

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2020

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INDEPENDENT SCHOOL DISTRICT NO. 656
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INTRODUCTORY SECTION

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2020**

BOARD OF EDUCATION

	<u>Term on Board Expires December 31,</u>	<u>Position on Board During 2019-2020</u>
Chad Wolff	2022	Chair
John Bellingham	2022	Vice-Chair
Courtney Cavellier	2022	Treasurer
Carolyn Treadway	2022	Clerk
Jerry Robicheau	2020	Director
Yvette Marthaler	2020	Director
Jason Engbrecht	2020	Director

ADMINISTRATION

Todd Sesker	Superintendent
Andrew Adams	Director of Finance and Operations

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 656
Faribault, Minnesota

Report on the Financial Statements

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. 656 (the District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements of the District, as listed in the table of contents.

Management's Responsibility 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; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2020, and the respective changes in financial position and budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year ended June 30, 2020, the District adopted GASB Statement No. 84 *Fiduciary Activities*. As a result of the implementation of this standard, the District reported a restatement for the change in accounting principle (see Note 15). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the District's Net OPEB Liability and Related Ratios, Schedule of Money-Weighted Rate of Return on OPEB Plan Assets, Schedule of the District's Proportionate Share of the Net Pension Liability, and Schedule of District Contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table, as required by the Minnesota Department of Education, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, 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 also presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2020, 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 result 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.



CliftonLarsonAllen LLP

Rochester, Minnesota
December 1, 2020

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REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

This section of Independent School District No. 656's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this letter.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Government Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2019-20 fiscal year include the following:

- Student enrollment – students served (enrolled) in the district decreased from the previous year, going from 3,461 in 2018-19 to 3,355 in 2019-20. The student number upon which funding is calculated (includes resident students tuitioned out to other districts) decreased from 3,553 in 2018-19 to 3,434 in 2019-20.
- The General Fund Unassigned Fund Balance decreased, going from \$6,573,656 at the end of 2018-19 to \$5,950,173. The decrease is the result of intentional deficit funding to support capital outlays, class size reduction, and the result of timing for insurance carrier changes.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts: Independent Auditors' Report, Required Supplementary Information which includes MD&A (this section), the basic financial statements, Single Audit, and other required reports.

The basic financial statements include several statements that present different views of the District:

The **government-wide financial statements**, including the *Statement of Net Position* and the *Statement of Activities*, provide both short-term and long-term information about the District's overall financial status. The government-wide statements (Statement of Net Position and Statement of Activities) report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – are one way to measure the District's financial health or position.

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The *fund financial statements* provide more detailed information about the District's funds, focusing on its most significant or "major" funds rather than the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District has the following fund financial statements:

- ***Governmental funds statements*** tell how basic services were financed in the short term as well as what remains for future spending. The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that determines whether there are more or less financial resources that can be spent in the future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information (reconciliation schedules) is provided following the governmental funds statement that explains the relationship (or differences) between these two types of financial statement presentations.
- ***Fiduciary Funds statements*** tell how the Irrevocable OPEB trust fund is used for reporting resources set aside and held in a trust arrangement for postemployment benefits.

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

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was \$1.9 million on June 30, 2020, which is a reduction compared with the prior year. (See Figure A-1 below). See Note 1 of the financial statements for more information.

**Figure A-1
Independent School District No. 656
Net Position – Governmental Activities
As of June 30, 2020 and 2019**

	Governmental Activities as of June 30,		Percentage Change
	2020	2019	
Current and Other Assets	\$ 24,344,557	\$ 25,327,777	(3.88)%
Capital Assets	54,339,131	54,335,013	0.01
Total Assets	<u>78,683,688</u>	<u>79,662,790</u>	(1.23)
Deferred Outflows of Resources	24,013,044	38,755,155	(38.04)
Current Liabilities	8,858,796	8,627,250	2.68
Long-Term Liabilities	44,568,903	51,933,098	(14.18)
Total Liabilities	<u>53,427,699</u>	<u>60,560,348</u>	(11.78)
Deferred Inflows of Resources	<u>47,328,381</u>	<u>54,760,614</u>	(13.57)
Net Position:			
Net Investment in Capital Assets	41,764,812	38,514,418	8.44
Restricted	3,227,621	3,316,376	(2.68)
Unrestricted	(43,051,781)	(38,733,811)	11.15
Total Net Position	<u>\$ 1,940,652</u>	<u>\$ 3,096,983</u>	(37.34)

Changes in net position. The District's total revenues from Government Activities were \$59 million and total expenses from Government Activities were \$60.7 million for the year ended June 30, 2020. (See Figure A-2 on the next page.) Unrestricted state aid and property taxes accounted for 56% of the total revenue for the year. Operating and capital grants and charges for services contributed 42%. (See Figure A-3 on page 9.) Student support services and instruction-related expenses accounted for 73% of the District's expenses. The District's administrative activities accounted for 3% of total costs. (See Figure A-4 on page 9.)

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

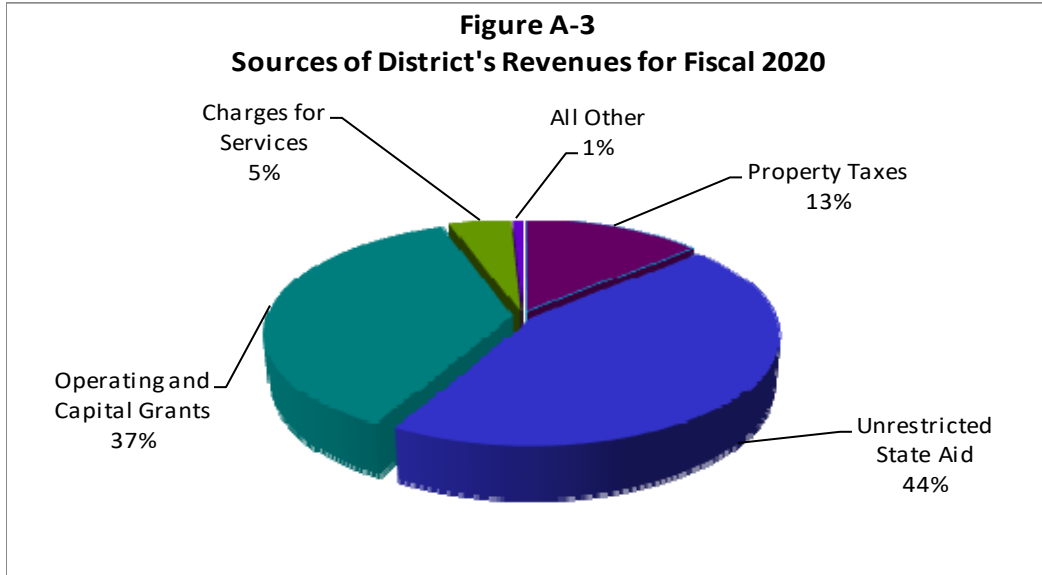
**Figure A-2
Independent School District No. 656
Change in Net Position
For the Years Ended June 30, 2020 and 2019**

	Governmental Activities for the Fiscal Year Ended June 30,		Percentage Change
	2020	2019	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 2,264,607	\$ 2,663,940	(14.99)%
Operating Grants and Contributions	22,761,151	20,294,370	12.16
Capital Grants and Contributions	581,671	627,337	(7.28)
<u>General Revenues</u>			
Property Taxes	8,172,915	7,753,931	5.40
Unrestricted State Aid	25,203,625	25,260,359	(0.22)
Investment Earnings	277,290	218,647	26.82
Other	186,073	215,847	(13.79)
Total Revenues	59,447,332	57,034,431	4.23
Expenses			
Administration	2,399,952	1,576,014	52.28
District Support Services	1,678,574	1,583,266	6.02
Regular Instruction	19,537,564	16,343,830	19.54
Vocational Education Instruction	484,558	291,484	66.24
Special Education Instruction	11,916,050	7,511,409	58.64
Instructional Support Services	4,047,321	3,467,429	16.72
Pupil Support Services	5,564,106	5,209,113	6.81
Sites and Buildings	9,614,967	5,823,956	65.09
Fiscal and Other Fixed Cost Programs	173,801	174,067	(0.15)
Food Service	2,147,274	1,988,051	8.01
Community Service	2,799,290	2,116,761	32.24
Interest and Fiscal Charges on Long-Term Liabilities	320,960	1,560,247	(79.43)
Total Expenses	60,684,417	47,645,627	27.37
Change in Net Position	(1,237,085)	9,388,804	
Beginning Net Position, as Previously Stated	3,096,983	(6,291,821)	
Restatement	80,754	-	
Beginning Net Position, as Restated	3,177,737	(6,291,821)	
Ending Net Position	\$ 1,940,652	\$ 3,096,983	

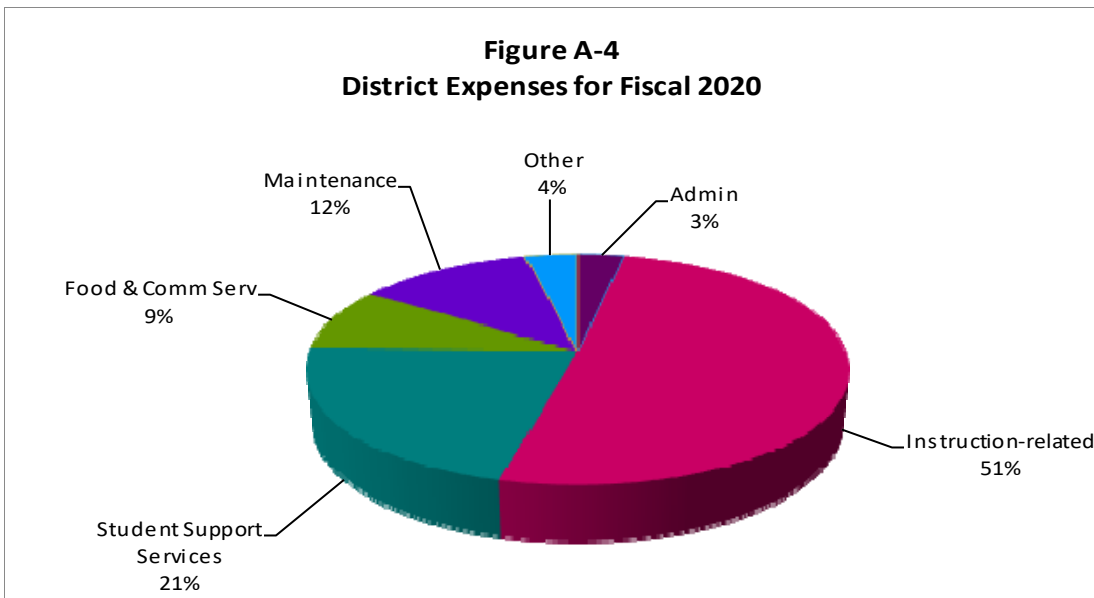
**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

**Figure A-3
Independent School District No. 656
Sources of Revenues
For Fiscal Year 2020**



**Figure A-4
Independent School District No. 656
Expenses
For Fiscal Year 2020**



**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-5, seen below, presents the cost of twelve major District activities such as instruction, pupil and instructional services, administration, maintenance and operations, transportation, and others. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs).

- The cost of all governmental activities this year was \$60.7 million. The net cost of all governmental activities this year was \$35 million.
- The users of the District's programs financed \$2.3 million of the cost of activities through various charges for services.
- The federal and state governments subsidized certain programs with grants and contributions of \$23.3 million.
- District property taxpayers financed \$8.2 million of governmental activities and state taxpayers financed \$25.2 million of unrestricted state aid based on the statewide education aid formula.

**Figure A-5
Independent School District No. 656
Net Cost of Governmental Activities
For the Years Ended June 30, 2020 and 2019**

**Table A-3
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2020	2019		2020	2019	
Administration	\$ 2,399,952	\$ 1,576,014	52.28%	\$ 2,404,785	\$ 1,637,073	46.90%
District Support Services	1,678,574	1,583,266	6.02%	1,663,075	1,536,971	8.20%
Regular Instruction	19,537,564	16,343,830	19.54%	8,487,544	6,877,387	23.41%
Vocational Education Instruction	484,558	291,484	66.24%	485,732	310,480	56.45%
Special Education Instruction	11,916,050	7,511,409	58.64%	4,153,092	61,475	6655.74%
Instructional Support Services	4,047,321	3,467,429	16.72%	3,292,890	2,566,337	28.31%
Pupil Support Services	5,564,106	5,209,113	6.81%	5,144,210	5,070,051	1.46%
Sites and Buildings	9,614,967	5,823,956	65.09%	8,706,283	4,841,970	79.81%
Fiscal and Other Fixed Cost Programs	173,801	174,067	-0.15%	173,801	174,067	-0.15%
Food Service	2,147,274	1,988,051	8.01%	(131,064)	(172,366)	23.96%
Community Service	2,799,290	2,116,761	32.24%	375,680	(403,712)	-193.06%
Transportation	-	-	N/A	-	-	N/A
Interest and Fiscal Charges on Long-Term Liabilities	320,960	1,560,247	-79.43%	320,960	1,560,247	-79.43%
	<u>\$ 60,684,417</u>	<u>\$ 47,645,627</u>	27.37%	<u>\$ 35,076,988</u>	<u>\$ 24,059,980</u>	45.79%

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds.

The decrease in the General Fund was due to a planned spend down of fund balance to preserve student programs, and a result of timing in the changing of health insurance carriers.

The Food Service Fund increased by \$144,120. The increase in Food Service fund balance is attributed to a concerted effort by the District to identify all students who qualify for free and reduced meals. The District operated the Summer Food Service Program as a result of the COVID-19 pandemic, which resulted in increased effective rates of reimbursement while providing free meals to all students.

The combined restricted fund balances for Community Education Programs, Restricted for Other Purposes, and School Readiness decreased in the 2019-20 fiscal year. The Early Childhood/Family Education and Adult Basic Education balances increased in the 2019-20 fiscal year. All programs are closely monitored to maintain a continued balanced budget.

The Debt Service Fund decreased \$55,830. The decrease is the result of not collecting for the interest portion of the payment that was due on August 1, 2020. The District will recapture this amount on the levy paid in fiscal year 2020.

At the end of the 2019-20 fiscal year, the District's governmental funds reported combined fund balances of \$10,605,697. This 10% decrease is a direct result of funding capital outlays, timing of health insurance carriers, and intentional deficit spending to reduce the need for more aggressive budget cuts. Revenues and other financing sources for the District's governmental funds were \$59,580,071 and total expenditures were \$60,830,799, resulting in a fund balance decrease of \$1,250,728.

General Fund

The General Fund is used to account for all revenues and expenditures of the school district not accounted for elsewhere. The General Fund is used to account for: K-12 educational activities; District instructional and student support programs; expenditures for the superintendent; District administration; normal operations and maintenance; pupil transportation; capital expenditures; and legal District expenditures not specifically designated to be accounted for in any other fund.

Enrollment

Funding for Minnesota school districts is largely driven by enrollment. As seen in Figure A-6 below, there was a decrease in enrollment for the year of 121 students in comparison with the prior year.

**Figure A-6
Independent School District No. 656
Student Average Daily Membership**

Grade	2016	2017	2018	2019	2020
Kdgt.	316	306	309	322	327
1-3	799	787	745	700	659
4-6	803	799	776	781	767
7-12	1,922	1,904	1,844	1,750	1,679
Total K-12	3,840	3,796	3,674	3,553	3,432
WADM Change	(9)	(44)	(122)	(121)	(121)
Percent Change	-0.2%	-1.2%	-3.2%	-3.3%	-3.4%

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

General Fund

A summary of General Fund revenues and expenditures is shown in Figure A-7 below.

**Figure A-7
Independent School District No. 656
Summary of General Fund Revenues and Expenditures
For the Years Ended June 30, 2020 and 2019**

	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Revenues:				
Local Sources:				
Property Taxes	\$ 6,093,679	\$ 5,765,357	\$ 328,322	5.7 %
Earnings on Investments	195,868	172,271	23,597	13.7
Other	1,373,926	1,417,797	(43,871)	(3.1)
State Sources	42,018,113	41,136,069	882,044	2.1
Federal Sources	2,805,269	2,889,776	(84,507)	(2.9)
Total General Fund Revenue	<u>\$ 52,486,855</u>	<u>\$ 51,381,270</u>	<u>\$ 1,105,585</u>	2.2
	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Expenditures:				
Salaries	\$ 28,913,100	\$ 28,978,631	\$ (65,531)	(0.2)%
Employee Benefits	11,352,781	13,959,002	(2,606,221)	(18.7)
Purchased Services	7,348,703	7,752,030	(403,327)	(5.2)
Supplies and Materials	1,942,002	1,925,127	16,875	0.9
Capital Expenditures	2,887,294	3,881,868	(994,574)	(25.6)
Other Expenditures	272,713	245,125	27,588	11.3
Total General Fund Expenditures	<u>\$ 52,716,593</u>	<u>\$ 56,741,783</u>	<u>\$ (4,025,190)</u>	(7.1)

Revenues

Fiscal year 2019-20 saw a decrease in enrollment of 121 students. The formula allowance was at \$6,312 per adjusted marginal cost pupil unit for the 2019-20 year. Revenues totaled \$52,486,855 or an increase of \$1,105,585 as compared to 2018-19. The 2.2% increase is a direct result of a new federal grant for literacy.

Expenditures

Expenditures totaled \$52,716,593 which is a decrease of \$4,025,190 over 2018-19. The decrease was due to a variety of factors occurring in the 2018-19 school year including expansion of federally funded programming and recording of a capital lease for student-based technology.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

General Fund (Continued)

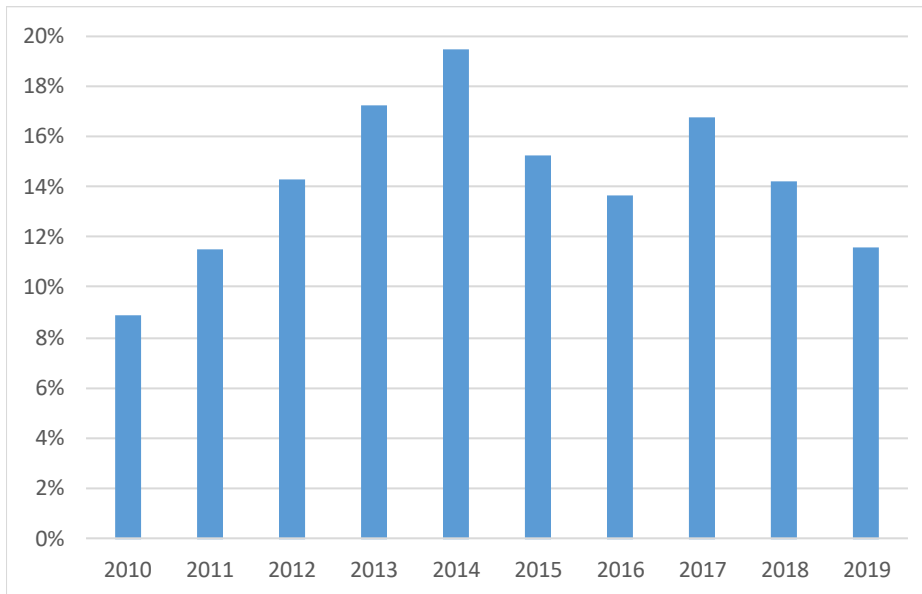
Fund Balance

The reported unassigned fund balance is \$5,950,173. The assigned fund balance is the result of an estate transfer and donation to support athletic department in the amount of \$112,186. The non-spendable fund balance is \$641,085 and the restricted fund balances for staff development, long-term facilities maintenance, safe schools, basic skills extended time, and operating capital total \$1,288,113.

The graph in Figure A-8, below, depicts the General Fund unassigned fund balance as a percentage of total expenditures for the 10 fiscal years ending June 30, 2011-2020. The District's unassigned fund balance offers the single best measure of the District's overall financial health. The unassigned fund balance on June 30, 2020 represents 11.3% of annual expenditures.

The District closely monitors the General Fund unassigned fund balance through the use of financial software spending controls, a detailed financial planning model, up to two budget revisions during the year, and monthly budget analysis. The Board of Education has adopted a fund balance policy to maintain a fund balance in the unassigned General Fund of not less than 9.5% of the annual operating budget for that fund.

**Figure A-8
Independent School District No. 656
General Fund Unassigned Fund Balance as a Percentage of Total Expenditures**



**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

BUDGETARY HIGHLIGHTS

The District revised the annual operating budget from the preliminary budget approved in June 2019 to the final budget approved in June of 2020.

General Fund

The District's final budget for the general fund anticipated that expenditures would exceed revenues and other financing sources by \$640,466. The actual results for the year show expenditures exceeding revenues by \$193,458.

- Actual revenues were \$1,440,699 below budget, with most of the difference from federal and state sources.
- Actual expenditures were \$1,881,427 below budget, with most of the difference from the regular instruction expenditures.

Food Service Fund

The Food Service Fund revenues for 2019-20 were \$2.3 million and expenditures were \$2.1 million. The fund balance as of June 30, 2020 is \$643,460, an increase of \$144,120 from fiscal year 2018-19. The District saw the increase in fund balance due to changes in operations as a result of COVID-19 to the Summer Food Service Program. The District contracts with Sodexo for management of the District food service program. Sodexo continues to provide exemplary management services.

Community Service Fund

The Community Service Fund revenues for 2019-20 totaled \$2.8 million and expenditures were \$2.8 million. The fund balance as of June 30, 2020 is \$849,603, a decrease of \$14,505. The individual restricted accounts of Community Education, School Readiness and Restricted for Other Purposes saw a decrease during the year while Early Childhood/Family Education and Adult Basic Education saw an increase.

Debt Service Fund

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital, or for initial or refunding bonds. The Debt Service Fund revenues for 2019-20 totaled \$1.9 million and expenditures were \$2.0 million. The fund balance as of June 30, 2020 is \$518,194, a decrease of \$55,830. Every year the Minnesota Department of Education calculates Debt Service excess fund balance amounts and uses those amounts to reduce future levies.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2020, the District had invested \$54,339,131 in a broad range of capital assets, including school buildings, computer equipment, audio-visual equipment, and other equipment for various instructional programs. (See Figure A-9 below.) Accumulated depreciation totaled \$48,859,197 as of June 30, 2020. More detailed information about capital assets can be found in Note 4 of the financial statements.

**Figure A-9
Independent School District No. 656
Capital Assets
June 30, 2020 and 2019**

	2020	2019	Percentage Change
Land	\$ 1,913,554	\$ 1,913,554	-
Construction in Progress	169,722	221,001	(23.2)
Land Improvements	10,025,246	7,537,149	33.0
Buildings and Improvements	83,041,542	82,913,442	0.2
Equipment	8,048,264	7,897,124	1.9
Less: Accumulated Depreciation	(48,859,197)	(46,147,257)	(5.9)
Total District Capital Assets	<u>\$ 54,339,131</u>	<u>\$ 54,335,013</u>	0.0

Long-Term Liabilities

For the fiscal year ended June 30, 2020, the District had \$9.6 million in general obligation bonds outstanding. (See Figure A-10 below.) The District also had \$1.3 million in severance payable as of June 30, 2020. More detailed information about the District's long-term liabilities is presented in Note 5 of the financial statements. More information about GASB No. 68 can be found in Note 1 and Note 7 of the financial statements.

**Figure A-10
Independent School District No. 656
Outstanding Long-Term Liabilities
June 30, 2020 and 2019**

	2020	2019	Percentage Change
General Obligation Bonds	\$ 9,605,000	\$ 11,380,000	(15.6)%
Net Bond Premium and Discount	161,795	193,223	(16.3)
Lease Purchase Payable	2,625,270	2,926,994	(10.3)
Capital Lease Payable	766,908	1,320,378	(41.9)
Compensated Absences Payable	1,347,525	1,312,798	2.6
Total Long-Term Liabilities	<u>\$ 14,506,498</u>	<u>\$ 17,133,393</u>	(15.3)
Long-Term Liabilities:			
Due Within One Year	\$ 3,299,583	\$ 2,834,201	
Due in More Than One Year	11,206,915	14,299,192	
Total	<u>\$ 14,506,498</u>	<u>\$ 17,133,393</u>	

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of a voter-approved operating referendum, the District is dependent on the State of Minnesota for its revenue authority. The 2019 legislative session did offer some minimal financial increases. However, in the most recent prior years, legislative revenue increases have been minimal or non-existent and have not been sufficient to meet our instructional needs and increased costs due to inflation.

Enrollments will be closely monitored and projections will be done using several models. Faribault Public Schools anticipates a decline in the numbers of students served. Declining enrollments significantly impacts our state and federal revenue streams. In light of declining enrollment, budget adjustments will continue to be made to operate on a balanced budget.

The District is in a strong financial position. Through continued use of enrollment and financial projection models and careful monitoring, we will continue to make data-driven decisions to insure ongoing fiscal health.

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, please contact Andrew Adams, Director of Finance and Operations, at the ISD 656 District Office, 710 17th St. SW, P.O. Box 618, Faribault, MN 55021, aadams@faribault.k12.mn.us or visit the District's website at www.faribault.k12.mn.us.

BASIC FINANCIAL STATEMENTS

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**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF NET POSITION
JUNE 30, 2020**

	Governmental Activities
ASSETS	
Cash and Investments	\$ 12,625,296
Receivables:	
Property Taxes	4,332,588
Other Governments	6,603,365
Other	142,223
Prepaid Items	641,085
Inventory	-
Capital Assets:	
Land and Construction in Progress	2,083,276
Other Capital Assets, Net of Depreciation	52,255,855
Total Assets	78,683,688
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related	23,668,697
Other Postemployment Benefits Related	344,347
Total Deferred Outflows	24,013,044
LIABILITIES	
Salaries and Payroll Deductions Payable	4,782,440
Accounts and Contracts Payable	496,657
Accrued Interest	119,029
Due to Other Governmental Units	81,691
Unearned Revenue	79,396
Long-Term Liabilities:	
Portion Due Within One Year	3,299,583
Portion Due in More Than One Year	11,206,915
Net Pension Liability	30,544,093
Other Postemployment Benefits Liability	2,817,895
Total Liabilities	53,427,699
DEFERRED INFLOWS OF RESOURCES	
Property Taxes Levied for Subsequent Year	8,205,783
Pension Related	37,521,145
Other Postemployment Benefits Related	1,601,453
Total Deferred Inflows of Resources	47,328,381
NET POSITION	
Net Investment in Capital Assets	41,764,812
Restricted for:	
Operating Capital Purposes	299,048
State-Mandated Reserves	989,065
Food Service	643,460
Community Service	853,363
Capital Projects - Building Construction	18,232
Debt Service	424,453
Unrestricted	(43,051,781)
Total Net Position	\$ 1,940,652

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

Functions	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Administration	\$ 2,399,952	\$ -	\$ (4,833)
District Support Services	1,678,574	-	1,448
Regular Instruction	19,537,564	339,504	10,577,069
Vocational Education Instruction	484,558	-	(1,174)
Special Education Instruction	11,916,050	458,506	7,304,452
Instructional Support Services	4,047,321	50,185	494,522
Pupil Support Services	5,564,106	7,649	412,247
Sites and Buildings	9,614,967	254,828	429,407
Fiscal and Other Fixed Cost Programs	173,801	-	-
Food Service	2,147,274	273,691	2,004,647
Community Service	2,799,290	880,244	1,543,366
Interest and Fiscal Charges on Long-Term Liabilities	320,960	-	-
Total School District	<u>\$ 60,684,417</u>	<u>\$ 2,264,607</u>	<u>\$ 22,761,151</u>

General Revenues

Property Taxes Levied for:
 General Purposes
 Community Service
 Debt Service
State Aid Not Restricted to Specific Purposes
Earnings on Investments
Miscellaneous
 Total General Revenues

Change in Net Position

Net Position - Beginning, as Previously Stated
Restatement

Net Position - Beginning, as Restated

Net Position - Ending

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2020**

		Net (Expense) Revenue and Change in Net Position
Capital Grants and Contributions	Total Governmental Activities	Total
\$ -	\$ (2,404,785)	
14,051	(1,663,075)	
133,447	(8,487,544)	
-	(485,732)	
-	(4,153,092)	
209,724	(3,292,890)	
-	(5,144,210)	
224,449	(8,706,283)	
-	(173,801)	
-	131,064	
-	(375,680)	
-	(320,960)	
\$ 581,671	(35,076,988)	

6,112,647
350,253
1,710,015
25,203,625
277,290
186,073
33,839,903
(1,237,085)
3,096,983
80,754
3,177,737
\$ 1,940,652

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020**

	General	Food Service	Major Community Service
ASSETS			
Cash and Investments	\$ 8,907,296	\$ 687,321	\$ 852,738
Current Property Taxes	2,881,304	-	176,152
Delinquent Property Taxes	63,842	-	3,761
Due from Other Minnesota School Districts	342,245	1,569	72,713
Due from Minnesota Department of Education of Education	4,724,061	-	95,232
Other Receivables	1,198,886	32,416	116,392
Due from Other Governmental Units	107,031	-	35,192
Prepaid Items	116	-	-
Total Assets	<u>\$ 18,865,866</u>	<u>\$ 721,306</u>	<u>\$ 1,352,180</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities:			
Salaries Payable	\$ 2,144,643	\$ -	\$ 96,205
Payroll Deductions Payable	2,541,592	-	-
Accounts and Contracts Payable	445,497	35,193	15,967
Due to Other Governmental Units	81,691	-	-
Unearned Revenue	13,523	42,653	23,220
Total Liabilities	<u>5,226,946</u>	<u>77,846</u>	<u>135,392</u>
Deferred Inflows of Resources:			
Property Taxes Levied for Subsequent Year	5,583,521	-	363,425
Unavailable Revenue - Delinquent Property Taxes	63,842	-	3,761
Total Deferred Inflows of Resources	<u>5,647,363</u>	<u>-</u>	<u>367,186</u>
Fund Balance:			
Nonspendable:			
Prepaid Items	641,085	-	-
Restricted for:			
Student Activities	84,957	-	-
Staff Development	48,919	-	-
Operating Capital	299,048	-	-
Safe Schools Levy	40,451	-	-
LTFM	758,941	-	-
Community Education	-	-	421,507
Early Childhood and Family Education	-	-	34,224
Basic Skills Programs	55,797	-	-
School Readiness	-	-	188,724
Adult Basic Education	-	-	166,470
Restricted for Other Purposes	-	643,460	38,677
Committed for:			
Assigned for:			
Athletic Equipment	112,186	-	-
Unassigned	5,950,173	-	-
Total Fund Balance	<u>7,991,557</u>	<u>643,460</u>	<u>849,602</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 18,865,866</u>	<u>\$ 721,306</u>	<u>\$ 1,352,180</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
BALANCE SHEET
GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2020**

Funds		Total Governmental	
Capital Projects	Debt Service	Funds 2020	
\$ 602,886	\$ 1,575,055	\$ 12,625,296	
-	1,182,241	4,239,697	
-	25,288	92,891	
-	-	416,527	
-	19,735	4,839,028	
-	-	1,347,694	
-	-	142,223	
-	-	116	
-	-	641,085	
<u>\$ 602,886</u>	<u>\$ 2,802,319</u>	<u>\$ 24,344,557</u>	
\$ -	\$ -	\$ 2,240,848	
-	-	2,541,592	
-	-	496,657	
-	-	81,691	
-	-	79,396	
-	-	5,440,184	
-	2,258,837	8,205,783	
-	25,288	92,891	
-	2,284,125	8,298,674	
-	-	641,085	
-	-	84,957	
-	-	48,919	
-	-	299,048	
-	-	40,451	
-	-	758,941	
-	-	421,507	
-	-	34,224	
-	-	55,797	
-	-	188,724	
-	-	166,470	
602,886	518,194	1,803,217	
-	-	112,186	
-	-	5,950,173	
<u>602,886</u>	<u>518,194</u>	<u>10,605,699</u>	
<u>\$ 602,886</u>	<u>\$ 2,802,319</u>	<u>\$ 24,344,557</u>	

See accompanying Notes to Basic Financial Statements.

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**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020**

Total Fund Balance for Governmental Funds \$ 10,605,699

Total net position reported for governmental activities in the Statement of Net Position is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land	1,913,554
Construction in Progress	169,722
Land Improvements, Net of Accumulated Depreciation	6,135,278
Buildings and Improvements, Net of Accumulated Depreciation	43,996,026
Equipment, Net of Accumulated Depreciation	2,124,551

Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred inflows of resources in the funds.

92,891

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

(119,029)

The District's Net Pension Liability and related Deferred Outflows and Inflows of Resources are recorded only on the Statement of Net Position. Balances at year-end are:

Net Pension Liability	(30,544,093)
Deferred Outflows of Resources - Pension Related	23,668,697
Deferred Inflows of Resources - Pension Related	(37,521,145)

The District's Other Postemployment Benefits Liability and related deferred inflows and outflows are recorded only on the Statement of Net Position. Balances at year-end are:

Other Postemployment Benefits Liability	(2,817,895)
Deferred Outflows of Resources - Other Postemployment Benefits	344,347
Deferred Inflows of Resources - Other Postemployment Benefits	(1,601,453)

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position. Balances at year-end are:

General Obligation Bonds Payable	(9,605,000)
Unamortized Bond Premiums	(161,795)
Lease Purchase Payable	(2,625,270)
Capital Leases Payable	(766,908)
Compensated Absences Payable	(1,347,525)
	(1,347,525)

Total Net Position of Governmental Activities \$ 1,940,652

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020**

	General	Food Service	Major Community Service
REVENUES			
Local Sources:			
Property Taxes	\$ 6,093,679	\$ -	\$ 349,407
Earnings and Investments	195,868	13,139	9,818
Other	1,373,926	275,638	1,134,651
State Sources	42,018,113	76,158	1,062,740
Federal Sources	2,805,269	1,926,459	243,249
Total Revenues	<u>52,486,855</u>	<u>2,291,394</u>	<u>2,799,865</u>
EXPENDITURES			
Current:			
Administration	2,209,629	-	-
District Support Services	1,661,584	-	-
Elementary and Secondary Regular Instruction	20,292,699	-	-
Vocational Education Instruction	445,195	-	-
Special Education Instruction	11,279,409	-	-
Instructional Support Services	3,905,255	-	-
Pupil Support Services	5,371,379	-	-
Sites and Buildings	4,488,272	-	-
Fiscal and Other Fixed Cost Programs	175,877	-	-
Food Service	-	2,098,628	-
Community Service	-	-	2,684,002
Capital Outlay	1,907,626	48,646	130,369
Debt Service:			
Principal	855,194	-	-
Interest and Fiscal Charges	124,474	-	-
Total Expenditures	<u>52,716,593</u>	<u>2,147,274</u>	<u>2,814,371</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(229,738)	144,120	(14,506)
OTHER FINANCING SOURCES (USES)			
Sale of Equipment	36,280	-	-
Total Other Financing Sources (Uses)	<u>36,280</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(193,458)	144,120	(14,506)
Fund Balances - Beginning, as Restated	<u>8,185,015</u>	<u>499,340</u>	<u>864,108</u>
FUND BALANCES - ENDING	<u>\$ 7,991,557</u>	<u>\$ 643,460</u>	<u>\$ 849,602</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2020**

Capital Projects	Funds Debt Service	Total Governmental Funds 2020
\$ -	\$ 1,709,973	\$ 8,153,059
13,402	45,063	277,290
-	-	2,784,215
-	197,239	43,354,250
-	-	4,974,977
<u>13,402</u>	<u>1,952,275</u>	<u>59,543,791</u>
-	-	2,209,629
-	-	1,661,584
-	-	20,292,699
-	-	445,195
-	-	11,279,409
-	-	3,905,255
-	-	5,371,379
-	-	4,488,272
-	-	175,877
-	-	2,098,628
-	-	2,684,002
1,144,456	-	3,231,097
-	1,775,000	2,630,194
-	233,105	357,579
<u>1,144,456</u>	<u>2,008,105</u>	<u>60,830,799</u>
(1,131,054)	(55,830)	(1,287,008)
-	-	36,280
<u>-</u>	<u>-</u>	<u>36,280</u>
(1,131,054)	(55,830)	(1,250,728)
<u>1,733,940</u>	<u>574,022</u>	<u>11,856,425</u>
<u>\$ 602,886</u>	<u>\$ 518,192</u>	<u>\$ 10,605,697</u>

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2020**

Net Change in Fund Balances - Total Governmental Funds \$ (1,250,728)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlays	2,716,058
Gain (Loss) on Disposal of Capital Assets	36,280
Proceeds from the Sales of Capital Assets	(36,280)
Depreciation Expense	(2,711,940)

Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the Statement of Net Position.

Other Financing Sources - Capital Lease	-
Repayment of Capital Lease Principal	553,470

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the Statement of Activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of General Obligation Bond Principal	1,775,000
Repayment of Lease Purchase Payable	301,724
Change in Accrued Interest Expense - General Obligation Bonds and Lease Purchase Payable	5,191
Changes in Compensated Absences Payable	(34,727)
Amortization of Bond Premium	31,428

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are unearned in the governmental funds.	19,856
--	--------

Pension expenditures in the governmental funds are measured by current year employee contributions. Pension expenses in the Statement of Activities are measured by the change in the Net Pension Liability and the related Deferred Outflows and Inflows of Resources.	(2,700,237)
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In the Statement of Activities, certain operating expenses - other postemployment benefits payable and compensated absences payable - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	57,820
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Change in Net Position of Governmental Activities \$ (1,237,085)

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 6,240,264	\$ 6,125,059	\$ 6,093,679	\$ (31,380)
Earnings and Investments	115,000	130,000	195,868	65,868
Other	1,123,196	1,230,294	1,373,926	143,632
State Sources	42,803,936	42,764,355	42,018,113	(746,242)
Federal Sources	3,479,924	3,677,846	2,805,269	(872,577)
Total Revenues	<u>53,762,320</u>	<u>53,927,554</u>	<u>52,486,855</u>	<u>(1,440,699)</u>
EXPENDITURES				
Current:				
Administration	2,028,155	2,048,383	2,209,629	161,246
District Support Services Elementary and Secondary	1,701,360	1,738,570	1,661,584	(76,986)
Regular Instruction	22,032,364	22,293,357	20,292,699	(2,000,658)
Vocational Education Instruction	425,802	425,802	445,195	19,393
Special Education Instruction	10,987,634	10,979,639	11,279,409	299,770
Instructional Support Services	4,499,660	4,060,080	3,905,255	(154,825)
Pupil Support Services	5,277,224	5,280,224	5,371,379	91,155
Sites and Buildings	5,424,054	5,039,199	4,488,272	(550,927)
Fiscal and Other Fixed Cost Programs	176,221	176,220	175,877	(343)
Capital Outlay	1,581,068	1,577,385	1,907,626	330,241
Debt Service:				
Principal	179,500	855,195	855,194	(1)
Interest and Fiscal Charges	63,140	123,966	124,474	508
Total Expenditures	<u>54,376,182</u>	<u>54,598,020</u>	<u>52,716,593</u>	<u>(1,881,427)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(613,862)	(670,466)	(229,738)	440,728
OTHER FINANCING SOURCES (USES)				
Sale of Equipment	30,000	30,000	36,280	6,280
Total Other Financing Sources (Uses)	<u>30,000</u>	<u>30,000</u>	<u>36,280</u>	<u>6,280</u>
NET CHANGES IN FUND BALANCES	<u>\$ (583,862)</u>	<u>\$ (640,466)</u>	<u>(193,458)</u>	<u>\$ 447,008</u>
FUND BALANCE				
Beginning of Year, Before Restatement			8,104,261	
Restatement			80,754	
Beginning of Year, After Restatement			<u>8,185,015</u>	
End of Year			<u>\$ 7,991,557</u>	

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES – BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings and Investments	\$ 1,020	\$ 1,020	\$ 13,139	\$ 12,119
Other - Primarily Meal Sales	341,256	314,341	275,638	(38,703)
State Sources	116,999	79,845	76,158	(3,687)
Federal Sources	1,737,187	1,601,512	1,926,459	324,947
Total Revenues	<u>2,196,462</u>	<u>1,996,718</u>	<u>2,291,394</u>	<u>294,676</u>
EXPENDITURES				
Current:				
Food Service	2,352,864	2,228,209	2,098,628	(129,581)
Capital Outlay	15,600	49,650	48,646	(1,004)
Total Expenditures	<u>2,368,464</u>	<u>2,277,859</u>	<u>2,147,274</u>	<u>(130,585)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(172,002)	(281,141)	144,120	425,261
OTHER FINANCING SOURCES				
Transfers In	-	60,000	-	(60,000)
Total Other Financing Sources	<u>-</u>	<u>60,000</u>	<u>-</u>	<u>(60,000)</u>
NET CHANGES IN FUND BALANCE	<u>\$ (172,002)</u>	<u>\$ (221,141)</u>	144,120	<u>\$ 365,261</u>
FUND BALANCE				
Beginning of Year			<u>499,340</u>	
End of Year			<u>\$ 643,460</u>	

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES – BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2020**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Property Taxes	\$ 356,254	\$ 350,391	\$ 349,407	\$ (984)
Earnings and Investments	14,666	8,000	9,818	1,818
Other - Primarily Tuition and Fees	1,071,083	1,181,595	1,134,651	(46,944)
State Sources	601,948	1,073,881	1,062,740	(11,141)
Federal Sources	251,494	250,064	243,249	(6,815)
Total Revenues	<u>2,295,445</u>	<u>2,863,931</u>	<u>2,799,865</u>	<u>(64,066)</u>
EXPENDITURES				
Current:				
Community Service	2,218,498	2,722,823	2,684,002	(38,821)
Capital Outlay	19,600	130,436	130,369	(67)
Total Expenditures	<u>2,238,098</u>	<u>2,853,259</u>	<u>2,814,371</u>	<u>(38,888)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 57,347</u>	<u>\$ 10,672</u>	(14,506)	<u>\$ (25,178)</u>
FUND BALANCE				
Beginning of Year			<u>864,108</u>	
End of Year			<u>\$ 849,602</u>	

See accompanying Notes to Basic Financial Statements.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2020**

	Irrevocable OPEB Trust
ASSETS	
Cash and Cash Equivalents	\$ 2,473,037
Total Assets	2,473,037
LIABILITIES	
Accounts and Contracts Payable	822
Total Liabilities	822
NET POSITION	
Held In Trust	\$ 2,472,215

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2020**

	Irrevocable OPEB Trust
ADDITIONS	
Earnings on Investments	\$ 133,389
Total Additions	133,389
DEDUCTIONS	
Administration Fees	3,084
Health Insurance	199,124
Total Deductions	202,208
Change in Net Position	(68,819)
Net Position - Beginning of Year	2,541,034
Net Position - End of Year	\$ 2,472,215

See accompanying Notes to Basic Financial Statements.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 656 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. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

B. Financial Reporting Entity

Independent School District No. 656 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected Board of Education (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

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

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds and account groups of the District. There are no other entities for which the District is financially accountable.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The Board establishes broad policies and ensures that appropriate financial records are maintained for student activities, as well as controls and is financially accountable for these activities. Accordingly, the accounts and transactions for the student activities are included in the financial statements of the General Fund.

C. Basic Financial Statement Presentation

The Government-Wide Financial Statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary fund. The Fiduciary Fund is only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 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 purpose for which both restricted and unrestricted net position is available. Depreciation expenses that can be specifically identified by function are included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the Government -Wide Financial Statements.

Separate Fund financial statements are provided for Governmental Funds. Major individual Governmental Funds are reported as separate columns in the Fund Financial Statements. Fiduciary funds are presented in the fiduciary fund financial statements by type; private-purpose trust. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

1. Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.
2. 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.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Descriptions of the funds included in this report are as follows:

Major Governmental Funds

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, health and safety projects, and disabled accessibility projects.

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Special Revenue Fund are composed of user fees and reimbursements from the federal and state governments. These revenues are restricted for the Food Service Special Revenue Fund.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Community Service Special Revenue Fund – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs, or other similar services. Revenues for the Community Service Special Revenue Fund are composed of user fees, local levy dollars, state tax credits, and aid from the federal and state governments. These revenues are restricted for the Community Service Special Revenue Fund.

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

Fiduciary Fund

Irrevocable OPEB Trust Fund – The Irrevocable OPEB Trust Fund is used for reporting resources set aside and held in an irrevocable trust arrangement for postemployment benefits.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the Board of Education adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 or within one week of the acceptance of the final audit by the Board of Education each year. Reported budget amounts represent the amended budget as adopted by the Board of Education. All annual appropriations lapse at fiscal year-end. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the Board of Education prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by Board of Education action. Revisions to budgeted amounts must be approved by the Board of Education.

Total fund expenditures in excess of the budget require approval of the Board of Education. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments

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

G. Receivables

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are current property taxes receivable.

H. Prepaid Items

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

I. Inventory

Inventory is recorded using the consumption method of accounting and consists of supplies on hand at June 30, 2020. Supply purchases are recorded at invoice cost, computed on a first-in, first-out method. The District had no food or commodity inventory on hand at June 30, 2020.

J. Property Taxes

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as a deferred inflow of resources (property taxes levied for subsequent year). The majority of District revenue in the General Fund and Debt Service Fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$329,972) for the District. Certain other portions of the District's 2019 pay 2020 levy, normally revenue for the 2020-2020 fiscal year, are also advance recognized at June 30, 2020, as required by State Statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is unavailable because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2020, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District maintains a threshold level of \$5,000 for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the Government-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 15 years for equipment.

Capital assets not being depreciated include land and construction in progress.

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

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Liabilities

In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period they are incurred.

In the Fund Financial Statements, governmental fund types recognize bond premiums and discounts 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.

M. Accrued Employee Benefits

Compensated Absences Payable

The District compensates substantially all full-time classified employees for vacation benefits at various rates based on length of service. The expenditure for vacation pay is recognized when payment is made. At June 30, 2020, unpaid vacation pay totaling \$150,787 is recorded in the financial statements.

Substantially all District employees are entitled to sick leave at various rates for each month of full-time service. The District pays clerical, custodial, and educational assistants for one quarter (1/4) of unused sick leave earned, above the maximum accumulation, during the contract year. The District also pays paraprofessionals for one quarter (1/4) of unused paid absence leave earned, above the maximum accumulation during the contract year. The District makes this payment during the month of July of each year.

Compensated absences payable also includes severance and early retirement incentives that are calculated based on unused sick leave days. The District maintains various severance payment plans for its employee groups. Each employee group plan contains benefit formulas based on years of service and/or minimum age requirements. For substantially all employees, early retirement incentive benefits are eliminated if retirement occurs at the normal retirement age of 65 as specified in their contracts. In addition, certain bargaining unit members are eligible to be compensated for unused accumulated sick leave upon termination subject to certain conditions.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accrued Employee Benefits (Continued)

Compensated Absences Payable (Continued)

The District has recorded a liability for accrued convertible sick leave based on the sick leave accumulated at June 30, 2020 by employees currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. Under this “vesting method”, accruals for those employees expected to become eligible in the future are based on assumptions concerning the probability that the employees will become eligible to receive termination payments (vest) at some point in the future. The District’s policy is to record a liability for the teachers lump sum payment for those individuals that are eligible to receive the payments.

During fiscal year 2020, total expenditures for early retirement incentive payments and convertible sick leave were \$1,091,184. At June 30, 2020, a liability for early retirement incentive payments and convertible sick leave totaling \$1,196,738 is recorded in the financial statements.

Other Postemployment Benefits (OPEB)

Under the terms of certain collectively bargained employment contracts, including the teachers’ and administrators’ contracts, the District makes contributions toward the health insurance premiums of certain retired employees. All premiums are funded on a pay-as-you-go basis. The District also has an implicit rate subsidy for OPEB. This amount was actuarially determined, in accordance with GASB Statement No. 75.

N. Pension

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

O. Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until that time. The District has two items, which relate to pensions and other postemployment benefits.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Deferred Inflows of Resources

In addition to liabilities, the financial statements 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. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second type of deferred inflows of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year-end) under the modified accrual basis of accounting. The third type, *pension related*, is related to differences in expected and actual economic experience and changes in proportionate share.

Q. Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The District has recorded unearned revenue in the General Fund for unspent grants. The District has reported unearned revenues for 2020-2021 school lunch deposits in the Food Service Fund. The District also recorded unearned revenue in the Community Service Fund in an amount equal to prepaid account balances and enrichment deposits.

R. Fund Balance

In the Fund Financial Statements, Governmental Funds report nonspendable, restricted, committed, assigned, or unassigned fund balances. Nonspendable portions of fund balance relate to prepaid items and inventory. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The Board of Education passed a resolution authorizing the Superintendent and Director of Finance and Operations the ability to assign fund balances and their intended uses. In the current year, the District has an assigned fund balance in the General Fund. Unassigned fund balances are considered the remaining amounts.

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

The District has a minimum fund balance policy, which identifies a minimum Unassigned General Fund balance of 9.5% of the annual budgeted expenditures.

The District's liabilities for compensated absences, severance, pension and OPEB are generally liquidated by the General Fund.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. 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 has joined together with other school districts in Minnesota in the Southeast Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as common risk management and insurance program for member districts. The District pays an annual premium to this plan for its health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

The District continues to carry commercial insurance coverage for all other risks. 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.

T. Net Position

Net position represents the difference between Assets and Deferred Outflows of Resources and Liabilities and Deferred Inflows of Resources in the Government-Wide and Fiduciary Fund Financial Statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the Government-Wide Financial Statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

U. 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 Deferred Outflows of Resources and Liabilities and Deferred Inflows of Resources and disclosure of contingent Assets and Liabilities at the date of the financial statements and the reported amounts of Revenues and Expenses during the reporting period. Actual results could vary from those estimates.

V. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2019, from which the summarized information was derived. Certain comparative information has been reclassified to conform with the current year presentation.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 CASH AND INVESTMENTS

A. Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. The District’s deposits were not exposed to custodial credit risk at June 30, 2020.

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

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

The District’s deposits in financial institutions at June 30, 2020 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

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

B. Investments

The District may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
- General obligations rated “A” or better; revenue obligations rated “AA” or better.
- General obligations of the Minnesota Housing Finance Agency rated “A” or better.
- Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

At June 30, 2020, the District had the following investments:

<u>Investment</u>	
Minnesota School District Liquid Asset Fund Plus (MDSLAF+)	\$ 96,815
Minnesota School District LAF MAX Series (MSDMAX)	7,902,535
Mutual Funds	<u>2,668,269</u>
Total Investment Pools	<u><u>\$ 10,667,619</u></u>

The MSDLAF and MSDMAX are external investment pools not registered with the Securities Exchange Commission (SEC). The fair value of the position of the pools is the same as the value of the pool shares. MSDLAF is managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1.00. The Pool elects to measure its investments at amortized cost in accordance with accounting standards issued by the Governmental Accounting Standards Board.

The Liquid class has no redemption requirements. The Max Class may not be redeemed for at least 14 days, and a 24 hour hold is placed on redemption requests. Redemptions prior to 14 days may be subject to penalty.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The MSDLAF and MSDMAX pools are rated AAAM by Standard & Poor's. The mutual fund investments are not rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

**FARIBAULT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk (Continued)

The District has a formal investment policy that addresses permissible investments, portfolio diversification, and instrument maturities. Investment maturities are scheduled to coincide with projected school district cash flow needs. Within these parameters, it is the District's policy to stagger portfolio maturities to avoid undue concentration of assets, provide for stability of income, and limit exposure to fair value losses arising from rising interest rates. The weighted average maturity of the mutual fund investment is 30 days.

Fair Value Measurements

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

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

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

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

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

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

Assets measured at fair value on a recurring basis:

Investment	Level 1	Level 2	Level 3	Total
Mutual Funds - Equity	\$ 1,281,784	\$ -	\$ -	\$ 1,281,784
Mutual Funds - Fixed Income	1,386,485	-	-	1,386,485
Total	<u>\$ 2,668,269</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,668,269</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

C. Balance Sheet Presentation

Deposits and investments are presented on the combined balance sheet as follows:

Cash and Investments - Statement of Net Position	\$ 12,625,296
Cash and Investments - OPEB Trust	2,473,037
Total Cash and Investments	<u>\$ 15,098,333</u>

Total cash and investments at June 30, 2020 consisted of the following:

Deposits	\$ 1,954,867
Cash on Hand	2,810
Minnesota School District Liquid Asset Fund Max Series (MSD MAX)	7,902,535
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	96,815
Mutual Funds	2,668,269
OPEB Trust Funds	2,473,037
	<u>\$ 15,098,333</u>

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 1,913,554	\$ -	\$ -	\$ 1,913,554
Construction in Progress	221,001	169,722	(221,001)	169,722
Total Capital Assets, Not Being Depreciated	<u>2,134,555</u>	<u>169,722</u>	<u>(221,001)</u>	<u>2,083,276</u>
Capital Assets, Being Depreciated				
Land Improvements	7,537,149	2,488,097	-	10,025,246
Buildings and Improvements	82,913,442	128,100	-	83,041,542
Equipment	7,897,124	151,140	-	8,048,264
Total Capital Assets, Being Depreciated	<u>98,347,715</u>	<u>2,767,337</u>	<u>-</u>	<u>101,115,052</u>
Accumulated Depreciation for:				
Land Improvements	(3,515,530)	(374,438)	-	(3,889,968)
Buildings and Improvements	(37,133,924)	(1,911,592)	-	(39,045,516)
Equipment	(5,497,803)	(425,910)	-	(5,923,713)
Total Accumulated Depreciation	<u>(46,147,257)</u>	<u>(2,711,940)</u>	<u>-</u>	<u>(48,859,197)</u>
Total Capital Assets, Being Depreciated, Net	<u>52,200,458</u>	<u>55,397</u>	<u>-</u>	<u>52,255,855</u>
Governmental Activities Capital Assets, Net	<u>\$ 54,335,013</u>	<u>\$ 225,119</u>	<u>\$ (221,001)</u>	<u>\$ 54,339,131</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 3 CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the District as follows:

Governmental Activities		
Administration		\$ 400
District Support Services		78,098
Regular Instruction		2,454,179
Vocational Education Instruction		13,646
Special Education Instruction		1,828
Instructional Support Services		3,366
Pupil Support Services		2,200
Sites and Buildings		125,434
Food Service		32,129
Community Service		660
Total Depreciation Expense, Governmental Activities		<u>\$ 2,711,940</u>

NOTE 4 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

The District has issued general obligation school building bonds to finance the construction of capital facilities or refinance previous bond issues. Assets of the Debt Service Fund, together with scheduled future tax levies, are dedicated for the retirement of these bonds. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
4/17/2019	3.00%	\$ 1,845,000	2/1/2030	\$ 160,000	\$ 1,845,000
3/14/2017	2.00%	9,780,000	2/1/2024	1,880,000	7,760,000
Total General Obligation Bonds				<u>2,040,000</u>	<u>9,605,000</u>
Bond Premiums				31,428	161,795
Lease Purchase Payable				310,461	2,625,270
Capital Lease Payable				766,907	766,908
Compensated Absences Payable				150,787	1,347,525
				<u>\$ 3,299,583</u>	<u>\$ 14,506,498</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term liabilities, not including lease purchase payable, capital lease payable, other postemployment benefits payable, net pension liability, and compensated absences payable are as follows:

<u>Year Ending June 30,</u>	General Obligation Bonds Payable	
	Principal	Interest
2021	\$ 2,040,000	\$ 210,550
2022	2,085,000	168,150
2023	2,130,000	124,800
2024	2,175,000	80,500
2025	180,000	35,250
2026-2030	995,000	91,350
Total	<u>\$ 9,605,000</u>	<u>\$ 710,600</u>

C. Description of Long-Term Liabilities

General Obligation Alternative Facilities Refunding Bonds, Series 2012B

On June 19, 2012, the District issued \$5,500,000 of General Obligation Alternative Facilities Refunding Bonds, Series 2012B at interest rates of .40% to 1.40%. The bonds are due in varying annual installments each December 1 through December 1, 2019 with interest due semi-annually on June 1 and December 1.

The proceeds of this issue were used to refund in advance of their stated maturities, the remaining maturities of the District's General Obligation Alternative Facilities Bonds, Series 2003A and General Obligation Alternative Facilities Bonds, Series 2005A. The maturities of the General Obligation Alternative Facilities Bonds, Series 2003A and the General Obligation Alternative Facilities Bonds, Series 2005A were scheduled to mature in 2013 through 2020. Assets of the Debt Service Fund, together with future ad valorem tax levies, are dedicated to retire these bonds.

The Series 2012B bonds were paid off in 2020.

General Obligation School Building Refunding Bonds, Series 2017A

On March 14, 2017, the District issued \$9,780,000 of General Obligation School Building Refunding Bonds, Series 2017A at an interest rate of 2.00%. The bonds are due in varying annual installments each February 1 through February 1, 2024 with interest due semi-annually on February 1 and August 1.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

General Obligation School Building Refunding Bonds, Series 2017A (Continued)

The proceeds of this issue were used to refund in advance of their stated maturities, the 2019 through 2024 maturities of the District's General Obligation School Building Bonds, Series 2009A in the amount of \$9,735,000. This portion of the refunding is considered an advance crossover refunding. The proceeds of this portion of the refunding bonds were placed into an escrow account pending the call date of the old bonds which was February 1, 2018.

General Obligation Tax Abatement Bonds, Series 2019A

On April 17, 2019, the District issued \$1,845,000 of General Obligation Tax Abatement Bonds, Series 2019A at an interest rate of 3.00%. The bonds are due in varying annual installments each February 1 beginning February 1, 2021 and ending February 1, 2030 with interest due semi-annually on February 1 and August 1.

The proceeds of this issue were used to finance parking lot repairs and improvements at District sites and facilities.

Lease Purchase Payable

On June 18, 2015, the District entered into \$2,062,000 Lease Purchase Financing 2015A and \$1,842,200 Lease Purchase Financing 2015B. The proceeds of this debt were used to help fund the construction of the new district office and adult basic education building project. This debt has interest rates ranging from 2.64% to 3.22% and is due in varying semi-annual installments each February 1 and August 1 through August 1, 2030. The District will use General Fund levies and operating capital revenues in future years to retire this debt.

Minimum annual principal and interest payments required to retire the Lease Purchase Payable are as follows:

<u>Year Ending June 30,</u>	<u>Lease Purchase Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 310,461	\$ 76,077
2022	319,454	67,084
2023	328,710	57,828
2024	338,237	48,301
2025	348,042	38,496
2026-2030	894,218	86,865
2031	86,148	1,387
Total	<u>\$ 2,625,270</u>	<u>\$ 376,038</u>

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

Capital Leases

The District has entered into a capital lease for copier machines. The capital assets related to the copier lease have been capitalized and are being depreciated.

The District has entered into a capital lease for iPads. The individual units fall below the capitalization threshold and are therefore not capitalized.

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2020:

<u>Year Ending June 30,</u> 2020	<u>Copiers</u>	<u>iPads</u>	<u>Total</u>
	\$ 382,036	\$ 409,035	\$ 791,071
Total Minimum Lease Payments	382,036	409,035	791,071
Less Amounts Representing Interest	20,153	4,010	24,163
Present Value of Net Minimum Lease Payments	<u>\$ 361,883</u>	<u>\$ 405,025</u>	<u>\$ 766,908</u>

The copiers were capitalized and have a cost of \$778,299 and accumulated depreciation of \$194,575 at June 30, 2020.

Compensated Absences Payable

At June 30, 2020, compensated absences payable consists of unused vacation, severance, and convertible sick leave payable to employees upon retirement.

D. Changes in Long-Term Liabilities

	<u>June 30,</u> <u>2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30,</u> <u>2020</u>
Bonds Payable	\$ 11,380,000	\$ -	\$ 1,775,000	\$ 9,605,000
Bond Premium	193,223	-	31,428	161,795
Lease Purchase Payable	2,926,994	-	301,724	2,625,270
Capital Leases Payable	1,320,378	-	553,470	766,908
Compensated Absences Payable	1,312,798	1,270,351	1,235,624	1,347,525
Total	<u>\$ 17,133,393</u>	<u>\$ 1,270,351</u>	<u>\$ 3,897,246</u>	<u>\$ 14,506,498</u>

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 5 RESTRICTED AND ASSIGNED FUND BALANCES

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the restricted fund balances for the governmental funds:

A. Restricted for Student Activities

In accordance with State Statute, the fund balance restriction represents available resources dedicated exclusively for student activities.

B. Restricted for Staff Development

In accordance with State Statute, restricted for staff development represents available resources dedicated exclusively for staff development.

C. Restricted for Operating Capital

The District levies taxes and receives state aid to be used for the purchase of equipment, books and vehicles and to purchase, rent, improve, and repair school facilities as allowed by State Statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund.

D. Achievement and Integration

In accordance with State Statute, restricted for achievement and integration represents available resources dedicated exclusively for achievement and integration.

E. Restricted for Long Term Facility Maintenance (LTFM)

This restricted fund balance represents accumulated resources available to be used for LTFM projects in accordance with the District's ten-year plan.

F. Restricted for Community Education Programs

This restricted fund balance represents accumulated resources available to provide general community education programming.

G. Restricted for Early Childhood and Family Education Programs

This restricted fund balance represents accumulated resources available to provide services for early childhood and family education programming.

H. Restricted for Basic Skills Programs

This restricted fund balance represents accumulated resources available through a portion of the District's general education aid for basic skills programs.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 5 RESTRICTED AND ASSIGNED FUND BALANCES (CONTINUED)

I. Restricted for School Readiness

This restricted fund balance represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

J. Restricted for Adult Basic Education

This restricted fund balance represents accumulated resources available to provide services for adult basic education programs.

K. Restricted for Other Purposes

Represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

L. Assigned for Athletic Equipment

This assigned fund balance represents resources segregated by the District for the purchase of future athletic equipment.

NOTE 6 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (GERF)

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

2. Teachers Retirement Fund (TRA)

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 University of Minnesota System).

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided

PERA and TRA provide 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.

1. GERS Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary 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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

2. TRA Benefits

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

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

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 1	Step Rate Formula	Percentage
Basic	First Ten Years of Service	2.2% per Year
	All Years After	2.7% per Year
Coordinated	First Ten Years if Service Years are up to July 1, 2006	1.2% per Year
	First Ten Years if Service Years are July 1, 2006 or After	1.4% per Year
	All Other Years of Service if Service Years are up to July 1, 2006	1.7% per Year
	All Other Years of Service if Service Years are July 1, 2006 or After	1.9% per Year

With these provisions:

- 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. 3.0% per year early retirement reduction factor for all years under normal retirement age.
- c. Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

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

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

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier II Benefits (Continued)

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

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

C. Contribution Rate

1. GERF 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 6.5% of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the General Employees Plan for the year ended June 30, 2020, were \$556,019. The District's contributions were equal to the required contributions for each year as set by State Statute.

2. TRA Contributions

Per *Minnesota Statutes*, Chapter 354 rates for the fiscal year for Coordinated were 7.50% for the employee and 7.71% for the employer. Basic rates were 11.00% for the employee and 11.71% for the employer. The District's contributions to TRA for the plan's fiscal year ended June 30, 2020, were \$1,764,329. The District's contributions were equal to the required contributions for each year as set by State Statute.

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. GERF Pension Costs

At June 30, 2020, the District reported a liability of \$5,838,387 for its proportionate share of the GERF's net pension liability. The State of Minnesota is considered a nonemployer 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 was \$181,492. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportion was .1056%, which was an increase of .0002% from its proportion measured at June 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$638,804 for its proportionate share of the GERF's pension expense. It also recognized \$13,592 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2020, the District reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 161,803	\$ -
Changes in Actuarial Assumptions	-	458,901
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	591,789
Changes in Proportion	9,334	167,393
District Contributions Subsequent to the Measurement Date	556,019	-
Total	<u>\$ 727,156</u>	<u>\$ 1,218,083</u>

**FARIBAUT PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

Of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date, \$556,019 reported as deferred outflows will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. 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 Amounts
2021	\$ (435,488)
2022	(507,098)
2023	(113,769)
2024	9,409

2. TRA Pension Costs

At June 30, 2020, the District reported a liability of \$24,705,706 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2019, 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 .3876% at the end of the measurement period and .3922% for the beginning of the period.

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:

Description	Amount
District's Proportionate Share of the TRA Net Pension Liability	\$ 24,705,706
State's Proportionate Share of TRA's Net Pension Liability Associated with the District	2,186,373

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

For the year ended June 30, 2020, the District recognized pension expense of \$4,554,386. It also recognized \$166,191 as an increase to pension expense and grant revenue for the support provided by direct aid.

At June 30, 2020, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 3,513	\$ 599,913
Changes in Actuarial Assumptions	20,790,890	32,775,330
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	2,047,342
Changes in Proportion District Contributions Subsequent to the Measurement Date	382,809	880,477
	<u>1,764,329</u>	<u>-</u>
Total	<u>\$ 22,941,541</u>	<u>\$ 36,303,062</u>

Of resources related to pension resulting from District contributions to TRA subsequent to the measurement date, \$1,764,329 reported as deferred outflows will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amounts
2021	\$ 1,350,336
2022	(193,627)
2023	(9,540,472)
2024	(6,623,535)
2025	(118,552)

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. Aggregate Pension Costs

At June 30, 2020, the District reported the following aggregate amounts related to pensions for all plans to which it participates.

	PERA	TRA	Total
Net Pension Liability	\$ 5,838,387	\$ 24,705,706	\$ 30,544,093
Deferred Outflows of Resources	727,156	22,941,541	23,668,697
Deferred Inflows of Resources	1,218,083	36,303,062	37,521,145
Pension Expense	652,396	4,720,577	5,372,973

E. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	General Employees Plan	TRA
Inflation	2.50% per Year	2.50%
Active Member Payroll Growth	11.25% after 1 year of service decreasing to 3.25% per year after 26 years	2.85% for ten years and 3.25% thereafter
Investment Rate of Return	7.50%	7.50%

PERA salary increases were based on a service-related table. PERA mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. PERA cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for General Employees Plan and 1.0%.

TRA pre-retirement mortality rates were based on the RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale. Postretirement mortality rates were based on the RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale. Post-disability mortality rates were based on the RP-2014 disabled retiree mortality table, without adjustment. TRA cost of living benefit increases 1.0% for January 2019 through January 2023, then increasing 0.1% each year up to 1.5% annually.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions for PERA occurred in 2019:

- The mortality projection scale was changed from MP-2017 to MP-2018.

The following changes in actuarial assumptions for PERA occurred in 2019:

- The morality projection scale was changed from MP-2017 to MP-2018.

The following changes in Plan provisions for PERA occurred in 2019:

- 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.

There were no changes in plan provisions or in actuarial assumptions for the TRA plan for 2019.

The State Board of Investment, which manages the investments of PERA and TRA, 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 and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35.5 %	5.10%
International Equity	17.5	5.30%
Bonds	25.0	5.90%
Alternative Assets	20.0	0.75%
Cash	2.0	0.00%
Totals	<u>100.0 %</u>	

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the total General Employees Retirement Plan pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Retirement 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.

The discount rate used to measure the total TRA pension liability was 7.50%. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2019 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).

G. 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:

GENERAL EMPLOYEES PLAN AND TRA PENSION LIABILITY

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>General Employees Plan Discount Rate</u>	6.50%	7.50%	8.50%
District's Proportionate Share of the General Employees Plan Net Pension Liability	\$ 9,597,995	\$ 5,838,387	\$ 2,734,084
<u>TRA Discount Rate</u>	6.50%	7.50%	8.50%
District's Proportionate Share of the TRA Net Pension Liability	\$ 39,386,935	\$ 24,705,706	\$ 12,601,248

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. Pension Plan Fiduciary Net Position

Detailed information about GERP's fiduciary's net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-652-9026.

NOTE 7 DEFINED CONTRIBUTION PLAN

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the Plan). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax-deferred annuities selected and owned by Plan participants. The District contributions for the year ended June 30, 2020 was \$309,869. The related employee contributions were \$481,415 for the year ended June 30, 2020.

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN

A. Plan Description

The District operates a single-employer retiree defined benefit plan (the Plan) that provides health insurance and subsidized benefits to eligible employees and their spouses through the District's health insurance plan. There are 536 active participants and 32 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated at various times. The Plan does not issue a publicly available financial report. The District's board of education oversees the Plan. The Plan follows the District's cash management and investment policies and procedures as previously disclosed.

B. Benefits Provided

Teachers who are at least 55 years of age upon retirement and have been employed by the District for 15 years (or 50 years of age with 20 years of employment by the District) are eligible to remain on the District's medical insurance until becoming eligible for Medicare. The District will contribute \$400 per month until becoming eligible for Medicare.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLANS (CONTINUED)

B. Benefits Provided (Continued)

Certain non-teaching employees who are at least 55 years of age with years of service, depending upon service group, ranging from three years to 15 years or satisfying Rule of 90 are also eligible to remain on the District's medical insurance until becoming eligible for Medicare. The District's contribution ranges, depending upon service group, from \$100 to \$250 per month, or contributing the single premium amount plus \$1,200 to a VEBA, or \$3,125 to an HAS if on a high deductible plan.

C. Actuarial Methods and Assumptions

The District's net OPEB liability was measured as of June 30 2019, and the net OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2019, using the following actuarial assumptions, applied to periods included in the measurement date, unless specified otherwise:

Inflation	2.50%
Salary Increases	3.00%
Healthcare Cost Trend Rates	6.50% Decreasing to 5.00% Over 6 Years
Dental Cost Trend Rates	N/A

Mortality rates were based on the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale.

Discount Rate

The discount rate used to measure the net OPEB liability was 3.50%. The discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds.

D. Changes in the OPEB Liability as of the Measurement Date

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a)- (b)
Balances at 6/30/2019	\$ 7,151,010	\$ -	\$ 7,151,010
Changes for the Year:			
Service Cost	382,611	-	382,611
Interest	246,581	-	246,581
Differences Between Expected and Actual Experience	(1,258,407)	(27,711)	(1,230,696)
Changes in Assumptions	(609,955)	-	(609,955)
Contributions - Employer	-	3,018,189	(3,018,189)
Net Investment Income	-	118,465	(118,465)
Benefit Payments	(567,189)	(567,189)	-
Administrative Expense	-	(720)	720
Other Changes	14,278	-	14,278
Net Changes	<u>(1,792,081)</u>	<u>2,541,034</u>	<u>(4,333,115)</u>
Balances at 6/30/2020	<u>\$ 5,358,929</u>	<u>\$ 2,541,034</u>	<u>\$ 2,817,895</u>

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLANS (CONTINUED)

E. OPEB Liability Sensitivity

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

	1% Decrease 2.50%	Discount Rate 3.50%	1% Increase 4.50%
Net OPEB Liability	\$ 3,140,877	\$ 2,817,895	\$ 2,505,247

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

	1% Decrease (5.5% Decreasing to 4.00%)	Healthcare Cost Trend Rates (6.50% Decreasing to 5.00%)	1% Increase (7.5% Decreasing to 6.00%)
Net OPEB Liability	\$ 2,369,738	\$ 2,817,895	\$ 3,351,608

F. OPEB Expense

For the year ended June 30, 2020, the District recognized OPEB expense of \$264,358. At June 30, 2020, the District reported deferred inflows of resources and deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 1,078,635
Changes of Assumptions	-	522,819
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	22,169	-
District Contributions Subsequent to the Measurement Date	322,178	-
Total	\$ 344,347	\$ 1,601,454

\$322,178 reported as deferred outflows related to OPEB resulting from District payment of benefits subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ (261,367)
2022	(261,367)
2023	(261,367)
2024	(261,367)
2025	(266,909)
Thereafter	(266,908)

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 9 FLEXIBLE BENEFIT PLAN

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

Before the beginning of the plan year, which is from December 31 to December 30, each participant designates a total amount of pre-tax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants’ annual contributions for the health care portion of the plan, whether or not such contributions have been made.

Payments of health insurance premiums are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General, Food Service, and Community Service Funds.

Payments for amounts withheld for medical reimbursement and dependent care are made to participating employees upon submitting a request for reimbursement of eligible expenses.

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

NOTE 10 LEASE COMMITMENTS

A. As Lessee

The District has entered into various operating leases for vehicles, office equipment, and buildings. Rent expense under annual operating leases for the year ending June 30, 2020 was \$353,397.

Minimum rental commitments on leases in effect at June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 288,871
2022	31,775
2023	6,246
2024	6,246
Total Minimum Lease Payments	\$ 333,138

B. As Lessor

The District entered into an agreement with Nerstrand Elementary School to lease a 17,700 square foot building located at 205 South Second Street, Nerstrand, Minnesota. The lease is renewed on an annual basis. The District received \$155,443 of rent for this building during the year ended June 30, 2020, as per the terms of the lease agreement. In addition to the lease of the building, the District also has in place agreements with Nerstrand Elementary School to provide food service and custodial service.

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 11 COMMITMENTS AND CONTINGENCIES

Federal and State Programs

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

NOTE 12 SUBSEQUENT EVENTS

The District issued Certificates of Participation, Series 2020A in the amount of \$3,820,000 on November 23, 2020. These certificates will be used to fund the construction of an early childhood addition to Roosevelt Elementary starting in the 2020-21 school year.

NOTE 13 JOINT POWERS AGREEMENTS

Wind Energy

The District and 13 other school districts in Minnesota have entered into a Joint Powers Agreement to form the Minnesota Schools Wind Energy Cooperative (the Cooperative). The purpose of the Cooperative is to acquire, develop, construct, finance, operate, and maintain a wind energy project to be located in Minnesota. The Cooperative is governed by a Joint Powers Board, which consists of two members (a Board of Education member, and the superintendent or another district employee) from each of the participating districts. Any district may withdraw from the Cooperative prior to the issuance of any project financing instruments, provided that the withdrawing district reimburses the Cooperative for its pro rata portion of the total development or other project costs or other obligations incurred by the Cooperative. Once financing instruments, other than Clean Renewable Energy Bonds (CREBs), have been issued, a district may withdraw provided it prepays the outstanding balance of its pro rata portion of any outstanding financing instruments. Upon issuance of the CREBs, no district may withdraw membership until the CREBs have been repaid in full. The District has not committed any financial resources to the Cooperative as of June 30, 2020.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 14 JOINTLY GOVERNED ORGANIZATION

The District is a member of the Rice County Family Services Collaborative (Collaborative). The Collaborative was established to provide comprehensive services to strengthen family functioning. As a result, the Collaborative members share certain costs related to social workers and split related time study revenues.

The Cannon Valley Special Education Cooperative (CVSEC) was established by a joint powers agreements pursuant to Minnesota Statutes section 471.59. The purpose of the agreement was to optimize resources and increase efficiencies by creating a special education cooperative to serve children with low incidence disabilities. CVSEC is comprised of four member districts. Each member district shares in the costs of providing all off-site special education programs.

NOTE 15 RESTATEMENT

During fiscal year ended June 30, 2020, the District adopted GASB Statement No. 84 Fiduciary Activities. Prior to the restatement, the Private Purpose Trust Fund was previously reported as a fiduciary activity and the Student Activities Fund was audited as its own separate entity. As a result of the implementation of this standard, the District reported a restatement for the change in accounting principle of \$80,754.

	Governmental Activities	General Fund
Net Position - Beginning of Year, as Previously Reported	\$ 3,096,983	\$ 8,104,261
Change in Accounting Principle	80,754	80,754
Net Position - Beginning of Year, as Reported	<u>\$ 3,177,737</u>	<u>\$ 8,185,015</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS
JUNE 30, 2020**

Measurement Date	2020	2019	2018
	June 30, 2019	June 30, 2018	June 30, 2017
Total OPEB Liability			
Service Cost	\$ 382,611	\$ 459,497	\$ 446,114
Interest	246,581	246,070	243,084
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(1,230,696)	-	-
Changes of assumptions	(609,955)	-	-
Contributions - employer	(3,018,189)	-	-
Benefit Payments	-	(659,291)	(570,970)
Net investment income	(118,465)	-	-
Administrative Expense	720	-	-
Other Changes	14,278	-	-
Net Change in Total OPEB Liability	(4,333,115)	46,276	118,228
Total OPEB Liability - Beginning	7,151,010	7,104,734	6,986,506
Total OPEB Liability - Ending	<u>\$ 2,817,895</u>	<u>\$ 7,151,010</u>	<u>\$ 7,104,734</u>
 Total OPEB Liability	 \$ 2,817,895	 \$ 7,151,010	 \$ 7,104,734
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	 47.00%	 0.00%	 0.00%
 District's Covered Payroll	 \$ 27,458,148	 \$ 28,185,892	 \$ 27,364,944
 District's Net OPEB Liability as a Percentage of the Covered Payroll	 10.26%	 25.37%	 25.96%

Note 1: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**FARIBAUT PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 656
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF MONEY-WEIGHTED RATE OF RETURN ON OPEB PLAN ASSETS
 JUNE 30, 2020**

<u>Year</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
2020	5.80 %
2019	N/A
2018	N/A
2017	N/A

Note 1: The District implemented GASB Statements No. 74 and 75 in fiscal year 2017, and the above table will be expanded to 10 years of information as the information becomes available.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST SIX FISCAL YEARS**

Fiscal Year	2020	2019	2018	2017	2016	2015
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
PERA - General Employees Plan						
District's Proportion of the Net Pension Liability	0.1056%	0.1054%	0.1079%	0.1136%	0.1103%	0.1181%
District's Proportionate Share of the Net Pension Liability	\$ 5,838,387	\$ 5,847,160	\$ 6,888,265	\$ 9,223,757	\$ 5,716,318	\$ 5,547,747
State's Proportionate Share of the Net Pension Liability Associated with the District	181,492	191,696	86,620	120,483	-	-
Total	<u>\$ 6,019,879</u>	<u>\$ 6,038,856</u>	<u>\$ 6,974,885</u>	<u>\$ 9,344,240</u>	<u>\$ 5,716,318</u>	<u>\$ 5,547,747</u>
District's Covered Payroll	\$ 7,471,868	\$ 7,060,835	\$ 6,968,559	\$ 7,066,457	\$ 6,470,650	\$ 6,210,057
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	78.14%	82.81%	98.85%	130.53%	88.34%	89.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	79.50%	75.90%	68.90%	78.20%	78.70%
TRA						
District's Proportion of the Net Pension Liability	0.3876%	0.3922%	0.3908%	0.4023%	0.3886%	0.3926%
District's Proportionate Share of the Net Pension Liability	\$ 24,705,706	\$ 24,635,736	\$ 78,010,769	\$ 95,958,149	\$ 24,038,753	\$ 18,090,723
State's Proportionate Share of the Net Pension Liability Associated with the District	2,186,373	2,314,163	7,541,449	9,632,120	2,948,815	1,272,601
Total	<u>\$ 26,892,079</u>	<u>\$ 26,949,899</u>	<u>\$ 85,552,218</u>	<u>\$ 105,590,269</u>	<u>\$ 26,987,568</u>	<u>\$ 19,363,324</u>
District's Covered Payroll	\$ 21,670,320	\$ 21,832,346	\$ 20,931,518	\$ 21,205,580	\$ 19,928,650	\$ 17,921,366
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	114.01%	112.84%	372.70%	452.51%	120.62%	100.95%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.07%	78.07%	51.57%	44.88%	76.80%	81.50%

Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST SEVEN FISCAL YEARS**

PERA - General Employees Plan

	2020	2019	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 556,019	\$ 560,897	\$ 529,532	\$ 522,642	\$ 529,416	\$ 478,407	\$ 450,622
Contributions in Relation to the Contractually Required Contribution	(556,019)	(560,897)	(529,532)	(522,642)	(529,416)	(478,407)	(450,622)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 7,413,759	\$ 7,471,868	\$ 7,060,835	\$ 6,968,559	\$ 7,066,457	\$ 6,470,650	\$ 6,210,057
Contributions as a Percentage of Covered Payroll	7.50%	7.51%	7.50%	7.50%	7.49%	7.39%	7.26%

TRA

	2019	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 1,764,329	\$ 1,625,274	\$ 1,643,510	\$ 1,569,866	\$ 1,590,750	\$ 1,494,653
Contributions in Relation to the Contractually Required Contribution	(1,764,329)	(1,625,274)	(1,643,510)	(1,569,866)	(1,590,750)	(1,494,653)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 22,004,799	\$ 21,670,320	\$ 21,832,346	\$ 20,931,518	\$ 21,205,580	\$ 19,928,650
Contributions as a Percentage of Covered Payroll	8.02%	7.50%	7.53%	7.50%	7.50%	7.03%

**FARIBAULT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

A. General Employees Fund

2019

- The mortality projection scale was changed from MP-2017 to MP-2018.

2018

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

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for nonvested deferred member liability.
- The assumed postretirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5 % per year thereafter.

2016

- The assumed postretirement 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.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS
(CONTINUED)**

The following changes were reflected in the valuation performed on behalf of the Teachers Retirement Association for the year ended June 30:

A. Coordinated Plan

2018

- 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 age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0% 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 4 years, (7.92% in 2019, 8.13% 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.
- The single discount rate was changed from 5.12% to 7.5%

2017

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5%, but remain at 2.0% for all future years.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for 10 years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate was changed from 4.66% to 5.12%.

2016

- There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date.
- Postretirement benefit adjustments are now assumed to stay level at 2.0% annually.
- The single discount rate was changed from 8.0% to 4.66%.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS
(CONTINUED)**

The following changes were reflected in the valuation performed for the District's OPEB Plan for the year ended June 30:

2019

Changes in Plan Provisions

- The postemployment medical subsidy eligibility of Non-Union Directors and Coordinators changed from age 55 with 15 years of service to age 55 with 10 years of service.

Changes in Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group.
- The retiree plan participation percentage for future retirees eligible to receive an \$100 per month subsidy was reduced from 50% to 25%.
- The discount rate was changed from 3.40% to 3.50%.

2018

Other Changes

- The District set up an irrevocable OPEB Trust on August 30, 2018.

Changes in Plan Provisions

- There were no changes in plan provisions.

Changes in Actuarial Assumptions

- There were no changes in actuarial assumptions.

2017

Changes in Plan Provisions

- The eligibility for Non-Union Cabinet employees was changed from age 55 with 5 years of service to the earlier of age 55 with 5 years of service or age 50 with 10 years of service.

Changes in Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.
- The retiree plan participation percentage was increased from 75% to 100% for retirees eligible for a pre-age 65 medical subsidy equal to the full single premium. Also, future retirees were assumed to elect the \$1,200 deductible plan and will receive an annual contribution of \$1,200 in addition to District paid premiums.
- The discount rate was changed from 3.50% to 3.40%.

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Provided to Subrecipients	Federal Expenditures
U.S. Department of Agriculture				
Pass-Through Minnesota Department of Education				
Noncash Assistance (Commodities):				
National School Lunch Program	10.555	1-0656-000	\$ -	\$ 156,569
Total Noncash Assistance				<u>156,569</u>
Cash Assistance:				
Commodity Cash Rebate Program	10.555	1-0656-000	-	3,331
National School Lunch Program	10.555	1-0656-000	-	656,787
After School Snack	10.555	1-0656-000	-	9,133
Total CFDA 10.555				\$ 825,820
School Breakfast Program	10.553	1-0656-000	-	259,527
Summer Program	10.559	1-0656-000	-	720,516
Special Milk Program	10.556	1-0656-000	-	<u>1,916</u>
Total Child Nutrition Cluster				1,807,779
Child Care Food Program	10.558	1-0656-000	-	47,966
Fresh Fruit and Vegetable Program	10.582	1-0656-000	-	<u>70,715</u>
Total U.S. Department of Agriculture				1,926,460
U.S. Department of Education				
Pass-Through Minnesota Department of Education				
Special Education - Grants to States	84.027	1-0656-000	-	937,913
Special Education - Preschool Incentive	84.173	1-0656-000	-	<u>22,273</u>
Total Special Education Cluster				960,186
Title I, Part A - Grants to Local Educational Agencies	84.010	1-0656-000	-	885,475
Title II, Part A - Improving Teacher Quality State Grants	84.367	1-0656-000	-	163,265
Title III, Part A - English Language Acquisition Grants	84.365	1-0656-000	-	120,382
Title IV, Part A	84.424	1-0656-000	-	67,159
Special Education - Grants for Infants and Families	84.181	1-0656-000	-	43,496
Comprehensive Literacy Development - Striving Readers	84.371	1-0656-000	-	569,947
Twenty-first Century Community Learning Centers	84.287	1-0656-000	-	<u>220,362</u>
Total Pass-Through Minnesota Department of Education				3,030,272
Pass-Through Southern MN ABE Consortium				
Adult Basic Education	84.002	1-0656-000	-	18,150
Total Pass-Through Southern MN ABE Consortium				<u>18,150</u>
Pass-Through South Central Service Cooperative				
Carl Perkins Vocational Education Basic Grants to States	84.048	1-0656-000	-	1,115
Total Pass-Through South Central Service Cooperative				<u>1,115</u>
Total U.S. Department of Education			<u>\$ -</u>	<u>3,049,537</u>
Total Federal Awards Expended				<u>\$ 4,975,997</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Independent School District No. 656 under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of 2 CFR 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. 656, it is not intended to and does not present the financial position, and changes in net position of Independent School District No. 656.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Independent School District No. 656 has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.



**INDEPENDENT AUDITORS' 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**

Board of Education
Independent School District No. 656
Faribault, 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 Faribault Public Schools Independent School District No. 656 (the District), as of and for the year ended June 30, 2020, 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 1, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 have not been identified.

Compliance and Other Matters

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

Independent School District No. 656's Response to Finding

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Rochester, Minnesota
December 1, 2020



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

Board of Education
Independent School District No. 656
Faribault, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 656's (the District's) compliance with the types of compliance requirements described 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, 2020. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

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, 2020.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



CliftonLarsonAllen LLP

Rochester, Minnesota
December 1, 2020



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 656
Faribault, 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. 656 (the District), as of and for the year ended June 30, 2020, 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 1, 2020.

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

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Rochester, Minnesota
December 1, 2020

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**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020**

Section I – Summary of Auditors’ Results

Financial Statements

- | | |
|--|-----------------------------|
| 1. Type of auditors’ report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | _____ yes <u> x </u> no |
| b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? | _____ yes <u> x </u> none |
| 3. Noncompliance material to financial statements noted? | _____ yes <u> x </u> no |

Federal Awards

- | | |
|--|-----------------------------|
| 1. Internal control over major federal programs: | |
| a. Material weakness(es) identified? | _____ yes <u> x </u> no |
| b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? | _____ yes <u> x </u> none |
| 2. Type of auditors’ report issued on compliance for major federal programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)? | _____ yes <u> x </u> no |

Identification of major federal programs

CFDA Number(s)

84.027 & 84.173
10.553, 10.555, 10.556 & 10.559

Name of Federal Program(s) or Cluster(s)

Special Education Cluster
Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B Programs:

\$750,000

- | | |
|---|------------------------------------|
| a. Auditee qualified as low-risk auditee? | _____ <u> x </u> yes _____ no |
|---|------------------------------------|

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020**

Section II – Financial Statement Findings

There are no findings related to the basic financial statements required to be reported under *Governmental Auditing Standards* generally accepted in the United States of America for the year ended June 30, 2020.

Section III – Federal Award Findings and Questioned Costs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a) for the year ended June 30, 2020.

Section IV – Minnesota Legal Compliance Findings

None reported

**FARIBAUT PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 656
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2020**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$ 52,486,855	\$ 52,486,836	\$ 19	Total Revenue	\$ 13,402	\$ 13,403	\$ (1)
Total Expenditures	\$ 52,716,593	\$ 52,716,574	\$ 19	Total Expenditures	\$ 1,144,456	\$ 1,144,456	\$ -
460 Nonspendable Fund Balance	\$ 641,085	\$ 641,085	\$ -	460 Nonspendable Fund Balance	\$ -	\$ -	\$ -
<i>Restricted:</i>				<i>Restricted/Reserved:</i>			
401 Student Activity	\$ 84,957	\$ 84,959	\$ (2)	407 Capital Projects Levy	\$ -	\$ -	\$ -
403 Staff Development	\$ 48,919	\$ 48,919	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
406 Health and Safety	\$ -	\$ -	\$ -	467 LTFM	\$ -	\$ -	\$ -
407 Capital Projects Levy	\$ -	\$ -	\$ -	<i>Restricted:</i>			
408 Cooperative Revenue	\$ -	\$ -	\$ -	464 Restricted Fund Balance	\$ 602,886	\$ 602,886	\$ -
413 Projects Funded by COP	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
414 Operating Debt	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
416 Levy Reduction	\$ -	\$ -	\$ -				
417 Taconite Building Maint	\$ -	\$ -	\$ -	07 DEBT SERVICE			
423 Certain Teacher Programs	\$ -	\$ -	\$ -	Total Revenue	\$ 1,952,275	\$ 1,952,275	\$ -
424 Operating Capital	\$ 299,048	\$ 299,048	\$ -	Total Expenditures	\$ 2,008,105	\$ 2,008,105	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	460 Nonspendable Fund Balance	\$ -	\$ -	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -	<i>Restricted/Reserved:</i>			
428 Learning & Development	\$ -	\$ -	\$ -	425 Bond Refunding	\$ -	\$ -	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	<i>Restricted:</i>			
436 St. Approved Alt. Program	\$ -	\$ -	\$ -	464 Restricted Fund Balance	\$ 518,194	\$ 518,194	\$ -
438 Gifted & Talented	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
440 Teacher Development and Eval	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
441 Basic Skills Programs	\$ -	\$ -	\$ -				
445 Career & Tech Programs	\$ -	\$ -	\$ -	08 TRUST			
448 Achievement and Integration	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
449 Safe Schools Levy	\$ 40,451	\$ 40,451	\$ -	Total Expenditures	\$ -	\$ -	\$ -
450 Pre-Kindergarten	\$ -	\$ -	\$ -	422 Net Assets	\$ -	\$ -	\$ -
451 QZAB Payments	\$ -	\$ -	\$ -				
452 OPEB Liab Not in Trust	\$ -	\$ -	\$ -	20 INTERNAL SERVICE			
453 Unfunded Sev & Retiree Lev	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
459 Basic Skills Extended Time	\$ 55,797	\$ 55,797	\$ -	Total Expenditures	\$ -	\$ -	\$ -
467 LTFM	\$ 758,941	\$ 758,941	\$ -	422 Net Assets	\$ -	\$ -	\$ -
472 Medical Assistance	\$ -	\$ -	\$ -				
<i>Restricted:</i>				25 OPEB REVOCABLE TRUST			
464 Restricted Fund Balance	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
<i>Committed:</i>				Total Expenditures	\$ -	\$ -	\$ -
418 Committed for Separation	\$ -	\$ -	\$ -	422 Net Assets	\$ -	\$ -	\$ -
461 Committed Fund Balance	\$ -	\$ -	\$ -				
<i>Assigned:</i>				45 OPEB IRREVOCABLE TRUST			
462 Assigned Fund Balance	\$ 112,186	\$ 112,186	\$ -	Total Revenue	\$ 133,389	\$ 133,389	\$ -
<i>Unassigned:</i>				Total Expenditures	\$ 202,208	\$ 202,209	\$ (1)
422 Unassigned Fund Balance	\$ 5,950,173	\$ 5,950,171	\$ 2	422 Net Assets	\$ 2,472,215	\$ 2,472,215	\$ -
02 FOOD SERVICE				47 OPEB DEBT SERVICE			
Total Revenue	\$ 2,291,394	\$ 2,291,393	\$ 1	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 2,147,274	\$ 2,147,273	\$ 1	Total Expenditures	\$ -	\$ -	\$ -
460 Nonspendable Fund Balance	\$ -	\$ -	\$ -	460 Nonspendable Fund Balance	\$ -	\$ -	\$ -
<i>Restricted/Reserved:</i>				<i>Restricted:</i>			
452 OPEB Liab Not in Trust	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
<i>Restricted:</i>				464 Restricted Fund Balance	\$ -	\$ -	\$ -
464 Restricted Fund Balance	\$ 643,460	\$ 643,460	\$ -	<i>Unassigned:</i>			
<i>Unassigned:</i>				463 Unassigned Fund Balance	\$ -	\$ -	\$ -
463 Unassigned Fund Balance	\$ -	\$ -	\$ -				
04 COMMUNITY SERVICE							
Total Revenue	\$ 2,799,865	\$ 2,799,860	\$ 5				
Total Expenditures	\$ 2,814,371	\$ 2,814,365	\$ 6				
460 Nonspendable Fund Balance	\$ -	\$ -	\$ -				
<i>Restricted/Reserved:</i>							
426 \$25 Taconite	\$ -	\$ -	\$ -				
431 Community Education	\$ 421,507	\$ 421,507	\$ -				
432 E.C.F.E.	\$ 34,224	\$ 34,224	\$ -				
440 Teacher Development & Eval	\$ -	\$ -	\$ -				
444 School Readiness	\$ 188,724	\$ 188,724	\$ -				
447 Adult Basic Education	\$ 166,470	\$ 166,470	\$ -				
452 OPEB Liability Not Held in Trust	\$ -	\$ -	\$ -				
<i>Restricted:</i>							
464 Restricted Fund Balance	\$ 38,677	\$ 38,678	\$ (1)				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	\$ -	\$ -	\$ -				