INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
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ROSTER OF SCHOOL OFFICIALS
June 30, 2022

Brian Dreher	Chairperson
Ralph Lewis	Vice-Chairperson
Scott Mai	Treasurer
Teresa Rud	Clerk
Bob Stueven	Director
Douglas Jourdan	Director
Jeremy Tammi	Superintendent

BradyMartz

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Independent School District No. 363
Northome, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 363, as of and for the year ended June 30, 2022, 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 Independent School District No. 363, as of June 30, 2022, and the respective changes in financial position 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 financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independent School District No. 363, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As described in Note 2 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 87, *Leases.* Our opinions are not modified with respect to this matter.

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 Independent School District No. 363's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 judgement 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 judgement and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Independent School District No. 363's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Independent School District No. 363'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, budgetary comparison information, schedule of changes in the District's total OPEB liability and related ratios, schedule of District contributions, schedule of District's share of net pension liability, and notes to required supplementary information as listed in the table of contents as required supplementary information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining statements, schedule of changes in fund balances, and compliance table as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying 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,* is presented for purposes of additional analysis and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, schedule of changes in fund balances, compliance table, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information in the annual report. The other information comprises the roster of school officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 District's internal control over financial reporting and compliance.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

December 12, 2022

This section of Independent School District No. 363's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2022. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

The general fund balance decreased $721,031 during the 2021-2022 school year.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget for the year, and supplementary information that is presented for additional analysis.

<u>District-wide Statements</u>

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. 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 it has changed. Net position – the difference between the District's assets, liabilities, and deferred inflows/outflows of resources – is one way to measure the District's financial health or *position*.

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

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

- *Governmental activities*: All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

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

The District has one kind of fund:

Governmental funds: The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance to help explain the relationship (or differences) between governmental funds and governmental activities.

The District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and the building fund, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data is provided in the form of combining statements elsewhere in this report.

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was $2,621,364 on June 30, 2022 (see details in Table A-1). This was an increase of 27.9 percent from the prior year.

Table A-1
Statement of Net Position

	2022	2021	Total Percentage Change
Current and Other Assets	$ 10,336,944	$ 5,931,820	74.3 %
Capital and Lease Assets	3,986,318	3,016,664	32.1
Total Assets	14,323,262	8,948,484	60.1
Deferred Outflows of Resources	1,453,499	1,599,165	(9.1)
Long-Term Liabilities	6,567,121	4,241,985	54.8
Other Liabilities	2,253,041	774,900	190.8
Total Liabilities	8,820,162	5,016,885	75.8
Deferred Inflows of Resources	4,335,235	3,480,520	24.6
Net Position			
Net Investment in Capital and Lease Assets	3,696,636	2,642,403	39.9
Restricted	668,908	550,144	21.6
Unrestricted	(1,744,180)	(1,142,303)	(52.7)
Total Net Position	$ 2,621,364	$ 2,050,244	27.9 %

Change in Net Position

Table A-2 presents the change in net position of the District.

Table A-2
Change in Net Position

	2022	2021	Total Percentage Change
Revenues			
Program Revenues			
Charges for Services	$ 50,790	$ 20,493	147.8 %
Operating Grants and Contributions	2,193,139	1,613,776	35.9
Capital Grants and Contributions	291,009	200,686	45.0
General Revenues			
Property Taxes	1,275,684	1,204,064	5.9
Unrestricted State Aid	3,481,530	3,299,343	5.5
Other Sources	222,694	145,738	52.8
Total Revenues	7,514,846	6,484,100	15.9
Expenses			
Administration	335,684	308,237	8.9
District Support Services	405,193	193,851	109.0
Elementary & Secondary Regular Instruction	2,624,973	3,024,294	(13.2)
Vocational Education Instruction	41,833	43,500	(3.8)
Special Education Instruction	771,848	739,739	4.3
Community Education and Services	73,157	80,195	(8.8)
Instructional Support Services	97,859	51,524	89.9
Pupil Support Services	1,675,493	1,497,974	11.9
Sites and Buildings	684,725	624,549	9.6
Fixed Costs	37,709	61,775	(39.0)
Interest on Long-Term Debt	23,651	9,886	139.2
Depreciation - Unallocated	171,601	171,601	0.0
Total Expenses	6,943,726	6,807,125	2.0
Change in Net Position	571,120	(323,025)	76.8
Net Position - Beginning	2,050,244	2,373,269	(13.6)
Net Position - Ending	$ 2,621,364	$ 2,050,244	27.9 %

The District’s total revenues were $7,514,846 for the year ended June 30, 2022. Property taxes and state aid payments accounted for 78 percent of total revenue for the year.

The total cost of all programs and services was $6,943,726. The District’s expenses are predominantly related to educating and caring for students.

Total revenues surpassed expenses, increasing net position $571,120 over last year. For the year ended June 30, 2022, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by $261,474. For the year ended June 30, 2021, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA decreased net position by $299,993.

The net cost of governmental activities is their total costs less program revenues applicable to each category.

Table A-3 presents these net costs.

Table A-3
Net Cost of Governmental Activities

	Total Cost of Services		Total Percentage	Net Cost of Services		Total Percentage
	2022	2021	Change	2022	2021	Change
Expenses						
Administration	$ 335,684	$ 308,237	8.9 %	$ 335,684	$ 308,237	8.9 %
District Support Services	405,193	193,851	109.0	213,601	193,851	10.2
Elementary & Secondary Regular Instruction	2,624,973	3,024,294	(13.2)	2,149,047	2,524,836	(14.9)
Vocational Education Instruction	41,833	43,500	(3.8)	31,404	23,754	32.2
Special Education Instruction	771,848	739,739	4.3	211,284	207,130	2.0
Community Education and Services	73,157	80,195	(8.8)	35,123	49,820	(29.5)
Instructional Support Services	97,859	51,524	89.9	(77,461)	11,365	(781.6)
Pupil Support Services	1,675,493	1,497,974	11.9	785,613	840,981	(6.6)
Sites and Buildings	684,725	624,549	9.6	491,532	568,934	(13.6)
Fixed Costs	37,709	61,775	(39.0)	37,709	61,775	(39.0)
Interest on Long-Term Debt	23,651	9,886	139.2	23,651	9,886	139.2
Depreciation - Unallocated	171,601	171,601	0.0	171,601	171,601	0.0
	$ 6,943,726	$ 6,807,125	2.0 %	$ 4,408,788	$ 4,972,170	(11.3) %

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Table A-4
Major Funds

	Fund Balance		Increase	Percentage
	6/30/22	6/30/21	(Decrease)	Decrease
Governmental Funds				
General	$ 3,988,816	$ 4,709,847	$ (721,031)	(15.3) %
Debt Service Fund	128,578	45,045	83,533	185.4
Building Fund	3,584,634	1,412	3,583,222	253,769.3

General Fund

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

Table A-5 presents a summary of general fund revenue.

Table A-5
General Fund Revenue

	2022	2021	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	$ 1,136,860	$ 1,055,136	$ 81,724	7.7 %
Interest Earnings	10,980	17,459	(6,479)	(37.1)
Other	247,882	134,263	113,619	84.6
State Sources	4,486,038	4,324,656	161,382	3.7
Federal Sources	1,111,882	402,606	709,276	176.2
Total General Fund Revenue	$ 6,993,642	$ 5,934,120	$ 1,059,522	17.9 %

Total general fund revenue increased by $1,059,522 or 17.9 percent from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

Table A-6 presents a summary of general fund expenditures.

Table A-6
General Fund Expenditures

	2022	2021	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 3,391,449	$ 3,180,783	$ 210,666	6.6 %
Employee Benefits	902,313	810,876	91,437	11.3
Purchased Services	1,508,265	1,232,402	275,863	22.4
Supplies and Materials	511,412	481,676	29,736	6.2
Capital Expenditures	1,236,544	141,338	1,095,206	774.9
Debt Service	8,757		8,757	100.0
Other Expenditures	124,300	76,931	47,369	61.6
Total General Fund Expenditures	$ 7,683,040	$ 5,924,006	$ 1,759,034	29.7 %

Total general fund expenditures increased $1,759,034 or 29.7 percent from the previous year.

General Fund Budgetary Highlights

The District adopted its original budget in June 2021. During the year ended June 30, 2022, the District revised its budget to account for changes in federal funding.

The District's final budget for the general fund anticipated that revenues and other financing sources would exceed expenditures and other financing uses by $58,136, the actual results for the year show a $721,031 deficit. This was due to a roofing project that started at the end of fiscal year 2022.

Capital Assets and Debt Administration

Capital Assets

Note 4 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2022. Additions totaling $1,308,296 consisted of security and key fob systems, a phone system, playground equipment, lawn mowers, a dishwasher, hand washing stations, and a bus. The District also began a roofing and boiler project. The District disposed of playground equipment, security and phone systems, lawn mowers, a dishwasher, two vehicles and a bus in fiscal year 2022.

Long-Term Debt

At year-end, the District had $4,315,999 of long-term debt consisting of bonded indebtedness net of related premiums and severance payable. Note 7 to the financial statements presents details and payment provisions of these items.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the existing circumstances that could significantly affect its financial health in the future:

- Declining enrollment coupled with inflation will undoubtedly have a negative impact on the District's financial outlook.
- As the building ages, the District expects the cost of maintaining the building to increase significantly over the years.
- Weakening economic conditions in local economy.
- Uncertainty of future COVID-19 funding.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration Offices, Independent School District No. 363, P.O. Box 465, Northome, MN 56661.

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2022

GOVERNMENTAL ACTIVITIES	
ASSETS	
Cash and Investments	$ 9,249,309
Property Taxes Receivable, Net of Allowance	234,111
Accounts Receivable	6,191
Due From Other MN School Districts	6,708
Due From Department of Education	114,536
Due From Federal Government - DOE	648,855
Due From Federal Government	35,280
Due From Other Governmental Units	40,000
Inventory	1,954
Capital Assets	
Land	193,500
Construction in Process	938,057
Other Capital Assets, Net of Depreciation	2,853,322
Lease Assets, Net of Amortization	1,439
TOTAL ASSETS	14,323,262
DEFERRED OUTFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan	1,428,574
Other Postemployment Benefit	24,925
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,453,499
LIABILITIES	
Accounts Payable	840,309
Salaries Payable	187,449
Due to Other Governments	701,885
Due to Other MN School Districts	146,675
Payroll Deductions	146,456
Interest Payable	20,249
Unearned Revenue	4,437
Long-Term Liabilities Due Within One Year	205,581
Long-Term Liabilities	
Bonds, Net Unamortized Premium	3,970,462
Severance Payable	345,537
Lease Payable	1,455
Total Other Postemployment Benefit Liability	251,706
Net Pension Liability	2,203,542
Less Amounts Due Within One Year	(205,581)
Total Long-Term Liabilities	6,567,121
TOTAL LIABILITIES	8,820,162
DEFERRED INFLOWS OF RESOURCES	
Property Taxes Levied - Subs. Years	471,002
Cost Sharing Defined Benefit Pension Plan	3,811,005
Other Postemployment Benefit	53,228
TOTAL DEFERRED INFLOWS OF RESOURCES	4,335,235

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2022

NET POSITION	
Net Investment in Capital and Lease Assets	3,696,636
Restricted	
Student Activities	150,111
Scholarships	138,122
Safe Schools	18,122
Operating Capital	122,182
Community Education	3,049
School Readiness	2,044
Community Service	5,789
Debt Service	108,324
Permanent Fund - Nonexpendable	100,000
Permanent Fund - Expendable	21,165
Unrestricted	(1,744,180)
TOTAL NET POSITION	$ 2,621,364

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

		Program Revenues			Net (Expense)
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					
Administration	$ 335,684	$	$	$	$ (335,684)
District Support Services	405,193		96,318	95,274	(213,601)
Elementary & Secondary Regular Instruction	2,624,973	17,666	423,906	34,354	(2,149,047)
Vocational Education Instruction	41,833		10,429		(31,404)
Special Education Instruction	771,848	13,083	547,481		(211,284)
Community Education and Services	73,157	8,544	29,490		(35,123)
Instructional Support Services	97,859		175,320		77,461
Pupil Support Services	1,675,493	10,597	823,805	55,478	(785,613)
Sites and Buildings	684,725	900	86,390	105,903	(491,532)
Fixed Costs	37,709				(37,709)
Interest on Long-Term Debt	23,651				(23,651)
Depreciation - Unallocated	171,601				(171,601)
TOTAL GOVERNMENTAL ACTIVITIES	$ 6,943,726	$ 50,790	$ 2,193,139	$ 291,009	(4,408,788)

General Revenues	
Taxes	
Property Taxes, Levied for General Purposes	1,135,620
Property Taxes, Levied for Community Education and Services	13,867
Property Taxes, Levied for Debt Services	126,197
Unrestricted State Aid	3,481,530
Unrestricted Investment Earnings	(1,050)
Other General Revenue	223,744
TOTAL GENERAL REVENUES	4,979,908
Change in Net Position	571,120
Net Position - Beginning	2,050,244
Net Position - Ending	$ 2,621,364

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2022

	General Fund	Debt Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	$ 5,329,696	$ 192,212	$ 3,584,634	$ 142,767	$ 9,249,309
Current Property Taxes Receivable	130,731	112,188		5,619	248,538
Delinquent Property Taxes Receivable	6,287	1,625		661	8,573
Accounts Receivable	6,191				6,191
Due From Other MN School Districts	6,708				6,708
Due From Department of Education	104,177	7,354		3,005	114,536
Due From Federal Government-DOE	648,855				648,855
Due From Federal Government	35,280				35,280
Due From Other Governmental Units	40,000				40,000
Inventory				1,954	1,954
TOTAL ASSETS	$ 6,307,925	$ 313,379	$ 3,584,634	$ 154,006	$ 10,359,944
LIABILITIES					
Accounts Payable	$ 838,467	$	$	$ 1,842	$ 840,309
Salaries Payable	186,593			856	187,449
Severance Payable	19,083				19,083
Due To Other Governments	701,885				701,885
Due To Other MN School Districts	146,675				146,675
Payroll Deductions	146,456				146,456
Unearned Revenue				4,437	4,437
TOTAL LIABILITIES	2,039,159			7,135	2,046,294
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes	6,287	1,625		661	8,573
Property Taxes Levied - Subs. Years	273,663	183,176		14,163	471,002
TOTAL DEFERRED INFLOWS OF RESOURCES	279,950	184,801		14,824	479,575
FUND BALANCES					
Fund Balance:					
Nonspendable: Inventory				1,954	1,954
Nonspendable: Scholarships				100,000	100,000
Restricted for Student Activities	150,111				150,111
Restricted for Safe Schools	18,122				18,122
Restricted for Operating Capital	122,182				122,182
Restricted for Community Education				3,049	3,049
Restricted for School Readiness				2,044	2,044
Restricted for Community Service				5,789	5,789
Restricted for Debt Service		128,578			128,578
Restricted for Scholarships	138,122			21,165	159,287
Restricted for Building Fund			1,412		1,412
Restricted for LTFM			3,583,222		3,583,222
Committed for Severance	300,000				300,000
Unassigned	3,260,279			(1,954)	3,258,325
TOTAL FUND BALANCES	3,988,816	128,578	3,584,634	132,047	7,834,075
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 6,307,925	$ 313,379	$ 3,584,634	$ 154,006	$ 10,359,944

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2022

Total fund balances - governmental funds	$ 7,834,075
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	
Cost of capital assets	12,624,967
Less accumulated depreciation	(8,640,088)
Lease assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	
Cost of lease assets	10,071
Less accumulated amortization	(8,632)
Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	1,453,499
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Bonds	(3,910,000)
Premium on bonds	(60,462)
Severance payable	(326,454)
Lease payable	(1,455)
Total other postemployment benefit liability	(251,706)
Net pension liability	(2,203,542)
Deferred inflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(3,864,233)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	8,573
An allowance has been set up for taxes receivable in the government-wide financial statements.	(23,000)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	(20,249)
Net position - governmental activities	$ 2,621,364

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2022

	General Fund	Debt Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Local Property Tax Levies	$ 1,136,860	$ 126,460	$	$ 13,922	$ 1,277,242
Other Local & County Revenues	258,862		(16,331)	20,355	262,886
Revenue From State Sources	4,486,038	74,116		40,232	4,600,386
Revenue From Federal Sources	1,111,882			270,679	1,382,561
Sale/Other Conversion of Asset				10,597	10,597
TOTAL REVENUES	6,993,642	200,576	(16,331)	355,785	7,533,672
EXPENDITURES					
Current					
Administration	335,684				335,684
District Support Services	311,407				311,407
Elementary & Secondary Regular Instruction	2,832,696				2,832,696
Vocational Education Instruction	41,833				41,833
Special Education Instruction	771,848				771,848
Community Education and Services				73,157	73,157
Instructional Support Services	97,859				97,859
Pupil Support Services	1,307,321			299,884	1,607,205
Sites and Buildings	704,529				704,529
Fixed Costs	34,562			2,672	37,234
Debt Service					
Principal	8,616	190,000			198,616
Interest and Fees	141	9,725			9,866
Capital Outlay	1,236,544		106,101		1,342,645
TOTAL EXPENDITURES	7,683,040	199,725	106,101	375,713	8,364,579
Revenues Over (Under) Expenditures	(689,398)	851	(122,432)	(19,928)	(830,907)
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	1,210				1,210
Debt Issued			3,788,336		3,788,336
Transfers In		82,682		32,843	115,525
Transfers Out	(32,843)		(82,682)		(115,525)
TOTAL OTHER FINANCING SOURCES (USES)	(31,633)	82,682	3,705,654	32,843	3,789,546
Net Change in Fund Balances	(721,031)	83,533	3,583,222	12,915	2,958,639
Fund Balances - Beginning	4,709,847	45,045	1,412	119,132	4,875,436
Fund Balances - Ending	$ 3,988,816	$ 128,578	$ 3,584,634	$ 132,047	$ 7,834,075

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

Total net change in fund balances - governmental funds	$ 2,958,639
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over the estimated useful lives as depreciation/amortization expense.	
Capital Outlay	1,308,296
Depreciation/Amortization expense	(331,544)
Issuance of long-term debt provides current financial resources to the governmental funds, but the issuance increases long-term liabilities in the statement of net position.	(3,730,000)
The disposal of capital assets decreases net position.	(17,169)
Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	198,616
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Also, governmental funds report the effect of premiums when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(72,596)
Change in net pension liability	1,301,121
Change in deferred outflows and inflows of resources related to net pension liability	(1,039,647)
Change in deferred outflows and inflows of resources related to other postemployment benefit liability	19,926
Recognition of additional pension expense and grant revenue for the District's proportionate share of the State of Minnesota's contribution to the PERA and TRA.	
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid).	
Other postemployment benefit liability	(24,414)
Severance payable	1,450
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(1,558)
Change in net position - governmental activities	$ 571,120

See Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 363 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.

B. Reporting Entity

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separated entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

C. 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.

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

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

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

D. Measurement Focus and Basis of Accounting

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for advance amounts recognized in accordance with a statutory “tax shift.” Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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

Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific 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. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements.

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 entity. A description of the funds included in this report are as follows:

Major Governmental Funds

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds including pupil transportation and capital outlay activities, which were previously (prior to July 1, 1996) accounted for in separate special revenue funds.

Debt Service Fund – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Building Fund – Accounts for resources used for the acquisition and construction of major capital facilities.

GASB No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

Nonmajor Governmental Funds

Special Revenue Funds – Accounts for proceeds of specific revenue sources (other than permanent fund and major capital projects) that are legally restricted to expenditures for specified purposes. The District’s special revenue funds and their purposes are as follows:

Food Service – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities.

Community Service – Accounts for all resources designated for programs other than those for elementary and secondary students.

Permanent Fund – Accounts for resources legally restricted such that only the earnings it generates, and not the principal, may be used to finance operations.

E. Specific Account Information

Cash and Investments – Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are carried at fair value. The District considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data
Level 3: Unobservable market inputs that are not corroborated by market data

Taxes Receivable – Taxes receivable represents taxes levied in 2021 which are not payable until 2022, net of the amount received prior to June 30.

Property Taxes – Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as the taxes are collected.

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as unavailable revenue (property taxes levied for subsequent years).

The majority of the revenue in the general fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year. The allowance for uncollectible taxes is $23,000.

Inventory – Inventory is recorded using the consumption method of accounting and consists of purchased food, supplies, and surplus commodities received from the federal government. Food and supply 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.

Capital Assets – Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are recorded in the district-wide financial 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 25 years for equipment.

Capital assets not being depreciated include land and construction in process, if any.

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

Leases – The determination of whether an arrangement contains a lease is made at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the District has control of the right to use asset. Control includes the right to obtain present service capacity and the right to determine the nature and manner of use of the underlying asset, as specified in the contract.

Leases with an initial lease term of more than 12 months, or that contain an option to purchase that the District is reasonably certain to exercise, are recognized based on the present value of lease payments over the lease term discounted using the interest rate implicit in the lease. In cases where the implicit rate is not readily determinable, the District uses its incremental borrowing rate based on the information available at the lease commencement date. The District has made an accounting policy election to use a risk free rate based on US Treasury Tbill rate as of the lease commencement. The District accounts for lease agreements with lease and non-lease components together as a single lease component for all underlying classes of assets.

The District continues to record rent expense for short term leases on a straight-line basis over the lease term. Short term leases have a term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the District is reasonably certain to exercise.

The depreciable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

The District's lease agreements do not include any material residual value guarantees or restrictive covenants.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued in the future, bond premiums and discounts will be deferred and amortized over the life of the bonds using the effective interest method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs will be expensed in the period incurred.

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

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represents actuarial differences within PERA and TRA pension plans and other postemployment benefit plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The item, *property taxes levied – subs. years,* is reported as a deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent property tax revenue levied for a subsequent period. The third items, *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* represent actuarial differences within PERA and TRA pension plans and other postemployment benefits.

Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

> Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
>
> Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.
>
> Committed – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
>
> Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management. The Board of Education delegates the authority to assign fund balances to the Superintendent.
>
> Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

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.

The school district will strive to maintain a minimum unassigned general fund balance of three months of operating expenses.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLES

The District implemented GASB Statement No. 87, *Leases* in the fiscal year ended June 30, 2022. GASB Statement No. 87 establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset.

The adoption of GASB 87 resulted in the recognition of a right to use leased asset and lease liability of $10,071 as of July 1, 2021. Results for periods prior to June 30, 2021 continue to be reported in accordance with the District's historical accounting treatment. See Note 8 for expanded disclosures regarding the District's leases.

NOTE 3 DEPOSITS AND INVESTMENTS

The District maintains a cash account at its depository bank. The District considers certificates of deposit to be cash.

The District's interest income for the year ended June 30, 2022, was ($1,050) which was due to a change in fair market value.

The pooled cash and investment account is comprised entirely of cash accounts.

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The District may invest idle funds as authorized in Minnesota Statutes, as follows:

(a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
(b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated "A" or better.
(c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
(d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
(e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
(f) Repurchase or reverse repurchase agreements with banks that are qualified as a "depository" of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
(g) Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.
(h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Deposits - The District does not have a policy for custodial credit risk. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2022, the District was not exposed to custodial credit risk.

NOTE 4 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 193,500	$	$	$ 193,500
Construction in Process		938,057		938,057
Total Capital Assets, Not Being Depreciated	193,500	938,057		1,131,557
Capital Assets, Being Depreciated:				
Land Improvements	536,741		20,000	516,741
Buildings	9,131,917	77,158		9,209,075
Equipment	1,824,240	293,081	349,727	1,767,594
Total Capital Assets, Being Depreciated	11,492,898	370,239	369,727	11,493,410
Less Accumulated Depreciation For:				
Land Improvements	439,147	8,687	16,000	431,834
Buildings	6,994,868	196,574		7,191,442
Equipment	1,235,719	117,651	336,558	1,016,812
Total Accumulated Depreciation	8,669,734	322,912	352,558	8,640,088
Total Capital Assets, Being Depreciated, Net	2,823,164	47,327	17,169	2,853,322
Governmental Activities Capital Assets, Net	$ 3,016,664	$ 985,384	$ 17,169	$ 3,984,879

In the statement of activities, depreciation expense was charged to the following governmental functions:

Elementary & Secondary Regular Instruction	$ 3,003
Pupil Support Services	101,265
Sites and Buildings	47,043
	151,311
Unallocated	171,601
Total Depreciation Expense	$ 322,912

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE

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

Disclosures relating to these plans follow:

A. Public Employees Retirement Association

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

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

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

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

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

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2022 and the District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2022, were $83,853. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2022, the District reported a liability of $614,945 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $18,729.

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0144% at the end of the measurement period and 0.0136% for the beginning of the period.

District's proportionate share of net pension liability	$	614,945
State of Minnesota's proportionate share of the net pension liability associated with the District		18,729
Total	$	633,674

For the year ended June 30, 2022, the District recognized pension expense of $5,367 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized $1,511 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual $16 million contribution.

At June 30, 2022, the District reported its proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 3,830	$ 18,698
Difference between projected and actual investment earnings		535,662
Changes in actuarial assumptions	375,472	13,148
Changes in proportion	44,270	31,851
Contributions paid to PERA subsequent to the measurement date	83,853	
Total	$ 507,425	$ 599,359

The $83,853 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 ending June 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		Pension Expense Amount
2023	$	(22,923)
2024		(13,822)
2025		6,217
2026		(145,259)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	25.00%	0.75%
International Equity	16.50%	5.30%

Actuarial Methods and Assumptions – The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal cost actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent. Benefit increases after retirement are assumed to be 1.25 percent.

Salary growth assumptions range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter.

Mortality rates are based on the Pub-2010 General Employee Mortality Table.

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 2021:

Changes in Actuarial Assumptions:
- The investment return and single discount rates were changed from 7.50% to 6.50% for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

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

Discount Rate – The discount rate used to measure the total pension liability in 2021 was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position 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.

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

District Proportionate Share of NPL		
1% Decrease (5.5%)	Current (6.5%)	1% Increase (7.5%)
$ 1,254,173	$ 614,945	$ 90,419

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

B. Teachers Retirement Association

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

Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those 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.

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

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

Tier I Benefits:

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

With these provisions:

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

or

Tier II Benefits:

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

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of 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.

Contribution Rate - Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal years ended June 30, 2020, June 30, 2021, and June 30, 2022 were:

	June 30, 2020		June 30, 2021		June 30, 2022	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.00%	11.92%	11.00%	12.13%	11.00%	12.34%
Coordinated	7.50%	7.92%	7.50%	8.13%	7.50%	8.34%

The following is a reconciliation of employer contributions in TRA's fiscal year 2020 ACFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations:

Employer contributions reported in TRA's ACFR	*in thousands*
Statement of Changes in Fiduciary Net Position	$ 448,829
Add employer contributions not related to future contribution efforts	379
Deduct TRA's contributions not included in allocation	(538)
Total employer contributions	448,670
Total non-employer contributions	37,840
Total contributions reported in *Schedule of Employer and Non-Employer Allocations*	$ 486,510

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

Actuarial Assumptions - The total pension liability in the June 30, 2021 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, 2021
Measurement Date	June 30, 2021
Experience Study	June 5, 2019 (demographic assumptions) November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Price Inflation	2.50%
Wage Growth Rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increase	2.85 to 8.85% before July 1, 2028 and 3.25 to 9.25% after June 30, 2028
Cost of Living Adjustment	1.0% for January 2020 through January 2023, then increasing by 0.1% each year up to 1.5% annually

Mortality 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 disabled retiree mortality table, without adjustment.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35.50%	5.10%
International Equity	17.50%	5.30%
Private Markets	25.00%	5.90%
Fixed Income	20.00%	0.75%
Unallocated Cash	2.00%	0.00%

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year is 2022 is 6 years. The “Difference Between Expected and Actual Experience” and “Changes of Assumptions” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is 5 years as required by GASB 68.

Changes in actuarial assumptions since the 2020 valuation:

- For GASB Valuation:
    - The investment return assumption was changed from 7.50% to 7.00%

Discount Rate - The discount rate used to measure the total pension liability was 7.00 percent. The discount rates used to measure the TPL at the Prior Measurement Date was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2021 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).

Net Pension Liability - On June 30, 2022, the District reported a liability of $1,588,597 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District’s proportionate share was 0.0363% at the end of the measurement period and 0.0364% for the beginning of the year.

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

District's proportionate share of net pension liability	$	1,588,597
State's proportionate share of the net pension liability associated with the District	$	134,111

For the year ended June 30, 2022, the District recognized pension expense of $4,921. It also recognized ($1,502) as an increase to pension expense for the support provided by direct aid.

On June 30, 2022, the District had deferred resources related to pensions from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	$	43,145	$	47,135
Net difference between projected and actual earnings on plan inv.				1,333,138
Changes in actuarial assumptions		582,166		1,515,047
Changes in proportion		107,022		316,326
Contributions paid to TRA subsequent to the measurement date		188,816		
Total	$	921,149	$	3,211,646

$188,816 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30		Pension Expense Amount
2023	$	(1,173,999)
2024		(873,299)
2025		(230,260)
2026		(312,090)
2027		110,335

Pension Liability Sensitivity - The following presents the net pension liability calculated using the discount rate of 7.00 percent as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate.

Sensitivity of the Net Pension Liability (NPL) to Changes in the Discount Rate

	1% Decrease (6.0%)		Current (7.0%)		1% Increase (8.0%)
$	3,209,042	$	1,588,597	$	259,702

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

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.

The District recognized total pension expense of $10,288 for all of the pension plans in which it participates.

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan for eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups.

Benefits Provided – The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan.

Funding Policy - Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The District provides postemployment healthcare benefits to qualifying retirees.

Employees Covered by Benefit Term – At June 30, 2022, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	1
Active plan members	82
Total Members	83

Total OPEB Liability – The District's total OPEB liability of $251,706 was measured as of July 1, 2021 and was determined by an actuarial valuation as of July 1, 2021.

Actuarial Assumptions – The total OPEB liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.0 percent
Salary increases	Service graded table
Healthcare Cost Trend Rates	6.50 percent grading to 5.0 percent over 6 years then to 4.0 percent over the next 48 years

The mortality tables were updated from the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2020 Generational Improvement Scale.

The discount rate is based on the estimated yield of 20-year municipal bonds. The overall single discount rate is 2.10%.

In the July 1, 2021 actuarial valuation, the entry age, level percentage of pay actuarial cost method was used.

Changes in the Total OPEB Liability:

		Total OPEB Liability
Balance at 6/30/2021	$	227,292
Changes for the year:		
Service Cost		28,401
Interest Cost		6,015
Assumption Changes		7,220
Differences between Expected and Actual Experience		(7,020)
Benefit Payments		(10,202)
Net Changes		24,414
Balance at 6/30/2022	$	251,706

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – 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 a discount rate that is one percentage point lower (1.1 percent) or one percentage point higher (3.1 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (1.1%)	Current (2.1%)	1% Increase (3.1%)
$ 263,077	$ 251,706	$ 240,428

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – 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 one percentage point lower (5.5 percent decreasing to 4.0 percent over 6 years) or one percentage point higher (7.5 percent decreasing to 6.0 percent over 6 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.5% decreasing to 4.0% over 6 years)	(6.5% decreasing to 5.0% over 6 years)	(7.5% decreasing to 6.0% over 6 years)
$ 234,907	$ 251,706	$ 271,328

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2022, the District recognized OPEB expense of $19,610. At June 30, 2022, the District reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Assumption change	$ 9,803	$ 2,267
Differences between expected and actual experience		50,961
Employer contributions paid subsequent to the measurement date	15,122	
Total	$ 24,925	$ 53,228

$15,122 reported as deferred outflows of resources related to OPEB resulting from District contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the total other postemployment benefit liability in the year ending June 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2023	$ (14,806)
2024	(14,806)
2025	(14,800)
2026	933
2027	29
Thereafter	25

NOTE 7 LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended June 30, 2022 are as follows:

Summary of Long-Term Liabilities

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
G.O. Bonds	$ 370,000	$ 3,730,000	$ 190,000	$ 3,910,000	$ 180,000
Premium on Bonds	4,261	58,336	2,135	60,462	5,043
Severance Payable	350,404	25,892	30,759	345,537	19,083
Total Long-Term Liabilities	$ 724,665	$ 3,814,228	$ 222,894	$ 4,315,999	$ 204,126

Severance payable is generally liquidated by the general fund.

The District's interest expense for the year ended June 30, 2022 was $23,651.

A. General Obligation Bonds

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/22	Amounts Due in 2022-2023 Principal	Interest
2012	2.50%	2023	$ 2,090,000	$ 190,000	$ 180,000	$ 180,000	$ 4,500
2022	3.00%	23/2043	3,730,000		3,730,000		82,682
				$ 190,000	$ 3,910,000	$ 180,000	$ 87,182

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2023	$ 180,000	$ 87,182
2024	135,000	111,900
2025	140,000	107,850
2026	150,000	103,650
2027	155,000	99,150
2028 - 2032	825,000	424,500
2033 - 2037	965,000	292,800
2038 - 2042	1,115,000	139,050
2043	245,000	7,350
	$ 3,910,000	$ 1,373,432

NOTE 8 LEASES

The District leases copiers. The term of the lease is for a period of 14 months, commencing on August 25, 2017 and terminating on August 25, 2022 with a monthly payment of $730.

Following is the total lease expense for the year ended June 30, 2022:

Lease expense	Year Ending 6/30/2022
Amortization expense by class of underlying asset	
Copy Machine	$ 8,632
Total amortization expense	8,632
Interest on lease liabilities	145
Variable lease expense	
Total	$ 8,777

Following is a schedule of activity in leased assets and the lease liability for the year ended June 30, 2022:

Lease Assets	Beginning of Year, as Restated	Additions	Modifications & Remeasurements	Subtractions	End of Year	Amounts Due Within One Year
Copy Machine	$ 10,071	$	$	$	$ 10,071	$
	10,071				10,071	
Less: Accumulated Amortization						
Copy Machine		(8,632)			(8,632)	
		(8,632)			(8,632)	
Total Lease Assets, net	$ 10,071	$ (8,632)	$	$	$ 1,439	$
Lease Liabilities	$ 10,071	$	$	$ (8,616)	$ 1,455	$ 1,455

Following is a schedule by years of future minimum payments required under the lease:

Year Ending, June 30	Principal	Interest
2023	$ 1,455	$ 5

NOTE 9 SEVERANCE PAYABLE

The District has a severance plan for employees. The plan calls for employees to be paid for unused portions of their sick leave upon termination of employment. At June 30, 2022, the estimated liability under this plan was $345,537.

NOTE 10 INTERFUND TRANSFERS

The composition of interfund balances as of June 30, 2022, is as follows:

Interfund Transfers:

Transfer In	Transfer Out	Amount
Nonmajor Governmental	General	$32,843
Debt Service	Building	$82,682

The purpose of the transfers are to cover the operating deficit in the community service fund and to cover the first interest payment of the debt issue.

NOTE 11 CONSTRUCTION COMMITMENT

As of June 30, 2022, the District had commitments in the general fund of approximately $470,000 related to the roofing project.

NOTE 12 CONTINGENCIES

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2022.

NOTE 13 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

The District has joined together with other school districts in Minnesota in the Northwest Service Cooperative's Minimum Premium Funding Plan (Plan). The Plan is a public entity risk pool established as a health insurance purchasing pool for its members. The agreement for the formation of the Plan provides that the Plan will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $300,000. The pool and its members purchase reinsurance, currently with a $300,000 specific stop loss attachment point and 110% aggregate stop loss attachment point. If the assets of the Plan were to be exhausted, members would not be responsible for the Plan's liabilities. The Northwest Service Cooperative retains the risk of the Plan's liabilities.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 14 NEW PRONOUNCEMENTS

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information* Arrangements provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 99, *Omnibus 2022,* provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.

- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62,* provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101, *Compensated Absences,* provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Management has not yet determined the effect these Statements will have on the District's financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
REVENUES				
Local Property Tax Levies	$ 1,170,910	$ 1,170,910	$ 1,136,860	$ (34,050)
Other Local & County Revenues	150,050	150,050	258,862	108,812
Revenue From State Sources	4,521,246	4,521,246	4,486,038	(35,208)
Revenue From Federal Sources	1,052,912	1,052,912	1,111,882	58,970
TOTAL REVENUES	6,895,118	6,895,118	6,993,642	98,524
EXPENDITURES				
Current				
Administration	333,883	359,435	335,684	(23,751)
District Support Services	495,278	454,526	311,407	(143,119)
Elementary & Secondary				
Regular Instruction	2,648,663	2,684,599	2,832,696	148,097
Vocational Education Instruction	12,250	5,650	41,833	36,183
Special Education Instruction	782,485	856,362	771,848	(84,514)
Instructional Support Services	57,014	52,624	97,859	45,235
Pupil Support Services	1,173,907	1,197,594	1,307,321	109,727
Sites and Buildings	757,470	752,526	704,529	(47,997)
Fixed Costs	110,190	110,190	34,562	(75,628)
Debt Service				
Principal			8,616	8,616
Interest			141	141
Capital Outlay	391,342	330,648	1,236,544	905,896
TOTAL EXPENDITURES	6,762,482	6,804,154	7,683,040	878,886
Revenues Over (Under) Expenditures	132,636	90,964	(689,398)	(780,362)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets			1,210	1,210
Transfer Out	(60,400)	(32,828)	(32,843)	(15)
TOTAL OTHER FINANCING SOURCES (USES)	(60,400)	(32,828)	(31,633)	1,195
Net Change in Fund Balances	72,236	58,136	(721,031)	(779,167)
Fund Balances - Beginning	4,709,847	4,709,847	4,709,847	
Fund Balances - Ending	$ 4,782,083	$ 4,767,983	$ 3,988,816	$ (779,167)

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 Years

	2018	2019	2020	2021	2022
Total OPEB Liability					
Service Cost	$ 22,116	$ 22,779	$ 20,137	$ 22,494	$ 28,401
Interest	13,671	11,921	10,863	6,901	6,015
Assumption Changes			(4,535)	5,424	7,220
Plan Changes			727		
Differences Between Expected and Actual Experience			(89,893)		(7,020)
Benefit Payments	(106,857)	(68,668)	(57,593)	(15,159)	(10,202)
Net Change in Total OPEB Liability	(71,070)	(33,968)	(120,294)	19,660	24,414
Total OPEB Liability - Beginning	432,964	361,894	327,926	207,632	227,292
Total OPEB Liability - Ending	$ 361,894	$ 327,926	$ 207,632	$ 227,292	$ 251,706
Covered Payroll	$ 2,877,191	$ 2,963,507	$ 2,959,751	$ 3,048,544	$ 3,213,594
District's Total OPEB Liability as a Percentage of a Covered Payroll	12.58%	11.07%	7.02%	7.46%	7.83%

The District implemented GASB No. 75 for the fiscal year ended June 30, 2018. Information from prior years is not available.

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST 10 YEARS

	Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
PERA						
	2015	$ 76,698	$ 76,698	$	$ 1,022,100	7.50 %
	2016	74,280	74,280		990,396	7.50
	2017	69,546	69,546		927,280	7.50
	2018	71,131	71,131		948,411	7.50
	2019	77,463	77,463		1,032,835	7.50
	2020	72,742	72,742		969,896	7.50
	2021	76,263	76,263		1,016,840	7.50
	2022	83,853	83,853		1,118,030	7.50
TRA						
	2015	$ 157,926	$ 157,926	$	$ 2,105,689	7.50 %
	2016	155,310	155,310		2,070,810	7.50
	2017	153,014	153,014		2,040,187	7.50
	2018	161,372	161,372		2,144,299	7.53
	2019	178,879	178,879		2,312,667	7.73
	2020	167,125	167,125		2,103,205	7.95
	2021	176,260	176,260		2,161,589	8.15
	2022	188,816	188,816		2,257,188	8.37

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
LAST 10 YEARS

	Fiscal Year Ended June 30	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 (if Applicable)	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA								
	2014	0.0184 %	$ 864,340	$	$ 864,340	$ 964,681	89.60 %	78.70 %
	2015	0.0174	901,758		901,758	1,022,100	88.23	78.19
	2016	0.0160	1,299,121	16,958	1,316,079	990,396	131.17	68.90
	2017	0.0142	906,519	11,411	917,930	927,280	97.76	75.90
	2018	0.0141	782,210	25,724	807,934	948,411	82.48	79.53
	2019	0.0146	807,201	24,999	832,200	1,032,835	78.15	80.23
	2020	0.0136	815,382	25,109	840,491	969,896	84.07	79.06
	2021	0.0144	614,945	18,729	633,674	1,016,840	60.48	87.00
TRA								
	2014	0.0459 %	$ 2,115,039	$ 148,702	$ 2,263,741	$ 2,094,512	100.98 %	81.50 %
	2015	0.0416	2,573,371	315,631	2,889,002	2,105,689	122.21	76.80
	2016	0.0402	9,588,659	961,689	10,550,348	2,070,810	463.04	44.88
	2017	0.0382	7,625,413	737,253	8,362,666	2,040,187	373.76	51.57
	2018	0.0384	2,411,788	226,561	2,638,349	2,144,299	112.47	78.07
	2019	0.0405	2,581,479	228,535	2,810,014	2,312,667	111.62	78.21
	2020	0.0364	2,689,281	225,653	2,914,934	2,103,205	127.87	75.48
	2021	0.0363	1,588,597	134,111	1,722,708	2,161,589	73.49	86.63

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

NOTE 1 BUDGETARY DATA

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the District.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the District unless the District has a deficit fund balance which exceeds 2.5% of expenditures.

NOTE 2 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2022, expenditures exceeded appropriations by $878,886 in the general fund.

NOTE 3 DEFINED BENEFIT PLANS

PERA

2021 Changes
<u>Changes in Actuarial Assumptions</u>: The investment return and single discount rates were changed from 7.50 percent to 6.50 percent for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

<u>Changes in Plan Provisions</u>: There were no changes in plan provisions since the previous valuation.

2020 Changes
<u>Changes in Actuarial Assumptions</u>: The price inflation assumption was decreased from 2.50% 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 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & 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: Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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

Changes in Plan Provisions: The employer supplemental contribution was changed prospectively, decreasing from $31.0 million to $21.0 million per year. The State's special funding contribution was changed prospectively, requiring $16.0 million due per year through 2031.

2018 Changes
Changes in Actuarial Assumptions: The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions: The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes
Changes in Actuarial Assumptions: The 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 now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

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

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

2015 Changes
Changes in Plan Provisions: On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase was changed form 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.

TRA

Changes in actuarial assumptions since the 2021 valuation:
- For GASB valuation the investment return assumption was changed from 7.50% to 7.00%.

Changes in actuarial assumptions since the 2020 valuation:
- Assumed termination rates were changed to more closely reflect actual experience.
- The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back 5 years and female rates set back 7 years.
Generational projection uses the MP-2015 scale.
- Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

Changes in actuarial assumptions since the 2018 valuation:
- 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% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending 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 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

Changes in actuarial assumptions since the 2017 valuation:
- 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 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.

- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least 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 payment 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 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

<u>Changes in Actuarial Assumptions Since the 2016 Valuation:</u>
- The Cost of Living Adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5 percent, but remain at 2.0 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0 percent and the non-vested inactive load increased from 4.0 percent to 9.0 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

NOTE 4 OTHER POSTEMPLOYMENT BENEFITS

<u>Plan Changes</u>: None.

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

<u>Method Changes</u>: None

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2022

	Special Revenue Funds			
	Food Service Fund	Community Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and Investments	$ 3,925	$ 17,677	$ 121,165	$ 142,767
Current Property Taxes Receivable		5,619		5,619
Delinquent Property Taxes Receivable		661		661
Due From Department of Education		3,005		3,005
Inventory	1,954			1,954
TOTAL ASSETS	$ 5,879	$ 26,962	$ 121,165	$ 154,006
LIABILITIES				
Accounts Payable	$ 812	$ 1,030	$	$ 1,842
Salaries Payable	630	226		856
Unearned Revenue	4,437			4,437
TOTAL LIABILITIES	5,879	1,256		7,135
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Delinquent Taxes		661		661
Property Taxes Levied - Subs. Years		14,163		14,163
TOTAL DEFERRED INFLOWS OF RESOURCES		14,824		14,824
FUND BALANCES				
Fund Balance:				
Nonspendable: Inventory	1,954			1,954
Nonspendable: Scholarships			100,000	100,000
Restricted for Community Education		3,049		3,049
Restricted for School Readiness		2,044		2,044
Restricted for Community Service		5,789		5,789
Restricted for Scholarships			21,165	21,165
Unassigned	(1,954)			(1,954)
TOTAL FUND BALANCES		10,882	121,165	132,047
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 5,879	$ 26,962	$ 121,165	$ 154,006

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2022

	Special Revenue Funds			
	Food Service Fund	Community Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
REVENUES				
Local Property Tax Levies	$	$ 13,922	$	$ 13,922
Other Local & County Revenues		8,544	11,811	20,355
Revenue From State Sources	10,143	30,089		40,232
Revenue From Federal Sources	270,679			270,679
Sale/Other Conversion of Asset	10,597			10,597
TOTAL REVENUES	291,419	52,555	11,811	355,785
EXPENDITURES				
Current				
Community Education and Services		73,157		73,157
Pupil Support Services	299,884			299,884
Fixed Costs			2,672	2,672
TOTAL EXPENDITURES	299,884	73,157	2,672	375,713
Revenues Over (Under) Expenditures	(8,465)	(20,602)	9,139	(19,928)
OTHER FINANCING SOURCES				
Transfers In	8,465	24,378		32,843
TOTAL OTHER FINANCING SOURCES	8,465	24,378		32,843
Net Change in Fund Balances		3,776	9,139	12,915
Fund Balances - Beginning		7,106	112,026	119,132
Fund Balances - Ending	$	$ 10,882	$ 121,165	$ 132,047

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2022

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	Prior Period Adjustment	Sale of Capital Assets	Debt Issued	UFARS Balance End of Year	Reclassify	Balance End of Year
General Fund										
Nonspendable	$ 48,092	$	$	$ (48,092)	$	$	$	$	$	$
Restricted for:										
Student Activities	146,630	111,583	108,102					150,111		150,111
Scholarships	148,043	7,539	17,460					138,122		138,122
Achievement and Integration	10,115	22,598	22,598		(10,115)					
Safe Schools	6,638	11,484						18,122		18,122
Long-Term Facilities Maint.	17,552	121,672	140,662					(1,438)	1,438	
Operating Capital	59,436	70,319	7,573					122,182		122,182
Committed for Severance	255,000			45,000				300,000		300,000
Unassigned	4,018,341	6,648,447	7,386,645	(29,751)	10,115	1,210		3,261,717	(1,438)	3,260,279
Food Service Fund										
Nonspendable	2,307			(353)				1,954		1,954
Restricted: Food Service		291,419	299,884	8,465						
Unassigned	(2,307)			353				(1,954)		(1,954)
Community Service Fund										
Restricted for:										
Community Education	1,723	18,452	17,126					3,049		3,049
ECFE		23,071	47,449	24,378						
School Readiness		10,626	8,582					2,044		2,044
Community Service	5,383	406						5,789		5,789
Building Fund										
Restricted: Building Fund	1,412							1,412		1,412
Restricted: LTFM		(16,331)	106,101	(82,682)			3,788,336	3,583,222		3,583,222
Debt Service Fund										
Restricted: Debt Service	45,045	200,576	199,725	82,682				128,578		128,578
Permanent Fund										
Nonspendable	100,000							100,000		100,000
Restricted: Scholarships	12,026	11,811	2,672					21,165		21,165

BradyMartz

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Education
Independent School District No. 363
Northome, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 363 as of and for the year ended June 30, 2022, 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 12, 2022.

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 – bid laws, depositories of public fund and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards 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.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

December 12, 2022

BradyMartz

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Independent School District No. 363
Northome, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 363, as of and for the year ended June 30, 2022, 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 12, 2022.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001, 2022-002, 2022-003, and 2022-004 that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs and corrective action plan. The District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

December 12, 2022

BradyMartz

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

To the Board of Education
Independent School District No. 363
Northome, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Independent School District No. 363'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 each of the District's major federal programs for the year ended June 30, 2022. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, 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, 2022.

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 Independent School District No. 363 and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs and corrective action plan as item 2022-004. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the noncompliance finding 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, accordingly, we express no opinion on the response.

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 in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-003 and 2022-004 to be material weaknesses.

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

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs and corrective action plan. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

December 12, 2022

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2022

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal AL Number	Amount
U.S. Department of Education		
Direct Programs:		
Rural Education	84.358	$ 26,836
Impact Aid	84.041	17,981
Indian Education Grants to Local Educational Agencies	84.060	11,428
Total Direct		56,245
Indirect Programs:		
Passed-Through Minnesota Department of Education:		
Title II, Part A	84.367	6,321
Title I	84.010	77,754
Title IV	84.424	10,000
Carl Perkins	84.048	1,169
COVID-19 Education Stabilization Fund	84.425U	588,258
COVID-19 Education Stabilization Fund	84.425D	208,901
Passed-Through Northland Foundation:		
COVID-19 Education Stabilization Fund	84.425C	12,060
Total AL 84.425		809,219
Total Indirect		904,463
Total U.S. Department of Education		960,708
Federal Communications Commission		
Direct Programs:		
COVID-19 Emergency Connectivity Fund Program	32.009	85,154
Total Federal Communications Commission		85,154
U.S. Department of Health and Human Services		
Passed-Through Minnesota Department of Education		
COVID-19 Epidemiology and Laboratory Capacity for Infectious Diseases	93.323	40,000
Total U.S. Department of Health and Human Services		40,000
U.S. Department of Treasury		
Indirect Programs:		
Passed-Through Minnesota Department of Education:		
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	26,020
Total U.S. Department of Treasury		26,020
U.S. Department of Agriculture		
Indirect Programs:		
Passed-Through Minnesota Department of Education:		
Child Nutrition Cluster:		
COVID-19 School Breakfast Program	10.553	64,573
National School Lunch Program - Commodity Distribution	10.555	17,653
COVID-19 National School Lunch Program	10.555	184,194
COVID-19 Fresh Fruit and Vegetable Program	10.582	4,259
Total Child Nutrition Cluster		270,679
Total U.S. Department of Agriculture		270,679
TOTAL FEDERAL AWARDS		$ 1,382,561

See Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the accompanying schedule of expenditures of federal awards (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 2 INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 BASIS OF PRESENTATION

The Schedule includes the federal award activity of Independent School District No. 363 under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Independent School District No. 363, it is not intended to be and does not present the financial position or changes in net position of Independent School District No. 363.

NOTE 4 COMMODITY DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE 5 PASS-THROUGH ENTITIES

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

NOTE 6 SUBRECIPIENTS

During 2022, the District did not pass any federal money to subrecipients.

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	_x_ yes ___no
Significant deficiency(ies) identified?	____ yes _x_ none reported
Noncompliance material to financial statements noted?	___ yes _x_ no

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	_x_ yes ___ no
Significant deficiency(ies) identified?	___ yes _x_ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_x_ yes ___ no

Identification of major programs:

AL Number(s)	Name of Federal Program or Cluster
84.425	COVID-19 Education Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	___ yes _x_ no

Section II – Financial Statement Findings

2022-001 FINDING

Criteria
A proper system of internal control has the proper segregation of duties between authorization, custody, record keeping, and reconciliation.

Condition
There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keepings, and reconciliation.

Cause
The District is subject to size and budget constraints limiting the number of personnel within the accounting department.

Effect
The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation
We recommend the District review their internal controls over the accounting functions to determine if additional procedures can be implemented that are cost effective. The Board should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will review on an annual basis.

2022-002 FINDING

Criteria
An appropriate system of internal control requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition
The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. However, the District currently does not prepare the financial statements, including the accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause
The District elected to not allocate resources for the preparation of the financial statements.

Effect
There is an increased risk of material misstatement to the District's financial statements.

Recommendation
We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control, the District should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will review the financial statement preparation on an annual basis.

Section III – Federal Award Findings and Questioned Costs

2022-003 FINDING

Federal Program
Education Stabilization Fund (84.425)
Period of Performance

Criteria
The District is required to submit a budget to the Minnesota Department of Education (MDE) prior to spending the Education Stabilization Grants.

Condition
The budget for three grants were submitted and approved under the FY 2021 award, but the expenditures were to be incurred in FY 2022 award. The District received $588,257 on 12/1/21 and the District returned the award to the MDE on 8/10/22. The District also received $261,930 on 12/22/21, of which the District returned $113,627 on 7/13/22 because the District was not able to receive the bus in FY 2022, $148,303 was also returned on 9/22/22 for being entered into the incorrect fiscal year.

Questioned Costs
None

Context
The District entered the budget and the expenditures in FY 2021, but the budget and expenditures should have been reported in FY 2022. Also, the District did not receive the bus, so there was no expenditure to report.

Cause
Oversight by staff.

Effect
The District received the grant award under the wrong year, so the award was returned to MDE.

Repeat Finding
No

Recommendation
We recommend the District implement procedures to ensure the budget and expenditures are reported in the correct year, and the expenditures are only drawn once the District has incurred the expenditures.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will review its policies and procedures.

2022-004 FINDING

Federal Program
Education Stabilization Fund (84.425)
Activities Allowed or Unallowed
Equipment and Real Property Management

Criteria
To ensure all expenditures charged to a program are allowable, the District should establish controls for approval of expenditures. In addition, the Minnesota Department of Education (MDE) requires all equipment purchases greater than $5,000 to receive preapproval of the equipment from MDE. Finally, all program expenditures should be coded to their specific finance and object codes to ensure accuracy of program expenditures.

Condition
We tested 41 transactions and two of the transactions were not approved by the District. In addition, two equipment purchases greater than $5,000 did not receive pre-approval, but the equipment was approved by MDE at a later date. Budgeted expenditures in total agree with the actual expenditures, but the expenditures do not agree by object code (salary, supplies, etc.).

Questioned Costs
None

Context
We tested 41 transactions and two of the transactions were not approved by the District. In addition, two equipment purchases greater than $5,000 did not receive pre-approval, but the equipment was approved by MDE at a later date. Budgeted expenditures in total agree with the actual expenditures, but the expenditures do not agree by object code (salary, supplies, etc.).

Cause
Oversight by staff.

Effect
There is an increased risk of unallowable costs being charged to grants.

Repeat Finding
No

Recommendation
We recommend the District obtain approvals prior to incurring the expenditures. The District should also report all expenditures to the correct finance and object code at the time the expenditure is incurred.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will review its policies and procedures.

2021-001 FINDING

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

Condition
Lack of sufficient segregation of duties and oversight. We noted the following during our audit:

- Student Activity Accounts
    - The Board of Education is not reviewing and approving the disbursements.
    - The bank statements are not reviewed by the Superintendent.
    - The journal entries are not reviewed and approved by the Superintendent.
- Revenues and expenses were understated because both the revenues and expenses were coded to the same account.
- The District's delinquent taxes receivable balance of $10,131 does not agree with the County's balance of $22,053.

Cause
Size and budget constraints limiting the number of personnel within the accounting department and lack of oversight.

Effect
The design of the internal control over financial reporting that could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation
The areas should be reviewed periodically and consideration given to improving the segregation of duties.

- The Board of Education should review and approve all disbursements.
- The Superintendent should review the bank statements and bank reconciliations monthly.
- The Superintendent should review and approve all journal entries monthly.
- All revenue must be reported as revenue.
- All expenses must be reported as expenses.
- The Superintendent should contact the county to reconcile the difference.

Corrective Action Taken
Corrective action was taken over the student activities, coding of revenues and expenses, and the delinquent taxes receivable. No action taken over the segregation of duties. See current year finding 2022-001 and Corrective Action Plan.

2021-002 FINDING

Criteria
An appropriate system of internal control requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition
The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. However, the District currently does not prepare the financial statements, including the accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause
The District elected to not allocate resources for the preparation of the financial statements.

Effect
There is an increased risk of material misstatement to the District's financial statements.

Recommendation
We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control, the District should establish an internal control policy to document the annual review of the financial statement and schedules and to review a financial statement disclosure checklist.

Corrective Action Taken
No action taken. See current year finding 2022-002 and Corrective Action Plan.

SO. KOOCHICHING-RAINY RIVER DISTRICT #363
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2022-001 FINDING

Contact Person – Jeremy Tammi, Superintendent

Corrective Action Plan – The following steps are being taken to mitigate the risk: the Superintendent will review and approve all journal entries, the Board of Education will approve checks, and the Superintendent will review all bank statements before turning the statements over to the business office for reconciliation.

Completion Date – Ongoing

2022-002 FINDING

Contact Person – Jeremy Tammi, Superintendent

Corrective Action Plan – The District will establish a policy to document review of financial statements and notes.

Completion Date – The financial statement recommendation will be ongoing.

2022-003 FINDING

Contact Person – Jeremy Tammi, Superintendent

Corrective Action Plan – The District will implement procedures to ensure the budget and expenditures are reported in the correct year.

Completion Date – December 31, 2022

2022-004 FINDING

Contact Person – Jeremy Tammi, Superintendent

Corrective Action Plan – The District will obtain approvals prior to incurring expenditures. The District will also report all expenditures to the correct finance and object codes at the time the expenditure is incurred.

Completion Date – December 31, 2022

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2022

District Name: INDEPENDENT SCHOOL DISTRICT NO. 363 **District Number:** 363

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	6,993,642	6,993,643	(1)
Total Expenditures	7,683,040	7,683,040	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
401 Student Activities	150,111	150,113	(2)
402 Scholarships	138,122	138,124	(2)
403 Staff Development			
407 Capital Projects Levy			
408 Cooperative Revenue			
413 Project Funded by COP			
414 Operating Debt			
416 Levy Reduction			
417 Taconite Building Maintenance			
424 Operating Capital	122,182	122,182	
426 $25 Taconite			
427 Disabled Accessibility			
428 Learning & Development			
434 Area Learning Center			
435 Contracted Alt Programs			
436 State Approved Alt Program			
438 Gifted & Talented			
440 Teacher Development and Eval			
441 Basic Skills Programs			
445 Career and Technical Programs			
448 Achievement and Integration			
449 Safe Schools Levy	18,122	18,122	
450 Prekindergarten			
451 QZAB Payments			
452 OPEB Liab Not In Trust			
453 Unfunded Sev & Retiremt Levy			
467 LTFM	(1,438)	(1,440)	2
472 Medical Assistance			
Restricted			
464 Restricted Fund Balance			
Committed			
418 Committed for Separation	300,000	300,000	
461 Committed			
Assigned			
462 Assigned Fund Balance			
Unassigned:			
422 Unassigned Fund Balance	3,261,717	3,261,720	(3)
Reconciliation of General	18,665,498	18,665,504	(6)
02 FOOD SERVICE			
Total Revenue	291,419	291,419	
Total Expenditures	299,884	299,884	
Non Spendable			
460 Non Spendable Fund Balance	1,954	1,953	1
Restricted/Reserved:			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance	(1,954)	(1,953)	(1)
Reconciliation of Food Service	591,303	591,303	
04 COMMUNITY SERVICE			
Total Revenue	52,555	52,555	
Total Expenditures	73,157	73,157	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
426 $25 Taconite			
431 Community Education	3,049	3,049	
432 E.C.F.E.			
440 Teacher Development and Eval			
444 School Readiness	2,044	2,044	
447 Adult Basic Education			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	5,789	5,786	3
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Community Service	136,594	136,591	3

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue	(16,331)	(16,331)	
Total Expenditures	106,101	106,101	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
407 Capital Projects Levy			
413 Projects Funded By COP			
467 LTFM	3,583,222	3,583,223	(1)
Restricted			
464 Restricted Fund Balance	1,412	1,413	(1)
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Building Construction	3,674,404	3,674,406	(2)
07 DEBT SERVICE			
Total Revenue	200,576	200,576	
Total Expenditures	199,725	199,725	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
425 Bond Refundings			
451 QZAB Payments			
Restricted			
464 Restricted Fund Balance	128,578	128,574	4
Unassigned:			
463 Unassigned Fund Balance			
	528,879	528,875	4
08 TRUST			
Total Revenue	11,811	11,811	
Total Expenditures	2,672	2,672	
Unassigned:			
402 Scholarships	121,165	121,165	
Reconciliation of Trust	135,648	135,648	
20 INTERNAL SERVICE			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Internal Service			
25 OPEB REVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Revocable Trust			
45 OPEB IRREVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Irrevocable Trust			
47 OPEB DEBT SERVICE FUND			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted			
425 Bond Refunding			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of OPEB Debt Service			