

**INDEPENDENT SCHOOL
DISTRICT 701
HIBBING, MINNESOTA**

Financial Report

For the Fiscal Year Ended June 30, 2023

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Independent Auditor's Report

To the Members of the
School Board
Independent School District 701
Hibbing, MN

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District 701, Hibbing, Minnesota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the 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 the Independent School District 701 (the District), Hibbing, Minnesota, as of June 30, 2023, and the respective changes in financial position, and where applicable, cash flows thereof 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 and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibility 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 generally accepted auditing standards 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 generally accepted auditing standards 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, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16, the schedule of changes in net OPEB liability and related ratios and notes on page 53 and the schedule of employer's share of net pension liability and employer contributions and notes on pages 54 through 59 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or prove 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report December 19, 2023 on our consideration of the Independent School District 701, Hibbing Minnesota'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 the District's 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 Independent School District 701, Hibbing, Minnesota's internal control over financial reporting and compliance.

Sterle & Co, Ltd

December 19, 2023

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2023**

The discussion and analysis of Independent School District 701's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2023. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance. The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Boards (GASB) in their Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.

FINANCIAL HIGHLIGHTS

District-Wide Highlights

Net position, or the difference between the District's assets/deferred outflows and liabilities/deferred inflows, is one way to measure the District's overall financial health. For the District-wide presentation, total assets and deferred outflows of resources are reported at \$82,504,829. Total liabilities and deferred inflows of resources are \$93,565,430. This leaves the total district wide net position with an overall deficit of \$11,060,601 an increase in the deficit of \$2,122,531 from the prior year. Of the District's net position on the government-wide perspective, \$23,079,286 is held in capital asset investments (net of debt) and another \$7,619,783 is held in state mandated restrictions. Therefore, the unrestricted portion of the net position for the district as a whole is a deficit of \$41,759,670 – a change of \$1,435,35 from the previous year unrestricted deficit of \$40,324,035.

Long term obligations for the District include severance and separation commitments of \$1,533,564 and compensated absence commitments of \$302,504 to eligible employees. The District also has actuarial determined liabilities including those related to TRA/PERA of \$22,194,390 and an OPEB of \$32,896,430. These obligations to current and prior staff along with the \$21,020,647 in debt obligations have significant financial impact on the District's overall deficit net position

As reported on the Statement of Activities, the District experienced a total decrease in net position of \$2,122,531. District expenses under this full accrual government wide perspective were \$40,387,326. The District received \$1,094,567 in charges for services and \$9,763,934 in operating and capital grants awarded by local, state and federal sources to help offset these expenditures. This includes over \$4 million received in federal funds in the current fiscal year of which nearly \$2 million were funds received due to the Coronavirus pandemic. That leaves \$29,528,825 in costs to be covered through property taxes, general aids and grants. The District experienced an overall shortfall of \$2,122,531 which was covered with funds held in the previously accumulated net position.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2023**

Individual Fund Highlights

Overall fund balances per the Statement of Revenues, Expenditures and Changes in Fund Balance for the governmental funds decreased by \$4,966,905. Total governmental fund balances were \$16,031,775 with \$7,619,783 restricted by state sources, \$3,734,756 committed by the board, \$53,582 assigned, and \$35,315 nonspendable, leaving \$4,588,339 unassigned and available for operations. The unassigned portion of the General Fund realized a *net decrease* in fund balance during the 2022-23 fiscal year of \$2,095,263. Various factors to consider for the change in the overall fund balances of the governmental funds are:

The general fund reported \$34,869,522 in total revenues with \$36,884,763 in total expenditures. Expenditures included \$1,036,501 in capital outlay. For the current fiscal year, the District continued to utilize federal assistance to offset the impacts of the COVID-19 pandemic and declining enrollment. As a result, the district was able to retain jobs and continue operations in hopes of an enrollment rebound in upcoming years. The district utilized funds exceeding \$2 million from pandemic relief legislation for district staff and benefits again in the current fiscal year to help offset the deficit situation.

The building construction fund reported revenues of \$126,329 for local contributions towards the capital facilities construction projects of \$2,595,203. The District completed the Early Childhood educational center as well as Cheever Field during the current fiscal year. The remaining fund balance of \$46,320 is restricted for building construction.

The debt service fund reported total expenditures for principal and interest/fiscal charges of \$757,631. Local property tax levies and other state and local sources generated \$913,114 in revenues for that fund resulting in an overall increase of \$155,483. However, the fund balance of \$6,803,903 is entirely restricted under Minnesota statutes and is not available for general operations.

Other nonmajor governmental funds (which include the food service and the community service funds) experienced a net decrease of \$663,284 due to planned capital expenditures in the food service fund and increased operational costs in the new early childhood center. The food service fund experienced a decrease of \$67,454 in fund balance and the community service fund experienced a \$595,830 decrease.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2023**

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. There is the Management Discussion and Analysis (this section) and a series of financial statements and notes to those statements. These statements are organized so that the reader can understand the District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The first two statements are district-wide financial statements-the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District’s overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District’s operations in more detail than the district-wide statements. The governmental funds statements tell how general District services are financed in the short term as well as what remains for future spending. Proprietary fund statements offer short-and long-term financial information about the activities that the District operates like a business. For this District this is our Internal Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts in a custodial capacity for others. As of June 30, 2023, the District did not hold any fiduciary funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

OVERVIEW OF FINANCIAL STATEMENTS

District-Wide Statements

The district-wide statements, which are reported on pages 17 and 18, report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District’s net position and how they have changed. Net position, or the difference between the District’s assets/deferred outflows and liabilities/deferred inflows, 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 indication of whether its financial health is improving or deteriorating, respectively.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2023**

To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the enrollment trends of its students.

The district-wide financial statements of the District are categorized as follows:

- *Governmental activities* – All of the District's basic services are included here, such as instruction, administration and community services. Property taxes, state and federal subsidies and grants finance most of these activities. The District's Internal Service Fund is deemed to be a governmental activity since its main function is to serve the other District's governmental funds.

- *Business type activities* - The District has no business type activities as of this date.

Fund Financial Statements

The District's fund financial statements, which begin on page 19, provide detailed information about the most significant funds-not the District as a whole. Some funds are required by state law and by bond requirements.

Governmental funds - Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary funds - These funds are used to account for the District activities that are similar to business operations in the private section; or where the reporting is on determining net income, financial position, and changes in financial position. A significant portion of funding is provided through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The Internal Service Fund is the District's proprietary fund, and is reported as a governmental activity in the government-wide statements since its primary purpose is to provide benefits to other District governmental funds. However, the fund statements provide more detail and additional information, such as cash flows.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2023**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District’s total net position was \$(11,060,601) and a (\$8,938,070) deficit at June 30, 2023 and 2022, respectively.

Table A-1
Fiscal Years ended June 30, 2023 and 2022
Net Position

	<u>June 30,2023</u>	<u>June 30,2022</u>
		<u>Governmental Activities</u>
Current assets	\$ 17,974,537	\$ 20,681,672
Capital assets	44,213,071	42,958,070
Noncurrent assets	<u>7,074,756</u>	<u>9,907,089</u>
Total assets	<u>\$ 69,262,364</u>	<u>\$ 73,546,831</u>
Deferred outflows of resources	<u>\$ 13,242,465</u>	<u>\$ 15,231,262</u>
Current Liabilities	\$ 4,406,842	\$ 5,533,276
Long-term liabilities	<u>76,527,872</u>	<u>75,704,802</u>
Total Liabilities	<u>\$ 80,934,714</u>	<u>\$81,238,078</u>
Deferred inflows of resources	<u>\$ 12,630,716</u>	<u>\$ 16,478,085</u>
Net Position		
Net investment in capital assets	\$ 23,079,286	\$ 20,692,591
Restricted	7,619,783	10,693,374
Unrestricted	<u>(41,759,670)</u>	<u>(40,324,035)</u>
Total Net Position	<u>\$(11,060,601)</u>	<u>\$ (8,938,070)</u>

Most of the District’s net position is invested in capital assets (buildings, land, and equipment). \$7,619,783 is restricted under state mandates as prescribed by the Minnesota Department of Education. That leaves \$41,759,670 deficit as unrestricted – with a net increase of \$1,435,635 from the prior year deficit of \$40,324,035.

The District’s overall net position decreased by \$2,122,531 from the previous year. The results of this year’s operations as a whole are reported in the Statement of Activities on page 18. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District’s activities that are supported by other general revenues. The two largest general revenues are the general education formula provided by the State of Minnesota and the local taxes assessed to community taxpayers.

See further discussions regarding these changes in the district-wide governmental activities under the financial highlights.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2023**

Table A-2 takes the information from that Statement, rearranges it slightly, so you can see our total revenues for the year.

Table A-2
Fiscal Years ended June 30, 2023 and 2022
Changes in Net Position

		<u>Governmental Activities</u>
	For the Year Ended June 30, 2023	For the Year Ended June 30, 2022
Revenues		
Program revenues		
Charges for services	\$ 1,094,567	\$ 584,295
Operating grants and contributions	9,660,934	10,057,794
Capital grants and contributions	103,000	1,074,622
General revenues		
Local taxes	6,436,974	6,854,991
Grants, subsidies and contributions, unrestricted	20,605,751	19,969,239
Other	<u>363,569</u>	<u>(232,694)</u>
Total revenues	<u>\$ 38,264,795</u>	<u>\$38,308,247</u>
Expenses		
District and school administration	\$ 1,486,283	\$ 1,011,736
District support services	1,371,135	1,078,396
Instruction – regular	14,552,940	11,095,689
Instruction – vocational	163,580	100,840
Instruction – exceptional	7,727,626	5,732,653
Community education and services	1,360,725	660,183
Instructional support services	2,311,349	1,649,950
Pupil support services	2,775,066	2,497,199
Site, buildings and equipment	4,911,281	3,829,171
Fiscal and other fixed cost programs	271,370	241,178
Food service	1,480,546	1,364,425
Interest and fiscal charges	484,415	400,626
Depreciation – unallocated	<u>1,491,010</u>	<u>1,374,402</u>
Total expenses	<u>\$40,387,326</u>	<u>\$31,036,448</u>
Special item–Gain(loss) equipment sales	<u>25,011</u>	<u>\$ (55,760)</u>
Increase (decrease) in net position	\$ (2,122,531)	\$ 7,216,039
Net Position – Beginning of the year	(8,938,070)	(16,183,345)
Change in accounting principle - leases	<u>-</u>	<u>29,236</u>
Net Position – Beginning of the year (restated)	<u>\$ (8,938,070)</u>	<u>\$(16,154,109)</u>
Net Position – End of the year	<u>\$ (11,060,601)</u>	<u>\$ (8,938,070)</u>

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2023**

As noted in the financial highlights section, for the year ending June 30, 2023 and 2022, the majority of the decrease in net position was a result of the District’s expenditures experiencing an increase of \$9.3 million to \$40 million and yet revenues staying relatively consistent at approximately \$38 million.

Table A-3 shows the total cost and net cost of each of the District’s functions-District and school administration; district support services; instruction – regular, vocational, special education; community education and service; instructional support; pupil support; site, buildings and equipment; fiscal and other fixed costs programs and food service. Net cost is the total cost less revenue generated by each activity.

Table A-3
Fiscal Years ended June 30, 2023 and 2022
Governmental Activities

<u>Functions/Programs</u>	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>June 30, 2023</u>	<u>June 30,2022</u>	<u>June 30, 2023</u>	<u>June 30,2022</u>
District and school administration	\$ 1,486,283	\$ 1,011,736	\$ 1,486,283	\$ 1,011,736
District support services	1,371,135	1,078,396	1,371,135	1,078,396
Instruction – regular	14,552,940	11,095,689	11,645,028	7,001,916
Instruction – vocational	163,580	100,840	130,506	61,649
Instruction – special education	7,727,626	5,732,653	2,449,828	1,320,520
Community education and services	1,360,725	660,183	851,650	203,699
Instructional support services	2,311,349	1,649,950	2,311,349	1,649,950
Pupil support services	2,775,066	2,497,199	2,775,066	2,497,199
Site, buildings and equipment	4,911,281	3,829,171	4,205,233	2,752,149
Fiscal and other fixed cost programs	271,370	241,178	271,370	241,178
Food service	1,480,546	1,364,425	55,952	(273,683)
Interest and fiscal charges	484,415	400,626	484,415	400,626
Depreciation – unallocated	<u>1,491,010</u>	<u>1,374,402</u>	<u>1,491,010</u>	<u>1,374,402</u>
Total governmental activities	\$40,387,326	\$ 31,036,448	\$ 29,528,825	\$ 19,319,737

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2023**

THE DISTRICT’S FUNDS

At June 30, 2023, the District governmental funds reported a combined fund balance of \$16,031,775, which is a decrease of \$4,966,905 from the June 30, 2022 balances. Overall revenues for the District were \$38,019,885, while total expenditures were \$43,011,801. The District also sold equipment for \$25,011.

The general fund is the primary fund used by the District. The Building Construction and Debt Service funds are reported as major funds in the accompanying statements. As a result, the following are presented for analysis regarding these funds separately. Additional discussion on the remaining aggregate nonmajor funds is also noted.

General Fund - Revenues:

The General Fund includes operations of the District in providing educational services to students from Early Childhood through Grade 12, including pupil transportation activities and capital outlay projects.

The following schedule presents a summary of General Fund Revenues:

	Year Ended <u>June 30, 2023</u>	Year Ended <u>June 30, 2022</u>	Amount of Increase (Decrease)
Local Sources			
Taxes	\$ 5,942,385	\$ 6,408,078	\$(465,693)
Interest Earnings	302,333	20,637	281,696
Other	1,309,778	1,031,706	278,072
State Sources	24,100,335	22,746,552	1,353,783
Federal Sources	3,205,646	4,722,668	(1,517,022)
Sales and Conversions	<u>9,045</u>	<u>16,654</u>	<u>(7,609)</u>
Total General Fund Revenue	\$ 34,869,522	\$34,946,295	\$ (76,773)

Overall total general fund revenue decreased by \$76,773 or less than 1% from the previous year. Many of the reasons were highlighted under the financial highlights section earlier. The District is reflecting a decrease of \$1,517,022 in federal funds due to the timing of the District’s use of the COVID-19 pandemic awards. As noted in the section on general fund expenditures, the District continues to utilize these funds to address mental health and learning loss as well as maintain staff and building operations. The majority of these funds now have been fully expended through June 30, 2023.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2023**

Enrollment Trends:

The following chart shows the number of students served in the District over the last several years, which can contribute to changes in the general fund revenues:

<u>YEAR</u>	<u>STUDENTS SERVED</u>		<u>PERCENT CHANGE</u>
	<u>STUDENTS SERVED</u>	<u>ANNUAL CHANGE</u>	
2002-03	2,695.82	(86.92)	(3.1%)
2003-04	2,617.78	(78.04)	(2.9%)
2004-05	2,543.57	(74.21)	(2.8%)
2005-06	2,475.79	(67.78)	(2.7%)
2006-07	2,441.18	(34.61)	(1.4%)
2007-08	2,391.17	(50.01)	(2.0%)
2008-09	2,325.34	(65.83)	(2.8%)
2009-10	2,337.08	11.74	0.5%
2010-11	2,388.46	51.38	2.2%
2011-12	2,346.37	(42.09)	(1.8%)
2012-13	2,382.64	36.27	1.5%
2013-14	2,376.62	(6.02)	(0.3%)
2014-15	2,403.20	26.58	1.1%
2015-16	2,418.84	15.64	.6%
2016-17	2,410.61	(16.55)	(1.4%)
2017-18	2,411.12	8.83	.4%
2018-19	2,381.46	(29.66)	(1.2%)
2019-20	2,267.33	(114.13)	(4.8%)
2020-21	2,189.82	(77.51)	(3.4%)
2021-22	2,139.23	(53.62)	(2.4%)
2022-23	2,126.19	(13.04)	(.01%)

The downward trend in enrollment will have an impact on the district’s future. Management is expecting stable or increased class sizes in Fiscal Year 2024. Management will take steps to adjust operations due to enrollment declines in previous years.

General Fund - Expenditures:

The following schedule presents a summary of General Fund Expenditures:

	Year Ended <u>June 30, 2023</u>	Year Ended <u>June 30, 2022</u>	Amount of Increase (Decrease)
Salaries	\$18,696,638	\$ 18,499,375	\$197,263
Employee Benefits	8,586,230	8,180,994	405,236
Purchased Services	5,995,292	5,309,287	686,005
Supplies and Materials	1,474,877	1,354,896	119,981
Capital Expenditures	1,036,501	1,752,718	(716,217)
Debt Service	757,287	756,527	760
Other Expenditures	<u>337,938</u>	<u>908,889</u>	<u>\$534,337</u>
Total General Fund Expenditures	\$36,884,763	\$36,762,686	\$ 122,077

Total General Fund expenditures increased by \$122,077 or about .3% from the previous year primarily due to the District trying to maintain staff salaries and benefits consistently between fiscal years.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2023**

General Fund Balance Information: In 2022-23, the general fund revenues were less than expenditures by \$1,990,230 impacting the general fund balance. The District has restricted funds set aside as required under UFARS of \$291,485 along with a committed set aside for the future funding of retiree medical costs (\$3,734,756), the District has assigned balance for student activities of \$53,582. That leaves the District with an unassigned balance of \$4,588,339. This is a decrease of \$2,095,263 from the prior year unassigned balance of \$6,683,602.

The following chart shows Unassigned General Fund Balance information after to the GASB #54 Standards adoption:

<u>UNASSIGNED GENERAL FUND BALANCE</u>			
<u>YEAR</u>	<u>FUND BALANCE</u>	<u>ANNUAL CHANGE</u>	<u>PERCENT CHANGE</u>
2009-10	\$1,841,808	\$ -----	-----
2010-11	\$1,833,863	\$ (7,945)	(0.4%)
2011-12	\$2,516,217	\$682,364	37.2%
2012-13	\$2,622,021	\$105,804	4.2%
2013-14	\$3,445,646	\$823,625	31.4%
2014-15	\$5,034,912	\$1,589,266	46.1%
2015-16	\$6,311,924	\$1,277,012	25.3%
2016-17	\$7,925,442	\$1,613,518	25.6%
2017-18	\$9,583,250	\$1,657,808	20.9%
2018-19	\$8,617,967	\$ (965,283)	(10.1%)
2019-20	\$8,399,520	\$ (218,447)	(2.5%)
2020-21	\$7,148,164	\$(1,251,356)	(14.9%)
2021-22	\$6,683,602	\$ (464,562)	(6.5%)
2022-23	\$4,588,339	\$(2,095,263)	(31.3%)

The chart above is the single best measure of overall financial health. The unassigned general fund balance of \$4,588,339 on June 30, 2023 represents 12.4% (as compared to 18.2% in the prior year) of annual expenditures, or approximately 45 days (as compared to 66 days in the prior fiscal year) of operations.

General Fund Budget

During the fiscal year, the School Board authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures and revenues of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year. A schedule showing the District’s original and final budget amounts compared with amounts actually paid and received is provided on page 23.

The final budgeted revenues were \$33,735,933 or a \$1,198,696 increase over the original adopted budget of \$32,537,237. The final budgeted expenditures were \$35,421,894 or a \$2,263,825 increase over the original adopted budget of \$33,158,069. Actual expenditures exceeded revenues by \$2,015,241 as explained under financial highlights on page 4.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2023**

Building Construction Major Fund

The District established a building construction fund in the current fiscal year to account for the construction and upgrades to its facilities. Total capital outlay during the current fiscal year was \$2,595,203. The net impact of the activity for the year resulted in a decrease of \$2,468,874. \$46,320 is required to be reserved and used specifically for the construction projects earmarked under the certificate of participation debt issuance agreement.

Debt Service Major Fund

The debt service fund had an increase of \$155,483 for the year. Revenues reported in the fund totaled \$913,114 for the year. The debt service fund has a remaining fund balance of \$6,803,903 at the end of June 30, 2023 which primarily represents the balance of the escrow account as required to pay for the Qualified School Construction Bonds issued for the High School Indoor Air Quality project.

Other Governmental Funds Information - Other Nonmajor Governmental Funds

The District’s remaining funds (food service and community service) are combined in the aggregate and reported as nonmajor funds in the accompanying financial statements also found on pages 19 and 21. More details on these funds are in the supplemental schedules found on pages 65 and 66. Overall those funds experienced a decrease of \$663,284 due total revenues of \$2,110,920 under expenditures of \$2,774,204.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2023, the District had \$44,213,071 invested in a broad range of capital assets, including land, buildings and furniture and equipment, net of accumulated depreciation of \$39,109,036. This amount represents a net increase (including additions, deletions and depreciation) of \$1,255,001 from last year.

Table A-4
Governmental Activities
Capital assets-net of depreciation

	2023	2022
Land and Improvements	\$ 5,563,140	\$ 1,645,216
Buildings	37,266,195	28,947,841
Equipment	1,276,980	895,241
Right to use assets – equipment	28,506	48,650
Construction in progress	78,250	11,421,122

Major capital additions for the year in the amount of \$ 3,577,116 were for various capital improvements to the District buildings including the new early childhood educational center along with other facility upgrades for Cheever Field. These projects were completed during the year and moved from construction in progress to land improvements and buildings accordingly.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2023**

DEBT ADMINISTRATION

As of June 30, 2023, the District had total outstanding bond principal of \$20,691,787. \$1,013,632 was made in principal payments in the current fiscal year.

Table A-5
Outstanding Debt

	2022	2022
General Obligation Taxable Alternative Facilities		
- Bonds, Series 2010A	\$7,500,000	\$7,500,000
General Obligation Taxable Bonds,		
- Series 2021B	\$3,445,000	\$3,665,000
General Obligation Tax Abatement		
- Bonds, Series 2014A	\$ 210,000	\$ 310,000
General Obligation Bonds, Series 2017A	\$ 670,000	\$ 830,000
Capital Lease Payable	\$ 306,787	\$ 455,419
Certificate of Participation, Series 2021A	\$ 8,560,000	\$8,945,000
-		

Other obligations include accrued vacation pay and sick leave for specific employees of the District which included \$32,896,430 in an estimated OPEB liability, \$22,194,390 in estimated net pension liability, \$1,533,564 in a severance liability and \$302,504 for compensated absences. More detailed information about our long-term liabilities is included in notes 5,6, and 7 to the financial statements.

FACTORS BEARING ON THE DISTRICT’S FUTURE

Without a current voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. The Minnesota state legislature has provided consistent increases to the funding formula in recent years. Funding is approved at 4% per pupil in FY 24 and is aligned with inflation thereafter under current legislation. These increases provide for stability in regards to revenue per student. Even with these funding increases, an unknown factor for the District’s future is whether the legislature will continue to provide funding increases.

The District saw another, although much slighter, decline in enrollment during 2022-23, and expects some enrollment increase in 2023-24. The COVID-19 pandemic, beginning in March 2020, may continue to contribute to enrollment changes. Factors may be attributed to online education options, homeschool, and the general demographic trends of the community. Management continues to develop a plan to address the loss in enrollment.

Following the year 2021-22, the Minnesota Healthcare Consortium began a partnership with Medica, ending a years-long relationship with Blue Cross/Blue Shield. Claims data associated with the reopening of elective procedures following the COVID-19 pandemic show increased usage and this continues to drive up health insurance costs. The district must continue to strive to reduce overall health care costs through increased premium contributions for both retired and active employees, or by moving all employees to a more affordable plan with a deductible. The District made significant progress with decreasing its share of health care costs in the settled 2023-2025 labor agreements.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2023**

An actuarial valuation report for fiscal year ending June 30, 2023 estimates the total OPEB accrued liability to be approximately \$32.9 million, a decrease from the prior year of about \$8.35 million, primarily due to the GASB discount rate, actuarial assumptions, and demographics. This is an unfunded long-term liability but it should be noted this liability is not current and the district has the authority to levy for this cost as needed, providing relief to the district. The school board passed a resolution in June 2019 to invest future earnings from committed funds to severance, separation, and OPEB. As noted under the current year financial highlights, the impact on the net position of the District is evident for the recognition of benefits to be paid out in future years for current obligations to District personnel.

The District generates some revenue based on taconite production in the District and taconite production employs a significant number of people in the area, which can have an effect on enrollment stability. The District should remain aware of the current state and health of taconite producers and use this information to plan for the future.

During contract negotiations for 2023-2025 and subsequent to year end, the district agreed to transfer \$2.9 million in funds held in the District's internal service fund to the general fund to help directly offset approximately \$1 million in the employee's share of medical insurance for the 2023-2024 school year. The remaining transferred balance will be held in the District's unassigned fund balance for future District operational costs.

Finally, the school district will need to keep track of the General Fund operating referendums that are currently in place. In August, 2013, the district adopted a resolution to approve a five-year school board adopted referendum in the amount of \$300 per pupil, and also to accept the Location Equity Revenue (now known as Local Optional Revenue) for approximately \$424 per pupil. As required by the Minnesota Department of Education and as required by the laws in place at this time, the District's Board of Education adopted another resolution to extend the \$300 per pupil referendum for an additional five-year period in August 2018. Prior referendums that were passed before fiscal year 2014 will no longer need to be renewed, as the new legislation for Local Optional Revenue will automatically increase as the old referendums expire. This Board of Education should continue to renew this resolution as the District depends on this additional funding.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designated to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Alex Kaczor, Business Manager at Hibbing School District, 800 East 21st Street, Hibbing, MN 55746, or call (218) 208-0849.

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF NET POSITION

June 30, 2023

	Governmental Activities
Assets	
Current Assets	
Cash and cash equivalents	\$ 8,094,296
Investments	775,927
Receivables	
Taxes - current	2,041,886
Taxes - delinquent	82,465
Accounts	107,206
Interest	109
Other governments	6,847,153
Less - allowance for uncollectible taxes	(21,000)
Inventory	35,315
Prepays	11,180
Total Current Assets	<u>17,974,537</u>
Capital Assets	
Land	376,377
Land improvements	7,250,731
Buildings	71,188,105
Equipment	4,268,536
Intangible right-to-use asset: equipment	160,108
Work in progress	78,250
	<u>83,322,107</u>
Less - accumulated depreciation and amortization	<u>(39,109,036)</u>
Total Capital Assets	44,213,071
Noncurrent Assets	
Cash and cash equivalents - restricted for capital and debt service	1,461,056
Investments - restricted for capital and debt service	5,613,700
Total Noncurrent Assets	<u>7,074,756</u>
Total Assets	<u>69,262,364</u>
Deferred Outflows of Resources	
Related to OPEB	7,353,780
Related to net pension liability	5,888,685
Total Deferred Outflows of Resources	<u>13,242,465</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 82,504,829</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 507,917
Salaries payable	2,001,334
Accrued expenses	364,790
Accrued interest	113,138
Current portion of long-term obligations	1,056,783
Current portion of long-term lease obligations: right-to-use assets	19,653
Current portion of compensated absences payable	62,099
Current portion of separation and severance payable	281,128
Total Current Liabilities	<u>4,406,842</u>
Noncurrent Liabilities	
Long-term debt obligations	19,933,077
Long-term lease obligations: right-to-use assets	11,134
Compensated absences payable	240,405
Separation and severance payable	1,252,436
Net pension liability	22,194,390
Other post employment benefit payable (OPEB)	32,896,430
Total Noncurrent Liabilities	<u>76,527,872</u>
Total Liabilities	<u>80,934,714</u>
Deferred Inflows of Resources	
Property taxes levied for subsequent years expenditures	3,071,108
Related to OPEB	9,214,968
Related to net pension liability	344,640
Total Deferred Inflows of Resources	<u>12,630,716</u>
Net Position	
Net investment in capital assets	23,079,286
Restricted for state mandated requirements	7,619,783
Unrestricted	(41,759,670)
Total Net Position	<u>(11,060,601)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 82,504,829</u>

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
District and school administration	\$ 1,486,283	\$ -	\$ -	\$ -	\$ (1,486,283)
District support services	1,371,135	-	-	-	(1,371,135)
Instruction					
Regular	14,552,940	281,255	2,626,657	-	(11,645,028)
Vocational	163,580	-	33,074	-	(130,506)
Special education	7,727,626	-	5,277,798	-	(2,449,828)
Community education and services	1,360,725	204,858	304,217	-	(851,650)
Instructional support services	2,311,349	-	-	-	(2,311,349)
Pupil support services	2,775,066	-	-	-	(2,775,066)
Site, buildings and equipment	4,911,281	126,329	476,719	103,000	(4,205,233)
Fiscal and other fixed cost programs	271,370	-	-	-	(271,370)
Food service	1,480,546	482,125	942,469	-	(55,952)
Interest and fiscal charges on long term debt	484,415	-	-	-	(484,415)
Depreciation - unallocated*	1,491,010	-	-	-	(1,491,010)
	<u>\$ 40,387,326</u>	<u>\$ 1,094,567</u>	<u>\$ 9,660,934</u>	<u>\$ 103,000</u>	<u>(29,528,825)</u>
General Revenues					
Taxes					
					5,954,749
					148,830
					333,395
					19,964,614
					641,137
					338,558
					25,011
					<u>27,406,294</u>
					(2,122,531)
					(8,938,070)
					<u>\$ (11,060,601)</u>

*This amount does not include the depreciation that is included in the direct expenses of the various functions. See Note 4.

INDEPENDENT SCHOOL DISTRICT 701

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2023

	General Fund	Building Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 4,593,617	\$ -	\$ -	\$ 562,687	\$ 5,156,304
Cash and cash equivalents - restricted	-	47,242	1,413,814	-	1,461,056
Investments	776,294	-	-	-	776,294
Investments - restricted	-	-	5,613,700	-	5,613,700
Receivables					
Taxes - current	1,653,411	-	388,475	-	2,041,886
Taxes - delinquent	82,465	-	-	-	82,465
Accounts	12,025	-	-	95,181	107,206
Interest	109	-	-	-	109
Other governments	6,749,471	-	53,121	44,561	6,847,153
Inventory	-	-	-	35,315	35,315
Total Assets	13,867,392	47,242	7,469,110	737,744	22,121,488
Deferred Outflows of Resources					
Total Assets and Deferred Outflows of Resources	\$ 13,867,392	\$ 47,242	\$ 7,469,110	\$ 737,744	\$ 22,121,488
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ 432,942	\$ 922	\$ -	\$ 74,053	\$ 507,917
Salaries payable	1,891,412	-	-	109,922	2,001,334
Accrued expenses	324,782	-	-	40,008	364,790
Compensated absences payable	61,728	-	-	371	62,099
Total Liabilities	2,710,864	922	-	224,354	2,936,140
Deferred Inflows of Resources					
Property taxes levied for subsequent years expenditures	2,405,901	-	665,207	-	3,071,108
Delinquent property taxes	82,465	-	-	-	82,465
Total Deferred Inflows of Resources	2,488,366	-	665,207	-	3,153,573
Fund Balance					
Fund balance - nonspendable	-	-	-	35,315	35,315
Fund balance - restricted (General)	291,485	-	-	-	291,485
Fund balance - restricted (Special Revenue)	-	-	-	478,075	478,075
Fund balance - restricted (Building Construction)	-	46,320	-	-	46,320
Fund balance - restricted (Debt Service)	-	-	6,803,903	-	6,803,903
Fund balance - committed	3,734,756	-	-	-	3,734,756
Fund balance - assigned	53,582	-	-	-	53,582
Fund balance - unassigned	4,588,339	-	-	-	4,588,339
Total Fund Balance	8,668,162	46,320	6,803,903	513,390	16,031,775
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 13,867,392	\$ 47,242	\$ 7,469,110	\$ 737,744	\$ 22,121,488

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT 701

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS

June 30, 2023

Total Fund Balances - Governmental Funds	\$	16,031,775
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets		83,322,107
Less - accumulated depreciation and amortization		(39,109,036)
Net delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds. (\$82,465 less allowance of \$21,000)		
		61,465
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in the governmental funds balance sheet but is recorded in the governmental activities.		
		(113,138)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Bonds and capital leases		(20,722,574)
Unused premium		(298,073)
Compensated absences payable		(240,405)
Separation and severance payable		(1,533,564)
OPEB liability		(32,896,430)
Net pension liability		(22,194,390)
The recognition of net pension liability is effected by timing and treatment of certain items that are not recognized in the governmental funds:		
Deferred outflows of resources as related to OPEB liability		7,353,780
Deferred outflows of resources as related to net pension liability		5,888,685
Deferred inflows of resources as related to OPEB liability		(9,214,968)
Deferred inflows of resources as related to net pension liability		(344,640)
An internal service fund is used by the District to charge the costs of the health and dental insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		
		2,948,805
Total Net Position - Governmental Activities	\$	<u><u>(11,060,601)</u></u>

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS For the Fiscal Year Ended June 30, 2023

	General Fund	Building Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Local taxes	\$ 5,942,385	\$ -	\$ 333,395	\$ 148,830	\$ 6,424,610
Other local and county	1,612,111	126,329	47,782	233,779	2,020,001
State sources	24,100,335	-	531,937	355,412	24,987,684
Federal sources	3,205,646	-	-	890,774	4,096,420
Sales and other conversions of assets	9,045	-	-	482,125	491,170
Total Revenues	34,869,522	126,329	913,114	2,110,920	38,019,885
Expenditures					
Current					
District and school administration	1,497,830	-	-	-	1,497,830
District support services	1,360,329	-	-	-	1,360,329
Instruction					
Regular	14,586,334	-	-	-	14,586,334
Vocational	146,132	-	-	-	146,132
Special education	7,801,027	-	-	-	7,801,027
Community education and services	-	-	-	1,267,969	1,267,969
Instructional support services	2,320,421	-	-	-	2,320,421
Pupil support services	2,743,727	-	-	-	2,743,727
Site, buildings and equipment	4,363,805	-	-	-	4,363,805
Fiscal and other fixed cost programs	271,370	-	-	-	271,370
Food service	-	-	-	1,457,148	1,457,148
Capital Outlay	1,036,501	2,595,203	-	49,087	3,680,791
Debt Service					
Principal	533,631	-	480,000	-	1,013,631
Interest and fiscal charges	223,656	-	277,631	-	501,287
Total Expenditures	36,884,763	2,595,203	757,631	2,774,204	43,011,801
Excess of Revenues Over (Under) Expenditures	(2,015,241)	(2,468,874)	155,483	(663,284)	(4,991,916)
Other Financing Sources					
Proceeds from sale of equipment	25,011	-	-	-	25,011
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(1,990,230)	(2,468,874)	155,483	(663,284)	(4,966,905)
Fund Balance - Beginning of the year	10,658,392	2,515,194	6,648,420	1,176,674	20,998,680
Fund Balance - End of the year	\$ 8,668,162	\$ 46,320	\$ 6,803,903	\$ 513,390	\$ 16,031,775

INDEPENDENT SCHOOL DISTRICT 701

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2023

Total Net Change in Fund Balance - Governmental Funds	\$ (4,966,905)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of these assets are allocated over the estimated useful lives as depreciation expense.</p>	
Capital outlays	3,577,116
Depreciation and amortization expense	(2,322,115)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds until due and payable such as interest.</p>	79,457
<p>Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>	12,364
<p>In the statement of activities, certain operating expenses - compensated absences and special termination benefits - are measured by the amounts earned during the year. In the government funds, however, expenditures for these items are measured by the amount of financial resources used (essentially amounts actually paid.)</p>	
Compensated absences, special termination benefits including OPEB	1,316,078
Long term debt payments	1,013,632
<p>In the statement of activities, net pension liability (NPL) is measured considering the change in deferred inflows and outflows under GASB 68. In the governmental funds, pension contribution is measured based on employer contributions. This is the difference between the recognition methods.</p>	(888,522)
<p>In the statement of activities, premiums on long term debt issuances are amortized over the life of the bond. In the governmental funds, the amounts are presented net of the proceeds.</p>	16,872
<p>An internal service fund is used by the District to charge the costs of the health and dental insurance program to individual funds. The net decrease of the internal service fund is reported with governmental activities.</p>	39,492
Change in Net Position - Governmental Activities	\$ (2,122,531)

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Fiscal Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Local taxes	\$ 5,513,027	\$ 5,346,140	\$ 5,942,385	\$ 596,245
Other local and county	827,610	1,306,996	1,612,111	305,115
State sources	23,767,434	24,128,631	24,100,335	(28,296)
Federal sources	2,424,166	2,949,166	3,205,646	256,480
Sales and other conversions of assets	5,000	5,000	9,045	4,045
Total Revenues	<u>32,537,237</u>	<u>33,735,933</u>	<u>34,869,522</u>	<u>1,133,589</u>
Expenditures				
Current				
District and school administration	1,441,139	1,441,139	1,497,830	56,691
District support services	1,268,613	1,306,573	1,360,329	53,756
Instruction				
Regular	12,158,841	12,481,138	14,586,334	2,105,196
Vocational	142,823	142,823	146,132	3,309
Special education	8,226,936	8,444,902	7,801,027	(643,875)
Instructional support services	2,169,521	2,560,616	2,320,421	(240,195)
Pupil support services	2,546,177	2,873,601	2,743,727	(129,874)
Site, buildings and equipment	3,365,196	3,964,196	4,363,805	399,609
Fiscal and other fixed cost programs	233,856	232,056	271,370	39,314
Debt service	599,000	599,000	757,287	158,287
Capital Outlay	1,005,967	1,375,850	1,036,501	(339,349)
Total Expenditures	<u>33,158,069</u>	<u>35,421,894</u>	<u>36,884,763</u>	<u>1,462,869</u>
Excess of Expenditures Over Revenues	(620,832)	(1,685,961)	(2,015,241)	(329,280)
Other Financing Sources				
Proceeds from sale of equipment	200,000	200,000	25,011	(174,989)
Excess of Expenditures Over Revenue and Other Financing Sources	<u>\$ (420,832)</u>	<u>\$ (1,485,961)</u>	<u>(1,990,230)</u>	<u>\$ (504,269)</u>
Fund Balance - Beginning of the year			10,658,392	
Fund Balance - End of the year			<u>\$ 8,668,162</u>	

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF NET POSITION - PROPRIETARY FUND

June 30, 2023

	Internal Service
<hr/>	
<i>Assets</i>	
Cash	\$ 2,937,625
Prepays	11,180
	<hr/>
Total Assets	2,948,805
<i>Deferred Outflows of Resources</i>	-
	<hr/>
Total Assets and Deferred Outflows of Resources	\$ 2,948,805
	<hr/> <hr/>
<i>Liabilities</i>	
Unearned revenues	\$ -
<i>Deferred Inflows of Resources</i>	-
<i>Net Position</i>	
Unrestricted	2,948,805
	<hr/>
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 2,948,805
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUND

For the Fiscal Year Ended June 30, 2023

	Internal Service
Operating Revenue	
Charges from governmental funds	\$ 4,861,990
Operating Expenses	
Health and dental benefits	4,830,302
Operating income	31,688
Nonoperating revenues	
Investment earnings	7,804
Change in net position	39,492
Net Position - Beginning of the year	2,909,313
Net Position - End of the year	\$ 2,948,805

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

For the Fiscal Year Ended June 30, 2023

	Internal Service
Cash flows from operating activities	
Received from assessments made to other funds	\$ 4,861,990
Health and dental payments	(4,833,995)
Net cash provided by operating activities	27,995
Cash flows from investing activities	
Investment earnings	7,804
Net increase in cash	35,799
Cash - Beginning of the year	2,901,826
Cash - End of the year	\$ 2,937,625
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 31,688
Adjustments to reconcile operating income to net cash provided by operating activities	
Increase in prepaids	(3,693)
Net cash provided by operating activities	\$ 27,995

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Independent School District 701, Hibbing, Minnesota have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

Independent School District 701, Hibbing, Minnesota, was established pursuant to applicable Minnesota laws and statutes to provide public education facilities to every child of school age residing within the District.

The governing body consists of a six member board elected by eligible voters of the District. Three members are elected every two years. The powers and duties of the Board are provided in Minnesota Statutes.

The District's financial statements include the accounts of all the District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Government Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*, amends GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* by clarifying requirements for the reporting of component units. Consideration for inclusion as a component unit include whether the organization is legally separate, the District holds the corporate powers of the organization, the District appoints a voting majority of the board, the District is able to impose its will, whether the organization has the potential to impose a financial burden/benefit on the District and the level of fiscal dependency. GASB 61 expanded the definitions found within Statement 14 as well as clarified many of the criteria used to determine the financial benefit and burden relationships. Based upon the application of these criteria, there were no component units requiring inclusion with the reporting entity.

With the adoption of GASB Statement No. 84, *Fiduciary Activities*, extracurricular funds under board control are now reported within the general fund. They are no longer presented as a separate reporting unit.

Basic Financial Statement Presentation

The District-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statements of Fiduciary Net Position and Changes in Net Position at the fund financial statement level. As of June 30, 2023, the District did not hold any fiduciary funds.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 individuals 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 the purpose for which both restricted and unrestricted net position are available. Depreciation expense which can be specifically identified by function are included in the direct expenses of each function, while indirect expenses are reflected separately. Interest on general long-term debt is considered an indirect expense and is also reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the district-wide financial statements.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining governmental funds is reported in a single column in the fund financial statements.

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal user of the internal services are the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the district-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges for employee health and dental costs. Operating expenses for the internal service fund include the cost of insurance premiums for these services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (other than the district) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the district-wide statements. As of June 30, 2023, the District did not hold any fiduciary funds.

Measurement Focus and Basis of Accounting

District-Wide Financial Statements

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund and fiduciary fund financial statements. Revenues are recorded when

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts recognized in advance in accordance with a statutory tax shift. Grants and similar items are recognized when all eligible requirements imposed by the provider have been met. Program revenues include charges paid by the recipient of the services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

Revenue recognition

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

Recording of Expenditures

Expenditures are generally recorded when a liability is incurred and is anticipated to be paid within a reasonable amount of time after year end (generally assumed to be within 60 days). The exception to this general rule is that interest and principal expenditures in the Debt Service Fund are recognized on their due dates.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent reporting unit. A description of the funds included in this report are as follows:

Major Governmental Funds

General Fund

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Building Construction Fund

The Building Construction fund is used to account for the accumulation of resources for, and the payment of, activities relating to facility construction projects within the District.

Debt Service Fund

The Debt Service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Nonmajor Governmental Funds

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Community Service Special Revenue Fund

The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adults or early childhood programs, or other similar services.

Proprietary Fund

Internal Service fund

The Internal Service Fund accounts for financing of goods or services provided by one department to other departments of the district on a cost-reimbursement basis. The District's internal service fund includes financing for health and dental benefits.

Budgeting

An annual appropriated budget is adopted for all of the District's funds and is adopted on a basis consistent with the financial statements. The budget is adopted prior to July 1 for the next school year. All annual appropriations lapse at year end. Revisions of the budget were made throughout the year and approved by the board. Interim budget amendments increased the General Fund revenue budget by \$1,198,696 and increased the expenditure budget by \$2,263,825.

Cash and Cash Equivalents

The District pools the cash balances of all funds primarily into three common demand deposit accounts, with the exception of the its internal service fund for which separate checking accounts are maintained. For financial statement purposes cash and cash equivalents consist of checking, savings, money market accounts and funds held in the Minnesota Liquid Asset Fund (LAF).

Investments

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements. Investments are stated at fair value. The District uses a fair value hierarchy established by generally accepted accounting principles. The hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs - other than quoted prices included within level 1 - that are observable either directly or indirectly. Level 3 inputs are unobservable inputs. The fair value was obtained through information provided by third party sources. The District considers certificates of deposit as investments due to anticipated long term maturities.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

No allowance for uncollected accounts receivable is considered necessary.

Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food and surplus commodities received from the federal government. Food purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standardized costs, as determined by the Department of Agriculture.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair value at the date of donation. The District maintains a threshold of \$5,000 or more for capitalizing assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital outlay reported at the fund statement level reflects all expenditures that are capital in nature including those that fall below the \$5,000 capitalization threshold.

Capital assets are recorded in the district-wide statements, but are not reported in the fund financial statements. 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 any construction in progress.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow (expense/expenditure) until then. The District has items that qualify for reporting in this category relating to the recognition of the net pension liability under GASB 68 and OPEB liabilities under GASB 75.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has reported items in relation to the recording and reporting of property taxes levied for subsequent years expenditures and property tax reporting as well as deferred items in relation to the net pension liability recognized under GASB 68 and OPEB liabilities under GASB 75 in the accompanying financial statements.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

District employees are eligible to receive paid vacation and sick leave benefits. The amount of such benefits that an employee is entitled to depends on the bargaining unit to which he or she is a member and also on his or her years of service.

The District records a liability for vested vacation and sick leave benefits used within sixty days after year end as a liability in the fund financial statements. The total amount earned as of June 30 is recorded in the district-wide statements.

Severance Pay

The District has implemented the provisions of GASB Statement No. 75 which recognizes other postemployment benefit (OPEB) costs and anticipated benefits to be paid over remaining lives once an employee retires from service. See additional disclosures in Note 7.

In addition to providing the health and dental benefits, employees may be eligible to receive direct severance payments. The District records a liability in the respective funds for those eligible retirees who have retired and are entitled to benefits and will be paid out within the first 60 days of June 30 in the fund financial statements. The total amount of all employees eligible to retire (whether they've given notice or not to retire) as of June 30, 2023 is recorded in the district-wide financial statements.

Long-Term Debt Obligations

In the district-wide financial statements, bonds payable and other long-term debt obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of applicable bond premium or discounts. Bond issuance costs under GASB Statement 65 are expensed as debt service costs as incurred.

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

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 workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage during the past fiscal year.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position represents the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources in the district-wide proprietary and fiduciary fund 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 district-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as inventories and prepaids.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of internally imposed constraints. These constraints are established by formal resolution of the District's board. These amount cannot be used for any other purposes unless the Board modifies or rescinds the motion.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the District's intended use. These constraints are established by the Board and/or management. The Board has authorized the superintendent and/or the business manager to establish assignments of fund balance.

Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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

When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed 2) assigned and 3) unassigned.

Minimum Unassigned Fund Balance Policy

The District has formally adopted a policy regarding the minimum unassigned fund balance for the General Fund. The most significant revenue source of the general fund is state funded educational aid and property taxes. As such the district set a policy to strive to maintain a minimum unassigned general fund balance of 8 percent of the annual budget.

Property Taxes

The School Board annually adopts a tax levy and certifies it to the County for collection. The County is responsible for collecting all property taxes for the District. These taxes attach an enforceable lien on taxable property within the District on January 1 and are payable by the property tax owners by May 15 and October 15 of each year. The taxes are collected by the County and tax settlements are made to the District.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes payable on qualifying property are partially reduced by homestead, agricultural, and taconite aid credits. The credits are paid to the District by the State in lieu of taxes levied against the property.

Current property taxes receivable are recorded for taxes levied in 2022 and payable in 2023. A portion of the current property taxes are recognized as revenue in the fiscal year ended June 30, 2023 in accordance with state statutes and the remaining balance is deferred for subsequent years operations. Revenue from these delinquent property taxes that are not collected within 60 days of year-end are deferred in the fund financial statements because it is not known to be available to finance the operations of the District in the current year. For the District-wide statements, an allowance has been recorded to account for the estimated amount of uncollectible taxes.

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 Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA) and additions to/deductions from TRA's/PERA fiduciary net position have been determined on the same basis as they are reported by TRA/PERA. 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. This 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 the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 6.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH AND INVESTMENTS

Minnesota Statutes require that all deposits which are not U.S. government securities be protected by insurance, surety bond, or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes legal investments, as well as certain first mortgage notes, and certain other state and local government obligations. State statutes require that securities pledged as collateral be held in safekeeping by the District or in a financial institution other than that furnishing the collateral.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The District does not have a formal deposit policy for custodial credit risk other than to follow the Statutes required under the State of Minnesota. At June 30, 2023, the amount of the District's funds on deposit was \$17,084,090. As of June 30, 2023, all of the District's deposits were adequately covered with deposit insurance or collateral held in the District's name.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 2 CASH AND INVESTMENTS (Continued)

Cash and Cash Equivalents

The District holds the following cash and cash equivalent accounts as of June 30.

Deposits in banks - checking and savings	\$ 2,896,317
Money market cash funds	358,154
MN Liquid Asset Fund	6,300,881
	<u>\$ 9,555,352</u>
Current Assets - unrestricted	\$ 8,094,296
Noncurrent assets - restricted for capital and debt service	1,461,056
	<u>\$ 9,555,352</u>

The liquid asset fund values were obtained from statements provided by the Minnesota School District Liquid Asset fund administrator. The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the SEC that follows the same regulatory rules of the SEC under rule 2a7 and is managed by the Board and Minnesota Statutes. They are valued at amortized cost, which approximates fair value. The investment in the MN Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40.

Investments

The schedule below is a categorization of the District's investments (with maturities by years) as of June 30.

	<u>1-5 years</u>	<u>6-10 years</u>	<u>Total</u>
Certificates of deposit (at cost - not rated)	\$ 1,262,964	\$ -	\$ 1,262,964
Municipal bonds (fair value using level 2)	5,126,663	-	5,126,663
	<u>\$ 6,389,627</u>	<u>\$ -</u>	<u>\$ 6,389,627</u>
Current Assets - unrestricted			\$ 775,927
Noncurrent assets - restricted for capital and debt service			5,613,700
			<u>\$ 6,389,627</u>

The following schedule reports the fair value and rating assigned by Moody's/S&P obtained from the District's investment advisors:

Certificates of deposits	FDIC insured - not rated	\$ 1,262,964
Municipal bonds	WR/Moody's	171,186
Municipal bonds	Aa3/Moody's	97,085
Municipal bonds	Aa2/Moody's	658,461
Municipal bonds	Aa1/Moody's	685,592
Municipal bonds	AA/S&P	897,815
Municipal bonds	AA+/S&P	741,018
Municipal bonds	AA-/S&P	849,969
Municipal bonds	AAA/S&P	1,025,537
		<u>\$ 6,389,627</u>

Investments measured at level 1 of the fair value hierarchy are valued using prices quotes in active markets for those securities. Level 2 are valued using other observable inputs and level 3 are those that do not have significant fair value inputs available. All the District's investments required to be reported at fair value are measured using level 2 measurement basis.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 2 CASH AND INVESTMENTS (Continued)

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The District does not have a formal deposit policy for custodial credit risk outside of statutory limits.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment risk policy.

Credit risk is defined as the risk that an issuer or other counterparts to an investment in debt securities will not fulfill its obligation. State statutes limit investments to obligations of the U.S. Treasury commercial paper, corporate bonds and repurchase agreements. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District placed no limit on the amount the District may invest in any one issue.

NOTE 3 RECEIVABLE FROM OTHER GOVERNMENTS

The District has amounts due from other governments at June 30 as follows:

	General	Debt Service Fund	Other Governmental Funds	Total District- Wide
Due from the Dept. of Education	\$ 2,428,544	\$ 53,121	\$ 44,561	\$ 2,526,226
Due from the federal government through the Dept. of Education	3,176,230	-	-	3,176,230
Due from other governmental units	1,144,697	-	-	1,144,697
	<u>\$ 6,749,471</u>	<u>\$ 53,121</u>	<u>\$ 44,561</u>	<u>\$ 6,847,153</u>

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in the capital assets during the year:

	Balance June 30, 2022	Additions	Retirements	Balance June 30, 2023
Land	\$ 373,948	\$ 2,429	\$ -	\$ 376,377
Land improvements	3,127,184	4,123,547	-	7,250,731
Buildings	60,954,434	10,233,671	-	71,188,105
Equipment	3,785,820	550,530	67,814	4,268,536
Intangible right-to-use assets: equipment	150,297	9,811	-	160,108
Construction in progress	11,421,122	(11,342,872)	-	78,250
	<u>\$ 79,812,805</u>	<u>\$ 3,577,116</u>	<u>\$ 67,814</u>	<u>\$ 83,322,107</u>

Accumulated depreciation and amortization activity for the year ended June 30, 2023 is as follows:

	Accumulated Depreciation June 30, 2022	Additions	Retirements	Accumulated Depreciation June 30, 2023
Land improvements	\$ 1,855,916	\$ 208,052	\$ -	\$ 2,063,968
Buildings	32,006,593	1,915,317	-	33,921,910
Equipment	2,890,579	168,791	67,814	2,991,556
Intangible right-to-use assets: equipment	101,647	29,955	-	131,602
	<u>\$ 36,854,735</u>	<u>\$ 2,322,115</u>	<u>\$ 67,814</u>	<u>\$ 39,109,036</u>

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 4 CAPITAL ASSETS (Continued)

Capital assets, net of accumulated depreciation and amortization, as of June 30, 2023 is as follows:

Land (not being depreciated)	\$ 376,377
Land improvements	5,186,763
Buildings	37,266,195
Equipment	1,276,980
Intangible right-to-use assets: equipment	28,506
Construction in progress (not currently being depreciated until placed in service)	78,250
	<u>\$ 44,213,071</u>

No interest was required to be capitalized during the year by the District.

Depreciation and amortization expense of \$2,322,115 for the year ended June 30, 2023 was charged to the following governmental functions:

District and school administration	\$ 1,893
District support services	29,955
Instruction - regular	85,291
Instruction - vocational	18,595
Instruction - special education	1,030
Community education	92,756
Instruction support services	6,623
Pupil support services	37,863
Site, buildings and equipment	533,701
Food service	23,398
Unallocated	1,491,010
	<u>\$ 2,322,115</u>

Intangible Right-to-Use Assets

The District implemented the guidance in GASB No. 87, *Leases*, and recognized the value of copiers and a postage machine leased under long-term contracts. The lease agreements have remaining terms ranging from one to four years on the lease period. The District has recorded the value of the leased assets in the amount of \$160,108 and corresponding accumulated amortization of \$131,602 for a net remaining value of \$28,506 that will be amortized over the remaining estimated lives of the assets.

NOTE 5 LONG-TERM DEBT

General obligation bonds and notes are direct obligations and pledge the full faith and credit of the District. General obligation debt and other lease obligations at June 30, 2023 is comprised of the following:

\$7,500,000 General Obligation Taxable Alternative Facilities Bonds, Series 2010A, due in annual interest only installments of \$105,000 through July 1, 2025. As of January 1, 2026 a one time principal payment of \$7,500,000 will be due, interest rate of 1.4%.	\$ 7,500,000
\$3,665,000 General Obligation Taxable Bonds, Series 2021B, due in annual installments of \$220,000 to \$270,000 through February 1, 2037. Interest rate of .45 to 2.75%.	3,445,000
Purchase agreement with Apple, Inc. for technology equipment with annual installments of \$158,288 through July 2028, interest rate of 2.1%.	306,787

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 5 LONG-TERM DEBT (Continued)

\$940,000 General Obligation Tax Abatement Bonds, Series 2014A, dated July 23, 2014, due in annual installments of \$75,000 to \$105,000 through February 1, 2025. Interest rate of 2.0 to 3.0%.	210,000
\$9,355,000 Certificate of Participation, Series 2021A, dated April 21, 2021, due in annual installments of \$385,000 to \$580,000 through March 1, 2041. Interest rate of 2.0 to 3.0%.	8,560,000
\$1,550,000 General Obligation Bonds, Series 2017A, dated February 13, 2017 due in annual installments of \$120,000 to \$175,000 through February 1, 2027. Interest rate of 2.0 to 3.0%.	670,000
	<u>20,691,787</u>
Plus: unamortized bond premiums	298,073
Less: current portion of long-term obligations	<u>(1,056,783)</u>
	<u>\$ 19,933,077</u>

As noted under Note 4 regarding right-to-use assets, with the implementation of GASB No.87, *Leases*, the District records a related intangible asset and corresponding obligation for these transactions that were previously treated as operating leases. The District leases a variety of copiers and a postage machine for a term of 60 months with outstanding balances as of June 30, 2023 of \$30,787.

Lease agreements for copiers with annual installments of \$2,150 to \$3,936 through July 2028.	<u>\$ 30,787</u>
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Minimum principal and interest payments required to retire long-term liabilities are as follows:

	Lease payments - Right-to-use assets		Principal	Interest	Total
	Principal	Interest			
Ending June 30 2024	\$ 19,653	\$ 1,030	\$ 1,056,783	\$ 407,065	\$ 1,484,531
2025	5,355	417	1,070,004	386,645	1,462,421
2026	3,092	205	8,325,000	312,418	8,640,715
2027	2,136	86	850,000	243,678	1,095,900
2028	551	5	675,000	226,428	901,984
2029-2033	-	-	3,550,000	922,160	4,472,160
2034-2038	-	-	3,480,000	498,089	3,978,089
2039-2041	-	-	1,685,000	102,150	1,787,150
	<u>\$ 30,787</u>	<u>\$ 1,743</u>	<u>\$ 20,691,787</u>	<u>\$ 3,098,633</u>	<u>\$ 23,822,950</u>

During the year, the following changes occurred in the District's long-term debt:

	General Obligation Debt	Right-to-use Lease Obligations	Severance Payable	Compensated Absences Payable
Beginning of Year	\$ 22,020,364	\$ 52,520	\$ 1,631,985	\$ 247,177
Increases	-	9,811	698,083	255,679
Decreases	(1,013,632)	(31,544)	(796,504)	(200,352)
Premium	(16,872)	-	-	-
End of Year	<u>\$ 20,989,860</u>	<u>\$ 30,787</u>	<u>\$ 1,533,564</u>	<u>\$ 302,504</u>

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 5 LONG-TERM DEBT (Continued)

The liabilities are reported on the District-wide statements as follows:

	General Obligation Debt	Right-to-use Lease Obligations	Severance Payable	Compensated Absences Payable
Current liabilities	\$ 1,056,783	\$ 19,653	\$ 281,128	\$ 62,099
Long-term obligations	19,933,077	11,134	1,252,436	240,405
	<u>\$ 20,989,860</u>	<u>\$ 30,787</u>	<u>\$ 1,533,564</u>	<u>\$ 302,504</u>

The general and the debt service funds will liquidate the long term debt in future years for the general obligation bond and the general fund, food service or community education funds will finance the severance, and compensated absences liabilities in relation to the funds where the original salaries were paid.

See Notes 6 and 7 for further discussions on pension and OPEB liabilities for the District.

NOTE 6 PENSION PLANS

Substantially all employees of the District are required by State law to belong to pension plans administered by the Teachers Retirement Association (TRA) or the Public Employees Retirement Association (PERA), both of which are administered on a statewide basis.

TEACHERS RETIREMENT ASSOCIATION

A Plan Description

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

Educators employed in Minnesota's public elementary and secondary school, charter schools, and certain educational institutions maintained by the state (except those employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined Contribution Plan (DCR) administered by the State of Minnesota.

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.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 6 PENSION PLANS (Continued)

TEACHERS RETIREMENT ASSOCIATION (Continued)

Tier I Benefits

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

With these provisions:

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

Tier II Benefits

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

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

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

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

C Contribution Rate

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

	Basic		Coordinated	
	Employee	Employer	Employee	Employer
June 30, 2021	11.00%	12.13%	7.50%	8.13%
June 30, 2022	11.00%	12.34%	7.50%	8.34%
June 30, 2023	11.00%	12.55%	7.50%	8.55%

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 6 PENSION PLANS (Continued)

TEACHERS RETIREMENT ASSOCIATION (Continued)

The following is a reconciliation of employer contributions in TRA's 2022 CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in the Schedule of Employer and Non-Employer Pension Allocations.

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

Amounts reported in the allocation schedules may not precisely agree with financial statements 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.

D Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2022	
Measurement Date	June 30, 2022	
Experience Study	June 28, 2019 (demographic and economic assumptions)	
Actuarial Cost Method	Entry Age Normal	
Actuarial Assumptions:		
Investment Rate of Return	7.00%	
Price Inflation	2.50%	
Wage growth rate	2.85%	before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increase	2.85 - 8.85%	before July 1, 2028 and 3.25% to 9.25% after June 30, 2028
Cost of living adjustment	1.00%	for January 2019 through January 2023, then increasing by .1% each year up to 1.5% annually.

Mortality Assumption

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

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 6 PENSION PLANS (Continued)

TEACHERS RETIREMENT ASSOCIATION (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 (Geometric Mean)
Domestic Equity	35.5%	5.10%
International Equity	16.5%	5.30%
Private Markets	25.0%	5.90%
Fixed income	25.0%	0.75%
Total	100%	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2023 is 6 years. The "Difference Between Expected and Actual Experience," "Changes in Assumptions," and "Changes in Proportion" use the amortization period of 6 years in the schedule presented. The amortization period for the "Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of 5 years as required by GASB 68.

Changes in actuarial assumptions since the 2021 valuation:

- None

E Discount Rate

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

F Net Pension Liability

On June 30, 2023, the District reported a liability of \$17,632,451 for its proportionate share of 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 0.2202% at the end of the measurement period and 0.2203% for the beginning of the year.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 6 PENSION PLANS (Continued)

TEACHERS RETIREMENT ASSOCIATION (Continued)

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

District's proportionate share of net pension liability	\$ 17,632,451
State's proportionate share of the net pension liability associated with the district	1,307,438

For the year ended June 30, 2023, the District recognized pension expense of \$2,627,840. It also recognized \$179,777 as an increase to 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 170,467	\$ 80,421
Change in actuarial assumptions	2,352,904	-
Net difference between projected and actual earnings on plan investments	486,288	-
Change in proportion	117,448	170,999
Contributions paid subsequent to year end	1,174,517	-
	<u>\$ 4,301,624</u>	<u>\$ 251,420</u>

\$1,174,517 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.

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

2024	\$ 937,415
2025	890,353
2025	(587,254)
2026	1,623,470
2027	11,703

G Pension Liability Sensitivity

The following presents the net pension liability of TRA 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% lower (6.0%) or 1% higher (8.0%) than the current rate

District Proportionate Share of NPL		
1 percent decrease (6.0%)	Current (7.0%)	1 percent increase (8.0%)
\$ 27,796,599	\$ 17,632,451	\$ 9,301,019

The Employer'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 report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN 55103-4000; or by calling 651-296-2409 or 800-657-3669.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 6 PENSION PLANS (Continued)

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

A Plan Description

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

General Employees Retirement Plan (GERF)

All full-time and certain part-time employees of the District (other than teachers) are covered by the General Employees Retirement Plan (GERF). GERF members belong to the Coordinated Plan and 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 not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

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 members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year 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% and a maximum of 1.5%. 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 the full increase.

For recipients receiving the annuity or benefit for at least one month but less than a full year as of 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 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.

Coordinated Plan members were required to contribution 6.5% of their annual covered salary in fiscal year 2023; the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2023 were \$356,515. The District's contributions were equal to the required contributions for each year as set by state statute.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 6 PENSION PLANS (Continued)

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

D Pension Costs

At June 30, 2023, the District reported a liability of \$4,561,939 for its proportionate share of the GERF's net pension liability. The 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 \$133,542. The net pension liability was measured as of June 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2023 the District's proportion share was .0576% at the end of the measurement period and .0564% for the beginning of the period.

District's proportionate share of the net pension liability	\$ 4,561,939
State of Minnesota's proportionate share of the net pension liability association with the District	133,542
	<u>\$ 4,695,481</u>

There were no provision changes during the measurement period.

For the year ended June 30, 2023, the District recognized pension expense of \$719,320 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$19,954 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.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 38,105	\$ 47,785
Change in actuarial assumptions	1,011,590	18,457
Net difference between projected and actual earnings on plan investments	114,371	-
Change in proportion	66,078	26,978
Contributions paid subsequent to year end	356,917	-
	<u>\$ 1,587,061</u>	<u>\$ 93,220</u>

\$356,917 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amount reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2024	\$ 427,303
2025	417,522
2026	(120,464)
2027	412,563

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 6 PENSION PLANS (Continued)

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

E Long-term Expected Return on Investment

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Domestic equity	33.5%	5.10%
International equity	16.5%	5.30%
Fixed income	25.0%	0.75%
Private markets	25.0%	5.90%
Total	100%	

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% in the June 30, 2022 actuarial valuation and 7% in the June 30, 2023 actuarial valuation. This assumption is based on a review of inflation and investment 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 plan. Benefit increases after retirement are assumed to be 1.25%.

Salary growth assumptions range in annual increments from 10.25% after one year of service to 3% after 29 years of service and 6% per year thereafter.

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 6 PENSION PLANS (Continued)

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

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 will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H Pension Liability Sensitivity

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

District Proportionate Share of NPL		
1 percent decrease (5.5%)	Current (6.5%)	1 percent increase (7.5%)
\$ 7,205,822	\$ 4,561,939	\$ 2,393,547

I Pension Plan Fiduciary Net Position

Detailed information about the defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.pera.org.

Total Disclosures Reported in the Accompanying Financial Statements as follows:

The total of the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA) pension liabilities and deferred items are reflected in the accompanying District wide statement of financial position as follows:

	TRA	PERA	Total
Deferred outflows of resources	\$ 4,301,624	\$ 1,587,061	\$ 5,888,685
Deferred inflows of resources	251,420	93,220	344,640
Noncurrent liability - Net Pension Liability	17,632,451	4,561,939	22,194,390

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 6 PENSION PLANS (Continued)

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Defined Contribution Plan

The District's board members are covered by defined contribution plan, a multiple-employer deferred compensation plan administered by PERA. The defined contribution plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specified plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For salaried employees there is a fixed percentage of salary. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by the District during fiscal year 2023 were:

Contribution Amounts		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$398	\$398	5%	5%	5%

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The District's defined benefit OPEB plan provides a single-employer defined benefit health care plan to eligible retirees. The plan offers both medical and dental coverage. No assets have been set aside in a trust.

Benefits

The District provides medical and life insurance to employees of the School District who are covered by an employment contract which provides for such post-employment benefits. For employees who are age 55 and are covered under the Administrative, Confidential Unit, Non-aligned or the Hibbing United Educators contracts with 10 years of service (or 20 years at any age) and hired prior to 7/1/2008, the District pays 92% of the medical premium for single coverage less \$55 plus 75% of the additional premium for family coverage. Upon the retiree's death, the spouse may continue coverage at their own expense.

For employees covered under the AFSCME contract at age 62 with 10 years of service (or 20 years at any age) and hired before 7/1/2008, the District pays 92% of the medical premium for single coverage less \$55 plus 75% of the additional premium for family coverage.

The District also pays for post-employment life insurance benefits. For employees under the Administrative and Non-aligned contracts, as well as the Superintendent, the District pays for \$8,000 of coverage. For Confidential Unit employees, the coverage is limited to \$6,000 and for AFSCME and the United Educators employees are given \$5,000 of coverage.

Contributions

Contribution requirements for employees and retirees are set by the District and employment contracts. The required contributions are based on projected pay-as-you go financing requirements. For the current fiscal year, the District contributed \$1,807,851 to the plan.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (Continued)

Members

As of the valuation date of June 30, 2022, the District has 250 retirees and 179 active employees electing coverage and used in the determination of the OPEB valuation for the June 30, 2023 reporting year.

Actuarial Assumptions

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

- Discount rate	3.69%
- Inflation rate	2.50%
- Mortality	From the July 1, 2022 TRA valuation, mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments. For non-teachers, the mortality rates were based on the Pub-2010 general mortality tables with projected mortality improvements based on scale MP-2021 and other adjustments.
- Health care cost trend rate	6.8% for FY2023, gradually decreasing over several decades to an ultimate rate of 3.9% in FY2076 and later years

Total OPEB Liability

The District's total OPEB liability of \$32,896,430 was measured as of June 30, 2022 and was determined by an actuarial valuation date using June 30, 2022 census data. This information is reported in the District's June 30, 2023 financials as allowed under the GASB standards.

Changes in the total OPEB liability is as follows:

	Total OPEB Liability
Balance as of June 30, 2022	\$ 41,247,265
Changes for the year:	
Service cost	775,305
Interest cost	789,478
Differences between expected and actual experience	485,800
Changes in assumptions	(8,593,567)
Benefit payments	(1,807,851)
Net changes	(8,350,835)
Balance as of June 30, 2023	\$ 32,896,430

OPEB Liability Sensitivity

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

	1% Decrease 2.69%	Current 3.69%	1% Increase 4.69%
Total OPEB Liability	\$ 37,044,254	\$ 32,896,430	\$ 29,466,914

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 health cost rate.

	1% Decrease	Current	1% Increase
	<u> </u>	<u> </u>	<u> </u>
Total OPEB Liability	\$ 29,221,683	\$ 32,896,430	\$ 37,362,495

OPEB Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2023, the District recognized OPEB expense of \$820,532. As of June 30, 2023, the District reported deferred inflows and outflows related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Difference between expected and actual liability	\$ 2,406,507	\$ -
Change in assumptions	2,791,476	9,214,968
Contributions between measurement and reporting date	2,155,797	-
	<u>\$ 7,353,780</u>	<u>\$ 9,214,968</u>

Amounts reported as deferred (inflows) outflows of resources related to OPEB will be recognized in the OPEB expense as follows:

Fiscal year ended	2023	\$ (344,319)
	2024	(417,459)
	2025	(648,337)
	2026	(807,563)
	2027	(855,990)
	Thereafter	(943,317)

NOTE 8 CONTINGENT LIABILITIES

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 9 FUND BALANCES

Fund balances were reserved as follows at June 30:

	General	Building Construction	Debt Service	Other Governmental Funds
Nonspendable:				
Inventory	\$ -	\$ -	\$ -	\$ 35,315
Restricted for:				
Student Activities	43,822	-	-	-
Scholarships	126,347	-	-	-
Early Childhood/Family Education	-	-	-	(324,568)
Community Education	-	-	-	108,807
School Readiness	-	-	-	291,711
Safe Schools levy	(801,347)	-	-	-
Long term facility maintenance	496,266	-	-	-
Operating capital	426,397	-	-	-
Construction	-	46,320	-	-
Debt Service	-	-	6,803,903	-
Food Service	-	-	-	402,125
Total Restricted	291,485	46,320	6,803,903	478,075
Committed to: Severance	3,734,756	-	-	-
Assigned to:				
Student Activities	53,582	-	-	-
Total Assigned	53,582	-	-	-
Unassigned	4,588,339	-	-	-
	<u>\$ 8,668,162</u>	<u>\$ 46,320</u>	<u>\$ 6,803,903</u>	<u>\$ 513,390</u>

Nonspendable - Represents a portion of the fund balance that is not available since the amounts have already been spent on inventory.

Restricted for student activities - Represents resources for extracurricular activities raised by students with District admin control.

Restricted for scholarships - Represents resources available for scholarship funds with District administrative control.

Restricted for early childhood/family education - Represents resources available to provide for service for early childhood programming.

Restricted for community education - Represents resources available to provide programming for community education.

Restricted for school readiness - Represents resources available to provide services for school readiness program.

Restricted for safe schools crime - Represents available resources for future projects.

Restricted for long term facility maintenance - Represent program income from specific revenue sources to be used for capital.

Restricted for operating capital - Represent unspent resources set aside for purchases of equipment and facilities.

Restricted for construction - Represents resources set aside for building construction funded by certificates of participation.

Restricted for debt service - Represents resources required to be set aside for future debt payments.

Restricted for food service - Represents resources required by statute to be segregated for food services.

Committed for - future estimated costs of second ensuing year retirement payments and equipment purchases. A majority vote of the board is required to commit a fund balance to a specific purpose. The Board passed a resolution as of June 30, 2019 to commit investment earnings from the original \$3.5 million for future fiscal years for severance.

Assigned for - transportation and general student activities under board control.

Deficit Fund Balances

No funds had deficit fund balances as of June 30, 2023.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 INTERNAL SERVICE FUND

The District maintains an internal service fund to record the activity related to providing both health and dental coverage for eligible employees. Previously, the District discontinued the self-insurance portion relating to health coverage but continued the self-insurance for the dental plan. The financial activity of the plan is accounted for as an internal service fund in the accompanying financial statements.

Annually the District establishes rates to represent premiums required to cover the anticipated claims for the upcoming year. Those premiums are then charged to the respective funds and programs and a transfer is made to bank accounts established to pay the costs of the benefits under each plan. In addition, any required employee contributions are also transferred to the established bank accounts.

For dental coverage, the insurance carrier processes the claims on behalf of the District and is reimbursed for the claims processed in addition to an administrative fee based on a percentage of the dollar amount of claims processed.

As of June 30, 2023, the District had advanced funds to the administrator which were adequate to cover all anticipated claims paid after year end.

NOTE 11 EXPENDITURES IN EXCESS OF BUDGET

The general fund actual expenditures exceeded the budget by \$1,462,869 for the year ending June 30, 2023. The food service fund (non-major) exceeded its final revised expenditure budget by \$145,577 and the community service fund (non-major) exceeded its final revised expenditure budget by \$292,479.

NOTE 12 TAX ABATEMENT

In conjunction with a construction project in 2014, the District adopted a resolution granting tax abatement to certain properties as allowed under Minnesota Statutes 469.1812 to 469.1815. It was determined that all properties within the District benefitted from the projects but only a portion of the properties were necessary for the abatement. The abatement commenced with taxes payable in 2015 and will conclude with taxes payable in 2024. The abatement reduced the District's portion of the taxes for each property and did not exceed \$95,000 per year or \$950,000 in total. The abatements were applied to a portion of the construction costs and for continuing payment of the bonds issued to finance the projects.

INDEPENDENT SCHOOL DISTRICT 701

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS AND NOTES

For the Fiscal Year Ended June 30, 2023

	2018	2019	2020	2021	2022	2023
Total OPEB Liability						
Service cost	\$ 845,916	\$ 752,330	\$ 561,286	\$ 660,302	\$ 649,410	\$ 775,305
Interest	1,108,065	1,262,419	1,329,946	1,213,146	938,638	789,478
Differences between expected and actual experience	-	2,255,821	-	2,511,535	83,907	485,800
Changes in assumptions	(3,256,572)	(1,215,961)	2,061,816	(2,867,737)	2,821,902	(8,593,567)
Changes of benefit terms	-	-	-	-	-	-
Benefit payments	(1,642,601)	(1,798,813)	(1,975,818)	(2,088,674)	(1,817,855)	(1,807,851)
Net change in total OPEB liability	(2,945,192)	1,255,796	1,977,230	(571,428)	2,676,002	(8,350,835)
Total OPEB liability - Beginning of the year	38,854,857	35,909,665	37,165,461	39,142,691	38,571,263	41,247,265
Total OPEB liability - End of the year	\$ 35,909,665	\$ 37,165,461	\$ 39,142,691	\$ 38,571,263	\$ 41,247,265	\$ 32,896,430
Plan Fiduciary Net Position						
Employee contributions	-	-	-	-	-	-
Employer contributions	1,642,601	1,798,813	1,975,818	2,088,674	1,817,855	1,807,851
Net investment income	-	-	-	-	-	-
Other additions	-	-	-	-	-	-
Benefit payments	(1,642,601)	(1,798,813)	(1,975,818)	(2,088,674)	(1,817,855)	(1,807,851)
Administrative expense	-	-	-	-	-	-
Other deductions	-	-	-	-	-	-
Net change in plan fiduciary net position	-	-	-	-	-	-
Plan Fiduciary Net Position - Beginning of the year	-	-	-	-	-	-
Plan Fiduciary Net Position - End of the year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NET OPEB LIABILITY - END OF THE YEAR	\$ 35,909,665	\$ 37,165,461	\$ 39,142,691	\$ 38,571,263	\$ 41,247,265	\$ 32,896,430
Fiduciary net position as a percentage of total OPEB liability	NA	NA	NA	NA	NA	NA
Payroll for the measurement period	\$ 15,492,894	\$ 15,970,544	\$ 13,709,880	\$ 15,873,048	\$ 16,292,982	\$ 16,554,795
Net OPEB liability as a % of employee payroll	231.8%	232.7%	285.5%	243.0%	253.2%	198.7%

Note 1

The District implemented the provisions of GASB Statement No. 75 in the fiscal year ending June 30, 2018. This schedule is intended to present a 10-year trend information. Additional years will be added as they become available.

The District does not have a formal funding policy and does not calculate an Actuarially Determined Contribution (ADC) as such the disclosure of the a Schedule of Contributions is not required.

The District does not have funds placed in a trust to offset the total OPEB liability. As such a schedule of investment returns is not required.

INDEPENDENT SCHOOL DISTRICT 701

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - TEACHERS RETIREMENT ASSOCIATION (TRA) June 30, 2023

Schedule of Employer's Share of Net Pension Liability - Teachers Retirement Association

District FYE	TRA's Measure Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District	Total	District's Covered Employee Payroll	District's Proportionate Share of the NPL (asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2015	6/30/2014	0.2269%	\$10,455,389	\$735,637	\$11,191,026	\$10,356,305	108.0%	81.50%
6/30/2016	6/30/2015	0.2116%	\$13,089,553	\$1,605,864	\$14,695,417	\$10,738,461	136.85%	76.77%
6/30/2017	6/30/2016	0.2127%	\$50,734,026	\$5,091,295	\$55,825,321	\$11,062,827	458.6%	44.88%
6/30/2018	6/30/2017	0.2101%	\$41,939,771	\$4,054,013	\$45,993,784	\$11,308,915	370.9%	51.57%
6/30/2019	6/30/2018	0.2079%	\$13,059,119	\$1,227,204	\$14,286,323	\$11,487,187	113.7%	78.07%
6/30/2020	6/30/2019	0.2151%	\$13,710,519	\$1,213,155	\$14,923,674	\$12,213,541	112.3%	78.07%
6/30/2021	6/30/2020	0.2193%	\$16,202,178	\$1,357,915	\$17,560,093	\$12,746,361	127.1%	75.48%
6/30/2022	6/30/2021	0.2203%	\$9,640,987	\$813,178	\$10,454,165	\$13,184,589	73.1%	86.63%
6/30/2023	6/30/2022	0.2202%	\$17,632,451	\$1,307,438	\$18,939,889	\$13,610,464	129.55%	76.17%

Schedule of Employer's Contributions - Teachers Retirement Association

District FYE	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	District's Covered Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
6/30/2015	\$805,381	\$805,381	-	\$10,738,461	7.50%
6/30/2016	\$829,712	\$829,712	-	\$11,062,827	7.50%
6/30/2017	\$848,169	\$848,169	-	\$11,308,915	7.50%
6/30/2018	\$861,539	\$861,539	-	\$11,487,187	7.50%
6/30/2019	\$941,664	\$941,664	-	\$12,213,541	7.71%
6/30/2020	\$1,009,513	\$1,009,513	-	\$12,746,361	7.92%
6/30/2021	\$1,071,908	\$1,071,908	-	\$13,184,589	8.13%
6/30/2022	\$1,135,114	\$1,135,114	-	\$13,610,464	8.34%
6/30/2023	\$1,174,517	\$1,174,517	-	\$13,748,186	8.55%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

INDEPENDENT SCHOOL DISTRICT 701

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - TEACHERS RETIREMENT ASSOCIATION (TRA)

June 30, 2023

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 Changes in Assumptions and Benefit Terms

2022 there were no changes in actuarial assumptions or changes in benefit and funding terms.

2021 changes in actuarial assumptions included the investment return assumption was changed from 7.5% to 7%.

2020 changes in actuarial assumptions included the assumed termination rates were changed to more closely reflect actual experience. The pre-retirement mortality assumptions were changed to the RP2014 white collared employee table, male rates set back five years and female rates set back seven. 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 had no changes in actuarial assumptions.

2018 changes in actuarial assumptions included the 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% in January 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 June 30, 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 is 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 7.5% 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.

2017 changes in actuarial assumptions included the cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2015. 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.

INDEPENDENT SCHOOL DISTRICT 701

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - TEACHERS RETIREMENT ASSOCIATION (TRA)

June 30, 2023

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 Changes in Assumptions and Benefit Terms

2016 changes in actuarial assumptions included the COLA was not assumed to increase for funding or the GASB calculations. 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 included 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 disable 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 in benefit terms included that the DTRFA merged into TRA on June 30, 2015. Changes in actuarial assumptions for that year included the annual COLA for the year valuation was assumed to be 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 20134. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

INDEPENDENT SCHOOL DISTRICT 701

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY

AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

June 30, 2023

Schedule of Employer's Share of Net Pension Liability - Public Employees Retirement Association

District FYE	PERA's Measure Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability		District's Covered Employee Payroll	District's Proportionate Share of the NPL (asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
				Associated with the District	Total			
6/30/2015	6/30/2014	0.0570%	\$2,677,574	-	\$2,677,574	\$2,994,303	89.4%	78.75%
6/30/2016	6/30/2015	0.0541%	\$2,803,743	-	\$2,803,743	\$3,226,208	86.9%	78.19%
6/30/2017	6/30/2016	0.0536%	\$4,352,054	\$56,839	\$4,408,893	\$3,332,850	130.5%	68.91%
6/30/2018	6/30/2017	0.0549%	\$3,504,780	\$44,084	\$3,548,864	\$3,547,725	98.7%	75.90%
6/30/2019	6/30/2018	0.0545%	\$3,023,436	\$99,196	\$3,122,632	\$3,638,920	83.1%	79.53%
6/30/2020	6/30/2019	0.0553%	\$3,057,413	\$94,996	\$3,152,409	\$3,910,494	78.2%	80.23%
6/30/2021	6/30/2020	0.0573%	\$3,435,396	\$105,995	\$3,541,391	\$4,003,652	85.8%	79.06%
6/30/2022	6/30/2021	0.0564%	\$2,408,533	\$73,650	\$2,482,183	\$4,051,372	59.4%	87.00%
6/30/2023	6/30/2022	0.0576%	\$4,561,939	\$133,542	\$4,695,481	\$4,322,781	105.5%	76.67%

Schedule of Employer's Contributions - Public Employees Retirement Association

District FYE	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	District's Covered Employee Payroll	Contributions as a Percentage of Covered-Employee
					Payroll
6/30/2015	\$234,942	\$234,942	-	\$3,226,208	7.25%
6/30/2016	\$249,965	\$249,965	-	\$3,332,850	7.50%
6/30/2017	\$266,082	\$266,082	-	\$3,547,725	7.50%
6/30/2018	\$272,919	\$272,919	-	\$3,638,920	7.50%
6/30/2019	\$293,258	\$293,258	-	\$3,910,494	7.50%
6/30/2020	\$296,934	\$296,934	-	\$4,003,652	7.50%
6/30/2021	\$303,856	\$303,856	-	\$4,051,372	7.50%
6/30/2022	\$323,374	\$323,374	-	\$4,322,781	7.50%
6/30/2023	\$356,515	\$356,515	-	\$4,760,945	7.50%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

INDEPENDENT SCHOOL DISTRICT 701

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY

AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

June 30, 2023

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 Changes in Assumptions and in Benefit Terms

2022 Changes in actuarial assumptions included the mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021. There were no changes in plan provisions from the previous valuation.

2021 changes in actuarial assumptions included 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. There were no changes in the plan provisions since the previous valuation.

2020 changes in actuarial assumptions include the price inflation assumption was decreased from 2.5% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. 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 20, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for year 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 were changed from the RF-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants were 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 & survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% joint & 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 include augmentation for current privatized members being reduced to 2.0% for the period of July 1, 2020 through December 31, 2023 and 0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 changes in actuarial assumptions include the mortality projection scale was changed from MP-2017 to MP-2018. Changes in plan provisions included the employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

2018 changes in actuarial assumptions included the mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1% per year through 2044 and 2.5% per year thereafter to 1.25% per year. Changes in the plan provisions included 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% to 3%, beginning July 1, 2018. Deferred augmentation was changed to 0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Post-retirement benefit increase were changed from 1% 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% 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.

INDEPENDENT SCHOOL DISTRICT 701

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

June 30, 2023

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 Changes in Assumptions and in Benefit Terms - Continued

2017 changes in actuarial assumptions included the combined service annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are no 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested member liability. The assumed post-retirement benefit increase rate was changed from 1 percent per year for all years to 1 percent per year through 2044 and 2.5 percent per year thereafter.

2016 changes in actuarial assumptions included 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 and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

2015 changes involves 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 consideration, state and employer contributions were revised. 2015 changes in assumptions included the assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

INDEPENDENT SCHOOL DISTRICT 701

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2023

	Special Revenue - Food Service	Special Revenue - Community Service	Total
<i>Assets</i>			
Cash and cash equivalents	\$ 339,409	\$ 223,278	\$ 562,687
Receivables			
Accounts	94,259	922	95,181
Other governments	-	44,561	44,561
Inventory	35,315	-	35,315
Total Assets	468,983	268,761	737,744
<i>Deferred Outflows of Resources</i>			
	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 468,983	\$ 268,761	\$ 737,744
<i>Liabilities, Deferred Inflows of Resources, and Fund Balances</i>			
Liabilities			
Accounts payable	\$ 5,395	\$ 68,658	\$ 74,053
Salaries payable	-	109,922	109,922
Accrued expenses	26,148	13,860	40,008
Compensated absences payable	-	371	371
Total Liabilities	31,543	192,811	224,354
Deferred Inflows of Resources	-	-	-
Equity			
Fund balance - nonspendable	35,315	-	35,315
Fund balance - restricted	402,125	75,950	478,075
Total Fund Balance	437,440	75,950	513,390
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 468,983	\$ 268,761	\$ 737,744

INDEPENDENT SCHOOL DISTRICT 701

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2023

	Special Revenue - Food Service	Special Revenue - Community Service	Total
Revenues			
Local property tax levies	\$ -	\$ 148,830	\$ 148,830
Other local and county	13,854	219,925	233,779
State sources	51,195	304,217	355,412
Federal sources	890,774	-	890,774
Sales and other conversions of assets	482,125	-	482,125
Total Revenues	1,437,948	672,972	2,110,920
Expenditures			
Current			
Community education and services	-	1,268,802	1,268,802
Food service	1,505,402	-	1,505,402
Total Expenditures	1,505,402	1,268,802	2,774,204
Excess of Expenditures Over Revenues	(67,454)	(595,830)	(663,284)
Fund Balance - Beginning of the year	504,894	671,780	1,176,674
Fund Balance - End of the year	\$ 437,440	\$ 75,950	\$ 513,390

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Fiscal Year Ended June 30, 2023

	Final Budget	Actual	Variance
Revenues			
Local taxes	\$ 5,346,140	\$ 5,942,385	\$ 596,245
Other local and county			
Admissions and student activity revenues	115,725	131,639	15,914
Gifts and bequests	97,680	396,431	298,751
Investment earnings	309,605	302,333	(7,272)
Miscellaneous	636,986	641,137	4,151
Tuition and fees from patrons	147,000	140,571	(6,429)
	1,306,996	1,612,111	305,115
State sources			
Endowment fund apportionment	91,738	102,733	10,995
General education aid	15,096,638	15,370,803	274,165
Other state aids	4,795,187	4,491,078	(304,109)
Special education	4,145,068	4,135,721	(9,347)
	24,128,631	24,100,335	(28,296)
Federal sources			
Title I and II	621,128	571,120	(50,008)
ESSER	1,750,000	1,893,027	143,027
Other	132,092	105,970	(26,122)
Special education	445,946	635,529	189,583
	2,949,166	3,205,646	256,480
Sales and other conversions of assets			
Sales of materials and supplies	5,000	9,045	4,045
	5,000	9,045	4,045
Total Revenues	33,735,933	34,869,522	1,133,589

(Continued)

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Fiscal Year Ended June 30, 2023

(Continued)

	Final Budget	Actual	Variance
Expenditures			
District and school administration			
Salaries and wages	\$ 967,246	\$ 968,310	\$ 1,064
Employee benefits	404,540	423,918	19,378
Purchased services	25,515	29,213	3,698
Supplies and materials	1,838	32,236	30,398
Capital expenditure	9,000	-	(9,000)
Other	42,000	44,153	2,153
	1,450,139	1,497,830	47,691
District support services			
Salaries and wages	651,406	672,626	21,220
Employee benefits	342,431	287,253	(55,178)
Purchased services	350,420	423,933	73,513
Supplies and materials	35,179	19,310	(15,869)
Capital expenditure	7,000	2,799	(4,201)
Other	(72,863)	(42,793)	30,070
	1,313,573	1,363,128	49,555
Regular instruction			
Salaries and wages	7,503,279	8,550,561	1,047,282
Employee benefits	3,687,196	4,514,746	827,550
Purchased services	951,704	919,649	(32,055)
Supplies and materials	233,926	348,981	115,055
Capital expenditure	65,000	38,856	(26,144)
Other	105,033	252,397	147,364
	12,546,138	14,625,190	2,079,052
Vocational instruction			
Salaries and wages	75,440	82,642	7,202
Employee benefits	35,026	32,251	(2,775)
Purchased services	4,221	13,347	9,126
Supplies and materials	27,736	13,254	(14,482)
Capital expenditure	7,562	25,500	17,938
Other	400	4,638	4,238
	150,385	171,632	21,247
Special Education instruction			
Salaries and wages	6,214,566	5,362,353	(852,213)
Employee benefits	1,186,502	1,406,518	220,016
Purchased services	950,550	987,758	37,208
Supplies and materials	52,672	44,398	(8,274)
Capital expenditure	22,430	64,327	41,897
Other	40,612	-	(40,612)
	8,467,332	7,865,354	(601,978)
Instructional support services			
Salaries and wages	1,243,310	1,130,733	(112,577)
Employee benefits	911,296	784,298	(126,998)
Purchased services	125,975	135,684	9,709
Supplies and materials	280,035	269,706	(10,329)
Debt service	-	158,287	158,287
Capital expenditure	116,000	187,407	71,407
	2,676,616	2,666,115	(10,501)

(Continued)

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Fiscal Year Ended June 30, 2023

(Continued)

	Final Budget	Actual	Variance
Expenditures			
Pupil support services			
Salaries and wages	\$ 554,275	\$ 470,031	\$ (84,244)
Employee benefits	169,637	141,865	(27,772)
Purchased services	2,140,361	2,118,678	(21,683)
Supplies and materials	8,998	13,153	4,155
Capital expenditure	675	51,043	50,368
Other	330	-	(330)
	<u>2,874,276</u>	<u>2,794,770</u>	<u>(79,506)</u>
Site, buildings and equipment			
Salaries and wages	1,409,375	1,459,378	50,003
Employee benefits	955,514	995,383	39,869
Purchased services	650,074	1,175,204	525,130
Supplies and materials	942,297	733,840	(208,457)
Capital expenditure	1,148,183	666,569	(481,614)
Other	6,936	-	(6,936)
	<u>5,112,379</u>	<u>5,030,374</u>	<u>(82,005)</u>
Fiscal and other fixed cost programs			
Purchased services	167,981	191,825	23,844
Debt service	597,200	599,000	1,800
Other	65,875	79,545	13,670
	<u>831,056</u>	<u>870,370</u>	<u>39,314</u>
Total Expenditures	<u>35,421,894</u>	<u>36,884,763</u>	<u>1,462,869</u>
Excess of Expenditures Over Revenues Financing Sources	(1,685,961)	(2,015,241)	(329,280)
Other Financing Sources			
Proceeds from the sale of equipment	200,000	25,011	(174,989)
Excess of Expenditures Over Revenues and Other Financing Sources	<u>\$ (1,485,961)</u>	<u>\$ (1,990,230)</u>	<u>\$ (504,269)</u>
Fund Balance - Beginning of year	\$ 10,658,392	\$ 10,658,392	\$ -
Excess of Expenditures Over Revenues and Other Financing Sources	(1,485,961)	(1,990,230)	(504,269)
Fund Balance - End of year	<u>\$ 9,172,431</u>	<u>\$ 8,668,162</u>	<u>\$ (504,269)</u>

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOOD SERVICE SPECIAL REVENUE FUND For the Fiscal Year Ended June 30, 2023

	Final Budget	Actual	Variance
Revenues			
Other local and county			
Investment earnings	\$ -	\$ 13,354	\$ 13,354
Gifts and bequests	-	500	500
	-	13,854	13,854
State sources			
State program aids	28,000	51,195	23,195
Federal sources			
Breakfast	160,000	138,457	(21,543)
Regular lunch program	90,000	167,975	77,975
Commodities	-	98,327	98,327
Free and reduced	739,629	399,729	(339,900)
Summer food service program	-	567	567
Other	19,000	85,719	66,719
	1,008,629	890,774	(117,855)
Sales and other conversions of assets			
Program revenue	169,500	482,125	312,625
Total Revenues	1,206,129	1,437,948	231,319
Expenditures			
Pupil support services			
Purchased services	642,542	703,404	60,862
Supplies and commodities	702,283	753,744	51,461
Capital expenditures	15,000	48,254	33,254
Total Expenditures	1,359,825	1,505,402	145,577
Excess of Expenditures Over Revenues	\$ (153,696)	\$ (67,454)	\$ 86,242
Fund Balance - Beginning of year	\$ 504,894	\$ 504,894	\$ -
Excess of Expenditures Over Revenues	(153,696)	(67,454)	86,242
Fund Balance - End of year	\$ 351,198	\$ 437,440	\$ 86,242

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL COMMUNITY SERVICE SPECIAL REVENUE FUND For the Fiscal Year Ended June 30, 2023

	Final Budget	Actual	Variance
Revenues			
Local taxes	\$ 223,814	\$ 148,830	\$ (74,984)
Other local and county			
Fees from patrons	107,500	182,642	75,142
Investment earnings	1,500	15,067	13,567
Miscellaneous	6,000	16,520	10,520
Rent	14,000	5,696	(8,304)
	<u>352,814</u>	<u>219,925</u>	<u>15,941</u>
State sources			
Community education	20,381	20,381	-
Early childhood/family education	124,925	124,925	-
Learning readiness	99,576	99,532	(44)
Preschool screening	4,377	5,715	-
Other	58,161	53,664	(4,497)
	<u>307,420</u>	<u>304,217</u>	<u>(4,541)</u>
Total Revenues	<u>660,234</u>	<u>672,972</u>	<u>11,400</u>
Expenditures			
Community education and services			
Salaries and wages	664,994	852,632	187,638
Employee benefits	153,824	255,562	101,738
Purchased services	103,825	94,453	(9,372)
Supplies and materials	40,180	64,489	24,309
Capital expenditures	7,500	1,666	(5,834)
Other	6,000	-	(6,000)
	<u>976,323</u>	<u>1,268,802</u>	<u>292,479</u>
Excess of Expenditures Over Revenues	<u>\$ (316,089)</u>	<u>\$ (595,830)</u>	<u>\$ (281,079)</u>
Fund Balance - Beginning of year	\$ 671,780	\$ 671,780	\$ -
Excess of Expenditures Over Revenues	(316,089)	(595,830)	(281,079)
Fund Balance - End of year	<u>\$ 355,691</u>	<u>\$ 75,950</u>	<u>\$ (281,079)</u>

Fiscal Compliance Report - 6/30/2023 District: HIBBING (701-1)

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$34,869,522	<u>\$34,869,522</u>	\$0	Total Revenue	\$126,329	<u>\$126,329</u>	\$0
Total Expenditures	\$36,884,763	<u>\$36,884,764</u>	(\$1)	Total Expenditures	\$2,595,203	<u>\$2,595,203</u>	\$0
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.01 Student Activities	\$43,822	<u>\$43,822</u>	\$0	4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0
4.02 Scholarships	\$126,347	<u>\$126,347</u>	\$0	4.13 Funded by COP/FP	\$45,953	<u>\$45,953</u>	\$0
4.03 Staff Development	\$0	<u>\$0</u>	\$0	4.67 LTFM	\$0	<u>\$0</u>	\$0
4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.08 Cooperative Revenue	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$367	<u>\$367</u>	\$0
4.13 Funded by COP/FP	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.14 Operating Debt	\$0	<u>\$0</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.16 Levy Reduction	\$0	<u>\$0</u>	\$0	07 DEBT SERVICE			
4.17 Taconite Building Maint	\$0	<u>\$0</u>	\$0	Total Revenue	\$913,114	<u>\$913,114</u>	\$0
4.24 Operating Capital	\$426,397	<u>\$426,397</u>	\$0	Total Expenditures	\$757,631	<u>\$757,631</u>	\$0
4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0	<i>Non Spendable:</i>			
4.27 Disabled Accessibility	\$0	<u>\$0</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
4.28 Learning & Development	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.34 Area Learning Center	\$0	<u>\$0</u>	\$0	4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	\$0	4.33 Maximum Effort Loan Aid	\$0	<u>\$0</u>	\$0
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	\$0	4.51 QZAB Payments	\$6,574,842	<u>\$6,574,842</u>	\$0
4.38 Gifted & Talented	\$0	<u>\$0</u>	\$0	4.67 LTFM	\$0	<u>\$0</u>	\$0
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.41 Basic Skills Programs	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$229,061	<u>\$229,061</u>	\$0
4.48 Achievement and Integration	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.49 Safe Schools Levy	(\$801,347)	<u>(\$801,347)</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.51 QZAB Payments	\$0	<u>\$0</u>	\$0	08 TRUST			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
4.59 Basic Skills Extended Time	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.67 LTFM	\$496,266	<u>\$496,266</u>	\$0	4.01 Student Activities	\$0	<u>\$0</u>	\$0
4.72 Medical Assistance	\$0	<u>\$0</u>	\$0	4.02 Scholarships	\$0	<u>\$0</u>	\$0
<i>Restricted:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0	18 CUSTODIAL			
4.75 Title VII Impact Aid	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
4.76 Payments in Lieu of Taxes	\$0	<u>\$0</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
<i>Committed:</i>				<i>Restricted / Reserved:</i>			
4.18 Committed for Separation	\$3,734,756	<u>\$3,734,756</u>	\$0	4.01 Student Activities	\$0	<u>\$0</u>	\$0
4.61 Committed Fund Balance	\$0	<u>\$0</u>	\$0	4.02 Scholarships	\$0	<u>\$0</u>	\$0
<i>Assigned:</i>				4.48 Achievement and Integration	\$0	<u>\$0</u>	\$0
4.62 Assigned Fund Balance	\$53,582	<u>\$53,582</u>	\$0	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0
<i>Unassigned:</i>				20 INTERNAL SERVICE			
4.22 Unassigned Fund Balance	\$4,588,339	<u>\$4,588,339</u>	\$0	Total Revenue	\$4,869,794	<u>\$4,869,794</u>	\$0
02 FOOD SERVICES				Total Expenditures	\$4,830,302	<u>\$4,830,302</u>	\$0
Total Revenue	\$1,437,948	<u>\$1,437,948</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$2,948,805	<u>\$2,948,805</u>	\$0
Total Expenditures	\$1,505,402	<u>\$1,505,402</u>	\$0	25 OPEB REVOCABLE TRUST			
<i>Non Spendable:</i>				Total Revenue	\$0	<u>\$0</u>	\$0
4.60 Non Spendable Fund Balance	\$35,315	<u>\$35,315</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>							

4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$402,125	<u>\$402,125</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
04 COMMUNITY SERVICE			
Total Revenue	\$672,972	<u>\$672,972</u>	<u>\$0</u>
Total Expenditures	\$1,268,802	<u>\$1,268,803</u>	<u>(\$1)</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
4.31 Community Education	\$108,807	<u>\$108,807</u>	<u>\$0</u>
4.32 E.C.F.E	(\$324,568)	<u>(\$324,568)</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>
4.44 School Readiness	\$291,711	<u>\$291,711</u>	<u>\$0</u>
4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

67

4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
45 OPEB IRREVOCABLE TRUST			
Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
47 OPEB DEBT SERVICE			
Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

INDEPENDENT SCHOOL DISTRICT 701

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal Asset Listing Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients		Federal Expenditures
U.S. Department of Education					
Minnesota Department of Education/E3701					
Covid 19 - American Rescue Plan (ARP) - 80% Flexible (ESSER III-90%)	84.425U	0701-01-000	-	\$ 1,509,998	
Covid 19 - American Rescue Plan (ARP) - 20% Learning Loss (ESSER III-90%)	84.425U	0701-01-000	-	375,089	
Covid 19 - Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) - Expanded Summer Prog(ESSER II)	84.425D	0701-01-000	-	7,940	
					1,893,027
U.S. Department of Treasury					
Minnesota Department of Education/E3701					
Coronavirus State and Local Fiscal Recovery Funds					
Covid 19 - American Rescue Plan (ARP)- Gov Summer Supports	21.027	0701-01-000	-		15,914
U.S. Department of Education					
Minnesota Department of Education/E3701					
Title I/Part A	84.010A	0701-01-000	-		488,693
U.S. Department of Education					
Minnesota Department of Education/E3701					
Supporting Effective Instruction Teacher and Principal Training/Recruitment					
Title II/ Part A	84.367A	0701-01-000	-		82,427
U.S. Department of Education					
Minnesota Department of Education/E3701					
Special Education (Cluster)					
Federal IDEA, Part B	84.027A	0701-01-000	-	536,290	
Covid 19 - American Rescue Plan (ARP) Special Education IDEA, Part B	84.027X	0701-01-000	-	57,583	
Special Education IDEA, Preschool	84.173A	0701-01-000	-	20,015	
Covid 19 - American Rescue Plan (ARP) Special Education IDEA, Preschool	84.173X	0701-01-000	-	6,989	
Total Special Education Cluster					620,877
U.S. Department of Education					
Minnesota Department of Education/E3701					
Special Education/ Grants for Infants and Families with Disabilities/ IDEA Part C					
	84.181A	0701-01-000	-		14,652
U.S. Department of Education					
Minnesota Department of Education/E3701					
Title IV/Student Support and Academic Enrichment Program					
	84.424A	0701-01-000	-		37,923
U.S. Department of Education					
Independent School District No. 2909					
Career and Technical Education Carl Perkins Grant					
	84.048	0701-01-000	-		33,072
U.S. Department of Education					
Direct Program					
Title IV-A - Indian Education	84.060	-	-		18,433
U.S. Department of Agriculture					
Minnesota Department of Education/E3701					
National School Lunch Program					
Child Nutrition - Fruits/Vegetables	10.582	0701-01-000	-		17,574
Child Nutrition - After School Snack	10.558	0701-01-000	-		1,148
Covid 19-Child Nutrition - Pandemic EBT					
Administrative Costs	10.649c	0701-01-000	-		628
Covid 19-Child Nutrition-Summer Food	10.559	0701-01-000	-	567	
Child Nutrition - Breakfast Prog	10.553	0701-01-000	-	138,457	
Child Nutrition - School Lunch Prog	10.555	0701-01-000	-	567,704	
Covid 19 - Nutrition Supply Chain	10.555x	0701-01-000	-	66,997	
Food Distribution (Commodities)	10.555	0701-01-000	-	98,327	
Total Child Nutrition Cluster					872,052
Total Expenditures of Federal Awards					\$ 4,096,420

See accompanying note which is an integral part of this schedule.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2023

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards 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 this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 NONMONETARY ASSISTANCE

Nonmonetary assistance is reported in the accompany schedule at the fair market value of the commodities received and disbursed in the amount of \$98,327. At June 30, 2023, the District had food commodities remaining of \$35,315 reported in inventory.

NOTE 4 INDIRECT COST RATE

The District has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance but instead utilizes the 8% indirect cost rate as assigned by the State of Minnesota as flow through grantor to the District.



**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance
And Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Members of the
School Board
Independent School District 701
Hibbing, MN

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison information of the General Fund of Independent School District 701, Hibbing, Minnesota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report, thereon dated December 19, 2023.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit 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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. (2023-001 and 2023-002)

Report on Compliance and Other Matters

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

District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of the 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sterle & Co, Ltd

December 19, 2023



**Independent Auditor's Report on Compliance For Each Major Program
and on Internal Control Over Compliance Required by
Uniform Guidance**

To the Members of the
School Board
Independent School District 701
Hibbing, MN

Report on Compliance for Each Major Program

Opinion on Each Major Federal Program

We have audited the Independent School District 701, Hibbing, Minnesota's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2023. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 Independent School District 701, Hibbing, Minnesota, 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 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 Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with compliance requirements referred to above occurred, whether due to fraud or error, and to 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 generally accepted auditing standards, *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 generally accepted auditing standards, *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 risk. 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 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 purposes 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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses in internal control over compliance may exist that were not identified.

A significant deficiency in internal control over compliance is a deficiency, or 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a significant deficiency.

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

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, according, we express no opinion on the response.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Sterle & Co, Ltd
December 19, 2023

INDEPENDENT SCHOOL DISTRICT 701

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2023

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Independent School District 701, Hibbing, Minnesota were prepared in accordance with GAAP.
2. Two significant deficiencies disclosed during the audit of the financial statements are reported below as findings 2023-001 and 2023-002. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of Independent School District 701, Hibbing, MN, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One significant deficiency in internal control over major federal award programs disclosed during the audit is reported below as finding 2023-001. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for Independent School District 701, Hibbing, Minnesota expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The programs tested as a major program were: American Rescue Plan (ARP) Flexible (ESSER III) and Learning Loss (ESSER III) and the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) 90% (ESSER II) - ALN #84,425U and #84.425D
8. The threshold used for distinguishing Type A and B programs was \$750,000.
9. Independent School District 701, Hibbing, Minnesota was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

2023-001 *Inadequate segregation of duties within a significant account or process - Significant Deficiency*

- Condition: Due to the limited number of District staff, appropriate segregation of duties is not feasible for all accounting and reporting functions. Specific examples include:
- a. The District places the authority over the year end financial reporting process, including all controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements with one individual (the business manager.)
 - b. The District has several staff that have duties involving both processing and recording transactions into the general ledger. Such duties are involved in the district's cash receipting, disbursing and payroll functions. Several employees have access to the initial processing of the information as well as subsequent recording into the general ledger. These same staff are also responsible for reconciliation of related cash accounts.
 - c. The District has several departments that are responsible for the collection of fees charged to students and the general public. The departments are responsible for the collection, processing and reporting to the business office. In most instances, one individual in each department performs these duties.
- Criteria: Internal controls should be in place to provide adequate segregation of duties to provide reasonable assurance of compliance with District financial accounting controls and policies.
- Cause: Generally the lack of segregation is due to the limited funding available to add additional staff to appropriately divide related duties.

INDEPENDENT SCHOOL DISTRICT 701

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2023

FINDINGS - FINANCIAL STATEMENT AUDIT - Continued

Effect: The lack of segregation of duties creates a control deficiency because the design and operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis creating a more than remote likelihood that a misstatement in the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. Many of the staff reconcile their own work.

Context: The lack of segregation of duties exists within the district as a whole over all of its accounting and reporting functions. This is a common circumstance in Districts of similar size.

Recommendation: The District's management needs to be cognizant of this situation which may include re-assigning duties, adding additional reconciling features, or providing appropriate oversight responsibility.

Views of Responsible Officials and Planned Corrective Actions:

The District is aware of the situation and will monitor as it deems appropriate. Monitoring will include educating program managers to provide additional oversight for the interim and year end reporting.

Repeat Finding: Yes - Prior year finding noted as 2022-001

2023-002 Preparation of financial statements and footnote disclosures - Significant Deficiency

Condition: The District does not have in place a system to prepare the financial reports in accordance with generally accepted accounting principles under governmental standards presentation.

Criteria: The District should have a system in place to report all financial data reliably in accordance with generally accepted accounting principles using the presentation model required under GASB 34. Currently there is more than a remote likelihood that a misstatement in the financial statement reporting, including footnote disclosures, that is more than inconsequential will not be presented accordingly.

Cause: The District does not have enough staff with the time available or training to prepare a complete financial reporting package.

Effect: The District requests assistance with the preparation of the draft financial statements and footnotes.

Context: The situation is common in governments of similar size.

Recommendation: The District staff continue to take advantage of training opportunities in GAAP and GASB presentation methods and models.

Views of Responsible Officials and Planned Corrective Actions:

The District is aware of the situation and due to budget constraints deems it more cost beneficial to contract for such services.

Repeat Finding: Yes - Prior year finding noted as 2022-002

FINDINGS - MAJOR FEDERAL AWARD PROGRAM AUDIT

U.S. Department of Education

Minnesota Department of Education/E3701

Cluster:

American Rescue Plan (ARP) Flexible (ESSER III) and Learning

Loss (ESSER III) and the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA)

90% (ESSER II) - ALN #84,425U and #84.425D

2023-001 Inadequate segregation of duties within a significant account or process - Significant Deficiency

See finding details noted previously under Financial Audit section as 2022-001. This finding covers both non-federal and federal transactions.

INDEPENDENT SCHOOL DISTRICT 701

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Fiscal Year Ended June 30, 2023

FINANCIAL STATEMENT AUDIT

2022-001 Lack of segregation of duties - Significant deficiency

Condition: Due to the limited number of District staff, appropriate segregation of duties is not feasible for all accounting and reporting functions.

Recommendation: The District's management needs to be cognizant of this situation which may include re-assigning duties, adding additional reconciling features, or providing appropriate oversight responsibility.

Current Status: A similar finding is noted in the current year as a significant deficiency as item 2022-001

Grantee Response: The District continues to acknowledge the lack of segregation of duties, but the District lacks the resources (both in staff and financial means) to completely alleviate the noted issue.

2022-002 Preparation of financial statements and footnote disclosures - Significant Deficiency

Condition: The District does not have in place a system to prepare the financial reports in accordance with generally accepted accounting principles under governmental standards presentation.

Recommendation: The District staff continue to take advantage of training opportunities in GAAP and GASB presentation methods and models.

Current Status: A similar finding is noted in the current year as a significant deficiency as item 2022-002 for the financial statement audit.

Grantee Response: The District is aware of the situation and due to budget constraints deems it more cost beneficial to contract for such services.

FINDINGS - MAJOR FEDERAL AWARD PROGRAM AUDIT

U.S. Department of Education

Minnesota Department of Education

ALN# 84.425U/D

Covid 19 - Elementary and Secondary School Emergency Relief Funds (ESSER)

2022-001 Lack of segregation of duties - Significant deficiency

See above.



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

To the Members of the
School Board
Independent School District 701
Hibbing, MN

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison information of the General Fund of Independent School District 701, Hibbing, Minnesota, as of and for the year ended June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2023.

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

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.

Sterle & Co. Ltd
December 19, 2023