by subsequent formal action.

- Assigned Fund Balances – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. The School Board, by a majority vote, may assign balances. The School Board also delegates authority to assign fund balances to the Superintendent and or the Budget and Finance Committee.

- Unassigned Fund Balances – These are amounts that have not been restricted, committed, or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

- Minimum Fund Balance Policy – The District will strive to maintain a minimum unassigned General Fund balance of not less than 7% and not more than 20% of the annual operating expenditures.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Budgetary Information

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District requires collateral for deposits over FDIC insurance amounts. At June 30, 2023, the District deposits were not exposed to custodial credit risk as they are insured and properly collateralized.

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

Pooled	
Checking	$ (38,559)
Certificate of deposit	3,937
Nonpooled - Bond proceeds	
Savings	1,960,027
Total	$ 1,925,405

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

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

Investment Type	Investment Maturity (In Years) Fair Value	Less Than 1 Year	Moody's Rating
Pooled			
MN Trust Investment Shares Portfolio	$ 10,088,854	$ 10,088,854	AAAm

Interest Rate Risk: This is the risk that the market value of securities will be adversely affected due to the changes in market interest rates. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments allowed. It is the District's policy to invest in securities that meet the ratings requirements set by state statute. Investments are rated as indicated in the table on the previous page.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of a District's investment in a single issuer. The District has no policy in place that would limit its investment in a single issuer.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no police that addresses this risk.

The following is a summary of total deposits and investments.

Petty cash	$ 1,700
Deposits	1,925,405
Investments	10,088,854
Total	$ 12,015,959

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

Statement of Net Position	
Cash and investments	$ 12,015,959

NOTE 3 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities being depreciated				
Land	$ 26,700	$ -	$ -	$ 26,700
Construction in progress	22,895,360	4,952,225	-	27,847,585
Total capital assets not being depreciated	22,922,060	4,952,225	-	27,874,285
Other capital assets				
Land improvments	772,351	-	-	772,351
Buildings	71,512,511	-	-	71,512,511
Leased equipment	616,266	-	47,376	568,890
Equipment	2,618,362	258,022	20,119	2,856,265
Total other capital assets at historical cost	75,519,490	258,022	67,495	75,710,017
Less accumulated depreciation/amortization for				
Land improvements	454,242	18,333	-	472,575
Buildings	25,558,980	1,509,975	-	27,068,955
Leased equipment	192,549	175,525	47,376	320,698
Equipment	1,803,849	159,491	20,119	1,943,221
Total accumulated depreciation and amortization	28,009,620	1,863,324	67,495	29,805,449
Total other capital assets, net	47,509,870	(1,605,302)	-	45,904,568
Governmental activities, capital assets, net	$ 70,431,930	$ 3,346,923	$ -	$ 73,778,853

NOTE 3 – CAPITAL ASSETS (CONTINUED)

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

Administration	$ 176,137
District support services	68,762
Elementary and secondary regular instruction	14,885
Vocational instruction	20,518
Special education instruction	4,722
Instructional support services	3,206
Pupil support services	7,371
Sites and buildings	1,562,114
Food service	5,061
Community service	548
Total depreciation/amortization expense	$ 1,863,324

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. Bonds						
2013A G.O. Alternative Facilities Bonds	04/30/13	.04%-3.0%	$ 3,175,000	02/01/33	$ 2,120,000	$ 130,000
2015B G.O. School Building Refunding Bonds	11/24/15	2.0%-4.0%	8,115,000	02/01/26	4,595,000	1,465,000
2020A G.O. School Building Bonds	02/27/20	1.35%-2.59%	26,102,663	02/01/40	26,102,663	-
2021A G.O. School Building Refunding Bonds	11/23/21	5.00%	9,625,000	02/01/26	7,420,000	2,370,000
Unamortized premium on bonds					1,006,180	-
Total G.O. bonds, net of premium					41,243,843	3,965,000
Certificates of participation	07/09/10	4.04%	1,262,512	02/07/24	92,223	92,223
Lease payable					301,001	131,142
Compensated absences payable					160,359	160,359
Total all long-term liabilities					$ 41,797,426	$ 4,348,724

The long-term debt and compensated absences liabilities listed above were issued to finance acquisition and construction of capital facilities and equipment or were earned through employment with the District.

NOTE 4 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds and Loans

Minimum annual principal and interest payments required to retire bond, certificates of participation, and lease liabilities:

Year Ending	G.O. Bonds		
June 30,	Principal	Interest	Total
2024	$ 3,965,000	$ 543,120	$ 4,508,120
2025	4,140,000	363,766	4,503,766
2026	4,295,000	206,976	4,501,976
2027	2,480,170	263,506	2,743,676
2028	2,438,666	310,180	2,748,846
2029-2033	11,388,447	2,354,721	13,743,168
2034-2038	8,525,205	3,824,795	12,350,000
2039-2040	3,005,175	1,934,825	4,940,000
Total	$ 40,237,663	$ 9,801,889	$ 50,039,552

Year Ending	Certificates of Participation		
June 30,	Principal	Interest	Total
2024	$ 92,223	$ 1,295	$ 93,518
Total	$ 92,223	$ 1,295	$ 93,518

Year Ending	Lease Liability		
June 30,	Principal	Interest	Total
2024	$ 131,142	$ 14,958	$ 146,100
2025	113,515	8,249	121,764
2026	56,344	2,681	59,025
Total	$ 301,001	$ 25,888	$ 326,889

NOTE 4 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. school bonds	$ 43,982,663	$ -	$ 3,745,000	$ 40,237,663
Certificates of participation	225,304	-	133,081	92,223
Lease liability	448,858	-	147,857	301,001
Premium on bonds	1,389,675	-	383,495	1,006,180
Compensated absences payable	120,879	175,423	135,943	160,359
Total long-term liabilities	$ 46,167,379	$ 175,423	$ 4,545,376	$ 41,797,426

The General Fund typically liquidates the liability related to compensated absences, certificates of participation and lease liability.

D. Lease Liability

On July 2, 2018, the District entered into a lease agreement with Vantage Financial, LLC for the acquisition of technology equipment. The lease obligation and corresponding equipment totaled $27,755. The lease agreement includes annual payments of $5,460 for each of the five years of the agreement.

On July 2, 2019, the District entered into a lease agreement with Vantage Financial, LLC for the acquisition of technology equipment. The lease obligation and corresponding equipment totaled $186,297. The lease agreement includes annual payments of $18,819 for each year of the agreement.

On July 2, 2020, the District entered into a lease agreement with Vantage Financial, LLC for the acquisition of technology equipment. The lease obligation and corresponding equipment totaled $217,096. The lease agreement includes annual payments of $54,274 for each of the four years of the agreement.

On July 2, 2020, the District entered into a lease agreement with Vantage Financial, LLC for the acquisition of technology equipment. The lease obligation and corresponding equipment totaled $70,983. The lease agreement includes annual payments of $24,337 for each of the three years of the agreement.

On October 1, 2020, the District entered into a lease agreement with Marco for the acquisition of copiers. The lease obligation includes annual payments of $19,004 for each year in the life of the agreement.

On July 3, 2021, the District entered into a lease agreement with Vantage Financial, LLC. for the acquisition of technology equipment. The lease obligation includes annual payments of $48,486 for each year in the life of the agreement.

NOTE 5 – FUND BALANCES/NET POSITION

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

A. Fund Balances

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

	General Fund	Debt Service Fund	Capital Project Fund	Other Nonmajor Funds	Total
Nonspendable					
Inventory	$ 5,007	$ -	$ -	$ 8,955	$ 13,962
Prepaid items	122,871	-	-	-	122,871
Total nonspendable	127,878	-	-	8,955	136,833
Restricted/reserved for					
LTFM	685,773	30	-	-	685,803
Operating capital	184,273	-	-	-	184,273
Student Activities	135,552	-	-	-	135,552
Medical Assisstance	456,909	-	-	-	456,909
Capital Projects	-	-	2,401,489	-	2,401,489
Debt Service	-	995,803		-	995,803
Food Service	-	-	-	312,710	312,710
Community Education	-	-	-	714,492	714,492
Early Childhood Family Education	-	-	-	1,957	1,957
School Readiness	-	-	-	6,155	6,155
Community Service	-	-	-	22,915	22,915
Total restricted/reserved	1,462,507	995,833	2,401,489	1,058,229	5,918,058
Assigned for					
Hail claim	196,132	-	-	-	196,132
Technology	191,452	-	-	-	191,452
Total assigned	387,584	-	-	-	387,584
Unassigned	1,872,743	-		-	1,872,743
Total fund balance	$ 3,850,712	$ 995,833	$ 2,401,489	$ 1,067,184	$ 8,315,218

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

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

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* § 123B.595, subd. 12).

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

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

Restricted/Reserved for Student Activities – This balance represents available resources to be used for the extracurricular activity funds raised by the students.

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

Restricted/Reserved for Capital Projects – This balance represents resources available for the District's school building capital project.

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

Restricted/Reserved for Food Service – This balance represents the positive fund balance of the Food Service Fund not already spent on inventory.

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

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

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

Restricted/Reserved for Community Service – This balance represents the positive fund balance of the Community Service Fund not restricted for other programs.

Assigned for Hail Claim – This balance represents the resources available for project costs related to the hail claim.

Assigned for Technology – This balance represents the resources available for technology lease payments.

B. Net Position

Net position restricted for other purposes is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service and Community Service, adjusted to full accrual.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2023, was ($2,093,757). The components of pension expense are noted in the following plan summaries.

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

Teachers' Retirement Association

A. Plan Description

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

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

B. Benefits Provided

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

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

Tier 1 Benefits

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier 1 Benefits (Continued)
With these provisions:

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

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

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

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

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

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

Teachers' Retirement Association (Continued)

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2021, June 30, 2022, and June 30, 2023, were:

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

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

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

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

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation date	July 1, 2022
Experience study	June 30, 2022 June 28, 2019, (demographic and economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.00%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028, and 3.25% after June 30, 2028.
Projected salary increase	2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% after June 30, 2028.
Cost of living adjustment	1.0% for January 2020 through January 2023, then increasing by 0.1% each year up to 1.5% annually.
Mortality Assumptions	
Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	35.5 %	5.10 %
International stocks	16.5	5.30
Private markets	25.0	5.90
Fixed income	25.0	0.75
Total	100.0 %	

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

Changes in actuarial assumptions since the 2021 valuation:

- None

E. Discount Rate

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

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability

On June 30, 2023, the District reported a liability of $10,441,742 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.1304% at the end of the measurement period and 0.1303% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 10,441,742
State's proportionate share of the net pension liability associated with the District	774,554

For the year ended June 30, 2023, the District recognized pension expense of ($2,418,860). Included in this amount, the District recognized $106,503 as pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 150,957	$ 91,384
Net collective difference between projected and actual earnings on plan investments	1,671,394	2,211,379
Changes in assumptions	288,648	-
Changes in proportion	97,230	114,834
District's contributions to TRA subsequent to the measurement date	713,897	-
Total	$ 2,922,126	$ 2,417,597

The $713,897 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.

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

Year Ended June 30,	Pension Expense
2024	$ (1,991,034)
2025	272,176
2026	112,937
2027	1,388,458
2028	8,095
Total	$ (209,368)

G. Pension Liability Sensitivity

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

1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
$ 16,460,838	$ 10,441,742	$ 5,507,960

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

H. Pension Plan Fiduciary Net Position

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

Public Employees' Retirement Association

A. Plan Description

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

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

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

General Employees Retirement Plan

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

B. Benefits Provided

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

General Employees Plan Benefits

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

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. Contributions

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

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

Public Employees' Retirement Association (Continued)

C. Contributions (Continued)

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2023 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2023, were $220,689. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2023, the District reported a liability of $2,954,172 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 $86,622.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0373%, at the end of the measurement period and 0.0375% for the beginning of the period.

District's proportionate share of net pension liability	$ 2,954,172
State's proportionate share of the net pension liability associated with the District	86,622
Total	$ 3,040,794

For the year ended June 30, 2023, the District recognized pension expense of $333,880 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $12,943 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 24,675	$ 31,802
Changes in actuarial assumptions	672,060	12,401
Net collective difference between projected and actual investment earnings	48,807	-
Change in proportion	-	41,912
District's contributions to PERA subsequent to the measurement date	220,689	-
Total	$ 966,231	$ 86,115

The $220,689 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 End June 30,	Pension Expense
2024	$ 236,593
2025	253,971
2026	(98,296)
2027	267,159
Total	$ 659,427

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

Public Employees' Retirement Association (Continued)

E. Long-Term Expected Return on Investment

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	35.5 %	5.10 %
International stocks	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	100.0 %	

F. Actuarial Methods and Assumptions

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

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service and 6.0% per year thereafter.

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

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

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

Public Employees' Retirement Association (Continued)

F. Actuarial Assumptions and Assumptions (Continued)
The following changes in actuarial assumptions and plan provisions occurred in 2022:

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

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

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

	1% Decrease in Discount Rate (5.5%)	Current Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
District's proportionate share of the PERA net pension liability	$ 4,666,270	$ 2,954,172	$ 1,549,988

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

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit OPEB plan which provides medical and dental benefits to eligible retired employees and their dependents in accordance with the terms of the plan. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees. No assets are acclimated in a trust.

B. Benefits Paid

Teachers hired before January 15, 2010, are eligible for the District to contribute $200 per month toward medical insurance coverage until they are Medicare eligible. Various other employee groups also receive health insurance contributions at varying rates until they are Medicare eligible. The General Fund, Food Service Funds, and Community Service Fund typically liquidate the liability related to OPEB.

C. Members

As of July 1, 2022, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	10
Active employees	209
Total	219

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2023, the District contributed $53,019 to the plan.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2022, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Discount Rate	3.80%
Salary Increases	Service graded table
Inflation	2.50%
Healthcare cost trend increases	6.5% in 2022, decreasing to 5.0% over 6 years and then to 4.0% over the next 48 years
Mortality Assumption	Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale

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

The Discount rate was based on the 20-year Municipal Bond yield.

The following changes in actuarial assumptions in 2023:

Assumption changes:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.
- The salary increase rates for non-teachers were updated to reflect the latest experience study.
- The withdrawal rates were updated to reflect the latest experience study.
- The discount rate was changed from 2.10% to 3.80%.

F. Total OPEB Liability

The District's total OPEB liability of $524,711 was measured as of July 1, 2022, and was determined by an actuarial valuation as of July 1, 2022.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Total OPEB Liability (Continued)

Changes in the total OPEB liability are as follows:

	Total OPEB Liability
Balances at July 1, 2021	$ 658,771
Changes for the year	
Service cost	32,757
Interest	13,979
Differences between expected and actual economic experience	(87,994)
Changes in assumptions	(40,778)
Benefit payments	(52,024)
Net changes	(134,060)
Balances at July 1, 2022	$ 524,711

G. Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.80% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% Decrease in Discount Rate (2.80%)	Current Discount Rate (3.80%)	1% Increase in Discount Rate (4.80%)
Total OPEB liability (asset)	$ 553,591	$ 524,711	$ 469,434

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

	1% decrease (5.5%)	Current (6.5%)	1% increase (7.5%)
Total OPEB liability (asset)	$ 488,437	$ 524,711	$ 566,917

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

For the year ended June 30, 2023, the District recognized OPEB expense of $2,383. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability gains	$ -	$ 118,461
Changes of assumptions	9,778	37,835
Subsequent contributions	53,019	-
Total	$ 62,797	$ 156,296

$53,019 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2023.

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

Year Ending June 30,	Total
2024	$ (49,120)
2025	(19,217)
2026	(21,267)
2027	(21,257)
2028	(17,267)
Thereafter	(18,390)
Total	$ (146,518)

NOTE 8 – CONSTRUCTION COMMITTMENTS

As of June 30, 2023, the District had outstanding construction commitments that totaled $482,989.

NOTE 9 – SUBSEQUENT EVENTS

On November 16, 2023, the District issued G.O. Tax Abatements Bonds, Series 2023A for $7,695,000.

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 111
Schedule of Changes in Total OPEB Liability
and Related Ratios

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
Total OPEB Liability				
Service cost	$ 32,757	$ 47,689	$ 44,381	$ 44,758
Interest	13,979	15,896	20,974	22,799
Differenced between expected and actual experience	(87,994)	-	(22,948)	-
Changes of assumptions	(40,778)	7,916	(5,049)	12,315
Benefit payments	(52,024)	(54,388)	(55,374)	(53,198)
Net change in total OPEB liability	(134,060)	17,113	(18,016)	26,674
Beginning of year	658,771	641,658	659,674	633,000
End of year	$ 524,711	$ 658,771	$ 641,658	$ 659,674
Covered payroll	$ 10,782,405	$ 10,225,338	$ 9,927,513	$ 9,840,619
Total OPEB liability as a percentage of covered-	4.87%	6.44%	6.46%	6.70%

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

June 30, 2018	June 30, 2017
$ 40,932	$ 50,247
27,921	27,764
(179,562)	-
131	-
(72,800)	(55,459)
(183,378)	22,552
816,378	793,826
$ 633,000	$ 816,378
$ 9,553,999	$ 9,535,899
6.63%	8.56%

Independent School District No. 111
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability - General Employees Retirement Fund
Last Ten Years*

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered - Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered - Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0498%	$ 2,339,355	$ -	$ 2,339,355	$ 2,615,489	89.44%	78.75%
2015	0.0461%	2,389,141	-	2,389,141	2,662,267	89.74%	78.19%
2016	0.0430%	3,491,387	45,639	3,537,026	2,667,667	130.88%	68.91%
2017	0.0427%	2,725,940	34,243	2,760,183	2,748,173	99.19%	75.90%
2018	0.0418%	2,318,893	76,115	2,395,008	2,811,973	82.46%	79.53%
2019	0.0389%	2,150,694	66,830	2,217,524	2,754,493	78.08%	80.23%
2020	0.0385%	2,308,251	71,201	2,379,452	2,747,307	84.02%	79.06%
2021	0.0375%	1,601,418	48,847	1,650,265	2,698,347	59.35%	87.00%
2022	0.0373%	2,954,172	86,622	3,040,794	2,792,373	105.79%	76.67%

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

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

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered - Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered - Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1450%	$ 6,681,496	$ 470,033	$ 7,151,529	$ 6,617,287	101.0%	81.50%
2015	0.1364%	8,437,689	1,034,755	9,472,444	6,922,747	121.9%	76.77%
2016	0.1374%	32,773,178	3,289,760	36,062,938	7,144,720	458.7%	44.88%
2017	0.1324%	26,429,442	2,554,872	28,984,314	7,125,240	370.9%	51.57%
2018	0.1305%	8,193,541	770,309	8,963,850	7,207,280	113.7%	78.07%
2019	0.1291%	8,228,861	728,100	8,956,961	7,330,986	112.2%	78.21%
2020	0.1284%	9,486,364	795,212	10,281,576	7,459,684	127.2%	75.48%
2021	0.1303%	5,702,318	480,963	6,183,281	7,795,510	73.1%	86.63%
2022	0.1304%	10,441,742	774,554	11,216,296	8,062,554	129.5%	76.17%

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

Independent School District No. 111
Schedule of District Contributions -
General Employees Retirement Fund
Last Ten Years*

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered - Employee Payroll	Contributions as a Percentage of Covered - Employee Payroll
2014	$ 189,624	$ 189,624	$ -	$ 2,615,489	7.25%
2015	199,670	199,670	-	2,662,267	7.50%
2016	200,075	200,075	-	2,667,667	7.50%
2017	206,113	206,113	-	2,748,173	7.50%
2018	210,898	210,898	-	2,811,973	7.50%
2019	206,587	206,587	-	2,754,493	7.50%
2020	206,048	206,048	-	2,747,307	7.50%
2021	202,376	202,376	-	2,698,347	7.50%
2022	209,428	209,428	-	2,792,373	7.50%
2023	220,689	220,689	-	2,942,520	7.50%

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

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered - Employee Payroll	Contributions as a Percentage of Covered - Employee Payroll
2014	$ 463,210	$ 463,210	$ -	$ 6,617,287	7.00%
2015	519,206	519,206	-	6,922,747	7.50%
2016	535,854	535,854	-	7,144,720	7.50%
2017	534,393	534,393	-	7,125,240	7.50%
2018	540,546	540,546	-	7,207,280	7.50%
2019	565,219	565,219	-	7,330,986	7.71%
2020	590,807	590,807	-	7,459,684	7.92%
2021	633,775	633,775	-	7,795,510	8.13%
2022	672,417	672,417	-	8,062,554	8.34%
2023	713,897	713,897	-	8,349,673	8.55%

See notes to required supplementary information.

Independent School District No. 111
Notes to the Required Supplementary Information

TRA Retirement Fund

2022 Changes
Changes in Actuarial Assumptions
- None

2021 Changes
Changes in Actuarial Assumptions
- The investment return assumption was changed from 7.5% to 7.0%.

2020 Changes
Changes in Actuarial Assumptions
- Assumed termination rates were changed to more closely reflect actual experience.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP 2015 scale.
- Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

2019 Changes
Changes in Actuarial Assumptions
- None

2018 Changes
Changes in Actuarial Assumptions
- The discount rate was increased to 7.5% from 5.12%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

TRA Retirement Fund (Continued)

2017 Changes
Changes in Actuarial Assumptions

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

2016 Changes
Changes in Actuarial Assumptions

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

2015 Changes
Changes of Benefit Terms

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

TRA Retirement Fund (Continued)

2015 Changes (Continued)
Changes in Actuarial Assumptions

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

General Employees Fund

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

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

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

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

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

Changes in Plan Provisions
- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023, and 0.0% thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

General Employees Fund (Continued)

2019 Changes
Changes in Actuarial Assumptions
- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions
- The employer supplemental contribution was changed prospectively, decreasing from $31 million to $21 million per year. The State's special funding contribution was changes prospectively, requiring $16 million due per year through 2031.

2018 Changes
Changes in Actuarial Assumptions
- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

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

2017 Changes
Changes in Actuarial Assumptions
- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions
- The State's contribution for the Minneapolis Employees Retirement Fund equals $16,000,000 in 2017 and 2018, and $6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from $21,000,000 to $31,000,000 in calendar years 2019 to 2031. The State's contribution changed from $16,000,000 to $6,000,000 in calendar years 2019 to 2031.

General Employees Fund (Continued)

2016 Changes
Changes in Actuarial Assumptions
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation was decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes
Changes in Actuarial Assumptions
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

Changes in Plan Provisions
- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of $6.0 million, which meets the special funding situation definition, was due September 2015.

Post Employment Healthcare Plan

2022 Changes
Changes in Actuarial Assumptions

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2021 Generational Improvement Scale.
- The salary increase rates for non-teachers were updated to reflect the latest experience study.
- The withdrawal rates were updated to reflect the latest experience study.
- The discount rate was changed from 2.10% to 3.80%.

2021 Changes
Changes in Actuarial Assumptions

- The discount rate was changed from 2.40% to 2.10%

2020 Changes
Changes in Actuarial Assumptions

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group
- The discount rate was changed from 3.10% to 2.40%

2019 Changes

- The discount rate was changed from 3.50% to 3.10%

2018 Changes
Changes in Actuarial Assumptions

- The healthcare trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 white collar mortality tables with MP-2016 Generational Improvement scale to the RP-2014 white collar mortality tables with MP-2017 Generational Improvement Scale.
- The discount rate was changed from 3.40% to 3.50%.

SUPPLEMENTARY INFORMATION

Independent School District No. 111
Watertown, Minnesota
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2023

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and investments	$ 302,295	$ 920,456	$ 1,222,751
Current property taxes receivable	-	129,634	129,634
Delinquent property taxes receivable	-	9,765	9,765
Accounts receivable	1,000	21,834	22,834
Due from Department of Education	4,736	17,148	21,884
Due from other Minnesota school districts	-	633	633
Due from Federal Government through Department of Education	47,523	7,894	55,417
Inventory	8,955	-	8,955
Total assets	$ 364,509	$ 1,107,364	$ 1,471,873
Liabilities			
Accounts payable	$ 20,347	$ 15,437	$ 35,784
Salaries and benefits payable	-	104,306	104,306
Unearned revenue	22,497	-	22,497
Total liabilities	42,844	119,743	162,587
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	233,416	233,416
Unavailable revenue - delinquent property taxes	-	8,686	8,686
Total deferred inflows of resources	-	242,102	242,102
Fund Balances			
Nonspendable	8,955	-	8,955
Restricted	312,710	745,519	1,058,229
Total fund balances	321,665	745,519	1,067,184
Total liabilities, deferred inflows of resources, and fund balances	$ 364,509	$ 1,107,364	$ 1,471,873

Independent School District No. 111
Watertown, Minnesota
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2023

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenues			
Local property taxes	$ -	$ 286,784	$ 286,784
Other local and county revenues	-	1,425,492	1,425,492
Revenue from state sources	31,285	370,840	402,125
Revenue from federal sources	413,019	28,111	441,130
Sales and other conversion of assets	437,127	-	437,127
Total revenues	881,431	2,111,227	2,992,658
Expenditures			
Current			
Pupil support services	-	102,764	102,764
Food service	845,497	-	845,497
Community education and services	-	1,838,315	1,838,315
Capital outlay			
Food service	34,712	-	34,712
Total expenditures	880,209	1,941,079	2,821,288
Net change in fund balances	1,222	170,148	171,370
Fund Balances			
Beginning of year	320,443	575,371	895,814
End of year	$ 321,665	$ 745,519	$ 1,067,184

Independent School District No. 111
Uniform Financial Accounting And Reporting Standards
Compliance Table
Year Ended June 30, 2023

		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				
Total revenue		$ 19,783,214	$ 19,783,212	$ 2
Total expenditures		21,556,871	21,556,871	-
Nonspendable:				
4.60	Nonspendable fund balance	127,878	127,878	-
Restricted/reserved:				
4.01	Student Activities	135,552	135,550	2
4.02	Scholarships	-	-	-
4.03	Staff Development	-	-	-
4.07	Capital Projects Levy	-	-	-
4.08	Cooperative Programs	-	-	-
4.13	Building Projects Funded by COP/LP	-	-	-
4.14	Operating Debt	-	-	-
4.16	Levy Reduction	-	-	-
4.17	Taconite Building Maintenance	-	-	-
4.24	Operating Capital	184,273	184,273	-
4.26	$25 Taconite	-	-	-
4.27	Disabled Accessibility	-	-	-
4.28	Learning and Development	-	-	-
4.34	Area Learning Center	-	-	-
4.35	Contracted Alternative Programs	-	-	-
4.36	State Approved Alternative Program	-	-	-
4.38	Gifted and Talented	-	-	-
4.40	Teacher Development and Evaluation	-	-	-
4.41	Basic Skills Programs	-	-	-
4.45	Career Technical Programs	-	-	-
4.48	Achievement and Integration	-	-	-
4.49	Safe School Crime	-	-	-
4.51	QZAB Payments	-	-	-
4.52	OPEB Liabilities not Held in Trust	-	-	-
4.53	Unfunded Severance and Retirement Levy	-	-	-
4.59	Basic Skills Extended Time	-	-	-
4.67	Long-term Facilities Maintenance	685,773	685,773	-
4.72	Medical Assistance	456,909	456,909	-
4.75	Title VII - Impact Aid	-	-	-
4.76	Payments in Lieu of Taxes	-	-	-
Restricted:				
4.72	Medical Assistance	-	-	-
4.64	Restricted fund balance	-	-	-
4.75	Title VII - Impact Aid	-	-	-
4.76	Payments in Lieu of Taxes	-	-	-
Committed:				
4.18	Committed for separation	-	-	-
4.61	Committed	-	-	-
Assigned:				
4.62	Assigned fund balance	387,584	387,584	-
Unassigned:				
4.22	Unassigned fund balance	1,872,743	1,872,742	1
02 FOOD SERVICE FUND				
Total revenue		$ 881,431	$ 881,431	$ (0)
Total expenditures		880,209	880,208	1
Nonspendable:				
4.60	Nonspendable fund balance	8,955	8,955	(0)
Restricted/reserved:				
4.52	OPEB Liabilities not Held in Trust	-	-	-
Restricted:				
4.64	Restricted fund balance	312,710	312,710	-
Unassigned:				
4.63	Unassigned fund balance	-	-	-
04 COMMUNITY SERVICE FUND				
Total revenue		$ 2,111,227	$ 2,111,227	$ -
Total expenditures		1,941,079	1,941,082	(3)
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted/reserved:				
4.26	$25 Taconite	-	-	-
4.31	Community Education	714,492	714,492	-
4.32	ECFE	1,957	1,957	(0)
4.40	Teacher Development and Evaluation	-	-	-
4.44	School Readiness	6,155	6,155	(0)
4.47	Adult Basic Education	-	-	-
4.52	OPEB Liabilities not Held in Trust	-	-	-
Restricted:				
4.64	Restricted fund balance	22,915	22,913	2
Unassigned:				
4.63	Unassigned fund balance	-	-	-

		Audit	UFARS	Audit-UFARS
06 BUILDING CONSTRUCTION FUND				
Total revenue		$ 300,209	$ 300,209	$ 0
Total expenditures		3,585,148	3,585,149	(1)
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted/reserved:				
4.07	Capital Projects Levy	-	-	-
4.09	Alternative Facility Program	-	-	-
4.13	Building Projects Funded by COP/LP	-	-	-
Restricted:				
4.64	Restricted fund balance	2,401,489	2,401,487	2
Unassigned:				
4.63	Unassigned fund balance	-	-	-
07 DEBT SERVICE FUND				
Total revenue		$ 4,566,927	$ 4,566,926	$ 1
Total expenditures		4,503,822	4,503,821	1
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted/Reserved:				
4.25	Bond refundings	-	-	-
4.33	Maximum effort loan aid	-	-	-
4.51	QZAB payments	-	-	-
4.67	Long-term Facilities Maintenance	30	30	-
Restricted:				
4.64	Restricted fund balance	995,803	995,803	0
Unassigned:				
4.63	Unassigned fund balance	-	-	-
08 TRUST FUND				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
4.01	Student Activities	-	-	-
4.02	Scholarships	-	-	-
4.22	Net position	-	-	-
18 CUSTODIAL				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Restricted/Reserved:				
4.01	Student Activities	-	-	-
4.02	Scholarships	-	-	-
4.48	Achievement and Integration	-	-	-
4.64	Restricted	-	-	-
20 INTERNAL SERVICE FUND				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
4.22	Net position	-	-	-
25 OPEB REVOCABLE TRUST				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
4.22	Net position	-	-	-
45 OPEB IRREVOCABLE TRUST				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
4.22	Net position	-	-	-
47 OPEB DEBT SERVICE				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Nonspendable:				
4.60	Nonspendable fund balance	-	-	-
Restricted:				
4.25	Bond refundings	-	-	-
4.64	Restricted fund balance	-	-	-
Unassigned:				
4.63	Unassigned fund balance	-	-	-

Independent School District No. 111
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Agency/Pass Through Agency/Program Title	Federal Assistance Listing Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Type A Lunch	10.555	$ 291,202
COVID-19 Supply Chain Assistance Funds	10.555C	36,867
Commodities (Noncash)	10.555	61,885
School Breakfast	10.553	43,017
Total Child Nutrition Cluster and		432,971
Child and Adult Care Food Program	10.558	4,224
U.S. Department of Agriculture		437,195
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	50,878
Title IV, Part A - Student Support and Academic Achievement	84.424	10,599
Title II, Part A - Teacher and Principal Training and Recruiting	84.367	26,231
COVID-19 ESSER 90% Formula Allocation	84.425	1,938
COVID-19 ESSER III 90% Formula Allocation	84.425U	220,124
COVID-19 ESSER 90% Learning Loss	84.425U	101,147
COVID-19 ESSER III 90% Learning Loss	84.425U	58,982
COVID-19 Expanded Summer Learning	84.425D	59,844
Education Stabilization Fund		442,035
Preschool Grant for Children with Disabilities	84.173	11,704
COVID-19 ARP IDEA - Part B Section 619	84.173X	7,555
COVID-19 ARP IDEA - Part B Section 611	84.027X	58,020
IDEA, Part B	84.027	347,144
Special Education Cluster		424,423
IDEA, Part C - Infants and Toddlers	84.181	5,758
Through Carver-Scott Special Education Cooperative		
Carl Perkins	84.048A	20,703
Total U.S. Department of Education		980,627
U.S. Department of Treasury		
Through Minnesota Department of Education		
COVID-19 Summer Preschool Program	21.027	3,935
COVID-19 Pandemic Enrollment Loss	21.027	34,693
Total ARP and U.S. Department of Treasury		38,628
Total Federal Expenditures		$ 1,456,450

See notes to schedule of expenditures of federal awards.

Independent School District No. 111
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 – PASS-THROUGH GRANT NUMBERS

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

NOTE 4 – INVENTORY

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

NOTE 5 – INDIRECT COST RATE

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

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

Independent Auditor's Report

To the School Board
Independent School District No. 111
Watertown-Mayer Schools
Watertown, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of and for the year ending June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 22, 2023.

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance that we consider to be a material weakness as audit finding 2023-001.

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

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

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

BerganKDV, Ltd.

St. Cloud, Minnesota
November 22, 2023

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

Independent Auditor's Report

To the School Board
Independent School District No. 111
Watertown, Minnesota

<u>Report on Compliance for Each Major Federal Program</u>

Opinion on Each Major Federal Program
We have audited Independent School District No. 111's, Watertown, Minnesota compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2023. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, Independent School District No. 111 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

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

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

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

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

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

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

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

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

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

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

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

BerganKDV, Ltd.

St. Cloud, Minnesota
November 22, 2023

Independent School District No. 111
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 2023-001
• Significant deficiency(ies) identified?	None reported
Noncompliance material to basic financial statements noted?	No

Federal Awards

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

Identification of Major Programs

Assistance Listing No:	84.425
Name of Federal Program or Cluster:	Education Stabilization Fund
Assistance Listing No:	84.027/84.173
Name of Federal Program or Cluster:	Special Education Cluster
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	No

Independent School District No. 111
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – BASIC FINANCIAL STATEMENT FINDINGS

Audit Finding 2023-001

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

Condition:
The District does not have adequate segregation of accounting duties.

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

Effect or Potential Effect:
The lack of adequate segregation of accounting duties could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

Cause:
There are a limited number of office employees.

Recommendation:
Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

SECTION II – BASIC FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2023-001 (Continued)

Responsible Official's Response:

CORRECTIVE ACTION PLAN (CAP):

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

2. Actions Planned in Response to Finding
   Administration will review current segregation of accounting duties to determine if further segregation is possible.

3. Official Responsible for Ensuring CAP
   The Superintendent is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The planned completion date for the CAP is ongoing.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None

Minnesota Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 111
Watertown-Mayer Schools
Watertown, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 111, Watertown-Mayer Schools, Watertown, Minnesota, as of and for the year ended June 30, 2023, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 22, 2023.

In connection with our audit, we noted the district failed to comply with the provisions of the contracting and bidding section of the *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the State Auditor Pursuant to *Minnesota Statues* § 6.65 in so far as they relate to accounting matters as described in the schedule of Finding and Corrective Actions Plan on Legal Compliance as Audit Finding 2023-002. Also, in connection with out audit, nothing came to our attention that caused us to believe that the district failed to comply with the provisions of the deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

BerganKDV, Ltd.

St. Cloud, Minnesota
November 22, 2023

Independent School District No. 111
Schedule of Finding and Corrective Action Plan
on Legal Compliance

CURRENT LEGAL COMPLIANCE FINDING:

Audit Finding 2023-002 Group Insurance Request For Proposal (RFP) Bidding Requirement
During the year ended June 30, 2023, we noted the District did not following the request for proposal (RFP) process required by *Minnesota Statute* § 471.6161. Group insurance was awarded based on a quote rather than the RFP process.

Minnesota Statute § 471.6161 states "Every political subdivision authorized by law to purchase group insurance for its employees and providing or intending to provide group insurance coverage and benefits for 25 or more of its employees shall request proposals from and enter into contracts with entities referenced in subdivision 1 that in the judgment of the political subdivision are best qualified to provide coverage."

CORRECTIVE ACTION PLAN (CAP):

1. <u>Explanation of Disagreement with Audit Finding</u>
   There is no disagreement with the audit finding.

2. <u>Actions Planned in Response to Finding</u>
   Administration will conduct RFP process for group insurance.

3. <u>Official Responsible for Ensuring CAP</u>
   The Superintendent is the official responsible for ensuring corrective action of the deficiency.

4. <u>Planned Completion Date for CAP</u>
   The planned completion date for the CAP is June 30, 2024.

5. <u>Plan to Monitor Completion of CAP</u>
   The School Board will be monitoring this CAP.