Independent School District No. 656
Faribault, Minnesota

Basic Financial Statements

June 30, 2021

Independent School District No. 656
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Independent School District No. 656
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Independent School District No. 656
Board of Education and Administration
June 30, 2021

Board of Education	Position	Term Expires
Chad Wolff	Chairperson	December 31, 2022
John Bellingham	Vice Chairperson	December 31, 2022
Carolyn Treadway	Clerk	December 31, 2022
Courtney Cavellier	Treasurer	December 31, 2022
Richard Olson	Director	December 31, 2024
Casie Steeves	Director	December 31, 2024
Jerry Robicheau	Director	December 31, 2024

Administration	
Todd Sesker	Superintendent
Andrew Adams	Director of Finance and Operations

Independent Auditor's Report

To the School Board
Independent School District No. 656
Faribault, Minnesota

Report on the Basic 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, Faribault, Minnesota, as of and for the year ended June 30, 2021, and the related notes to financial statements, which collectively comprise the District's financial statements as listed in the Table of Contents.

Management's Responsibility for the Basic Financial Statements

The management of Independent School District No. 656 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.

Auditor's Responsibility

Our responsibility is to express opinions on these basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic 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 basic financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 656, Faribault, Minnesota, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, Food Service Special Revenue Fund, and Community Service Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Matters (Continued)

Other Information (Continued)

The accompanying supplementary information identified in the Table of Contents 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 accompanying supplementary information 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 October 12, 2021, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV, Ltd.

St. Cloud, Minnesota
October 12, 2021

Independent School District No. 656
Management's Discussion and Analysis

This section of the District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2021. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Certain comparative information between the current year (2020-2021) and the prior year (2019-2020) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the 2020-2021 fiscal year include the following:

- Student enrollment – students served (enrolled) in the district decreased from the previous year, going from 3,303 in 2019-20 to 3,162 in 2020-21. The student number upon which funding is calculated (includes resident students tuitioned out to other districts) decreased from 3,434 in 2019-20 to 3,302 in 2020-21.
- Net Position Decreased from $1,940,652 to $1,427,946, a decrease of $512,706.
- General Fund revenues were $54,918,756 compared to expenditures of $56,012,561 for expenditures over revenues of $1,093,805.
- Total General Fund balance decreased $525,840. Unassigned General Fund Balance increased by $439,247, due to decrease in expenses from the change in learning models as required by the COVID-19 pandemic.

Overview of the Financial Statements

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

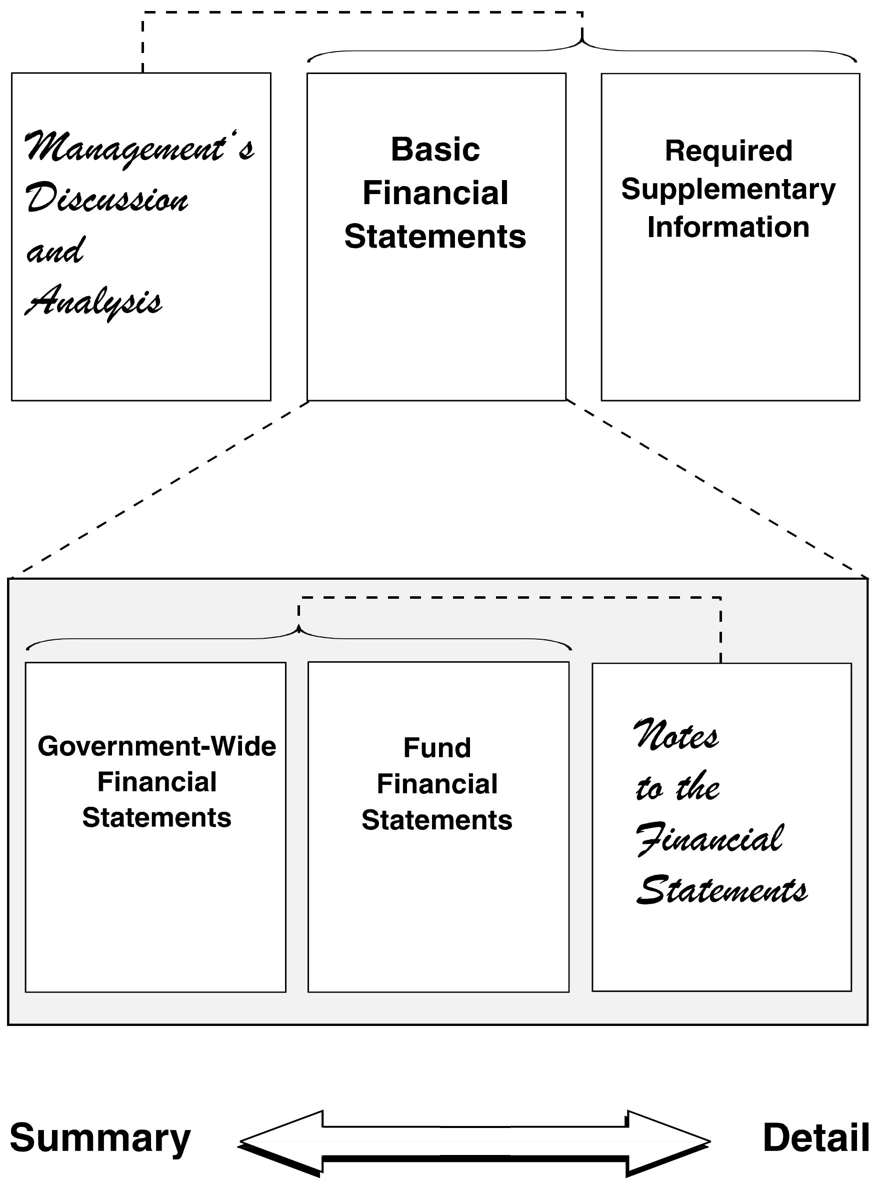
- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations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

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

Overview of the Financial Statements (Continued)

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1
Annual Report Format



Overview of the Financial Statements (Continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

		Fund Statements		
Type of Statements	**Government-wide**	**Governmental Funds**	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire District's government (except fiduciary funds) and the Districts Component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	◆ Statement of net position ◆ Statement of activities	◆ Balance sheet ◆ Statement of revenues, expenditures, & changes in fund balances	◆ Statement of net position ◆ Statement of changes in net position ◆ Statement of cash flows	◆ Statement of fiduciary net position ◆ Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

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

The two government-wide statements report the District's Net Position and how they have changed. Net Position: the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's Net Position are an indicator of whether its financial position is improving or deteriorating, respectively.

Overview of the Financial Statements (Continued)

Government-Wide Statements (Continued)
To assess the overall health of the District you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

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

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

The District has three types of funds:

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

- **Proprietary Funds**: The District uses an internal service fund to account for operations of the District’s self-insured insurance plans. The activities of the funds are reported in a separate Statement of Net Position, Statement of Revenue, Expenses, and Changes in Fund Net Position and Statement of Cash Flows. Theis activity is included in the Government-Wide Statement of Net Position and Statement of Activities.

- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Financial Analysis of the District as A Whole

Net Position

The District's combined Net Position was $1,427,946 on June 30, 2021, a decrease of $512,706. (See Table A-1) This decrease is mainly the result of a planned capital outlay for a new boiler at the high school combined with a decrease in expenses from the change in learning models as required by the COVID-19 pandemic. The fluctuations in the deferred outflows and deferred inflows of resources are related to various TRA and PERA state pension differences and changes in assumptions and proportion.

Table A-1

	Governmental Activities		Percentage
	2021	2020	Change
Current and other assets	$ 29,379,350	$ 24,344,557	20.68%
Capital and noncurrent assets	54,169,183	54,339,131	-0.31%
Total assets	83,548,533	78,683,688	6.18%
Deferred outflows of resources	14,997,326	24,013,044	-37.55%
Current liabilities	9,346,304	8,858,796	5.50%
Long-term liabilities	50,434,209	44,568,903	13.16%
Total liabilities	59,780,513	53,427,699	11.89%
Deferred inflows of resources	37,337,400	47,328,381	-21.11%
Net position			
Invested in capital assets, net of related debt	43,846,680	41,764,812	4.98%
Restricted	2,780,810	3,227,621	-13.84%
Unrestricted	(45,199,544)	(43,051,781)	-4.99%
Net position	$ 1,427,946	$ 1,940,652	26.42%

Changes in Net Position

The District's total revenues were $62,434,841 for the year ended June 30, 2021. Property taxes, unrestricted state formula aid, and other revenue accounted for 55% of total revenue for the year (See Figure A-3). The remaining 45% came from other program revenues (charges for services, operating and capital grants, and contributions). Investment earnings decreased as a result of dropping interest rates as the global economy adjusted to the impact of the COVID-19 pandemic.

Financial Analysis of the District as A Whole (Continued)

Changes in Net Position (Continued)

Table A-2 Change in Net Position
Table A-2
Change in Net Position

	Governmental Activities for the Fiscal Year Ended June 30, 2021	Governmental Activities for the Fiscal Year Ended June 30, 2020	Total Percentage Change
Revenues			
Program revenues			
Charges for services	$ 2,077,685	$ 2,264,607	-8.25%
Operating grants and contributions	25,833,611	22,761,151	13.50%
Capital grants and contributions	576,840	581,671	-0.83%
General revenues			
Property taxes	8,601,501	8,172,915	5.24%
Unrestricted state aid	25,209,143	25,203,625	0.02%
Investment earnings	128,772	277,290	-53.56%
Other	7,289	186,073	-96.08%
Total revenues	62,434,841	59,447,332	5.03%
Expenses			
Administration	2,205,602	2,399,952	-8.10%
District support services	1,706,703	1,678,574	1.68%
Regular instruction	26,359,870	19,537,564	34.92%
Vocational education instruction	537,539	484,558	10.93%
Special education instruction	12,413,596	11,916,050	4.18%
Instructional support services	4,031,190	4,047,321	-0.40%
Pupil support services	5,742,085	5,564,106	3.20%
Sites and buildings	4,675,970	9,614,967	-51.37%
Fiscal and other fixed cost programs	170,909	173,801	-1.66%
Food service	2,111,664	2,147,274	-1.66%
Community service	2,706,199	2,799,290	-3.33%
Interest and fiscal charges on Long-term liabilities	286,220	320,960	-10.82%
Total expenses	62,947,547	60,684,417	3.73%
Increase (decrease) in net position	(512,706)	(1,237,085)	-58.56%
Beginning net position	1,940,652	3,096,983	
Change in accounting principle	-	80,754	
Ending net position	$ 1,427,946	$ 1,940,652	

Financial Analysis of the District as A Whole (Continued)

Figure A-3 Sources of District Revenue for Fiscal 2021

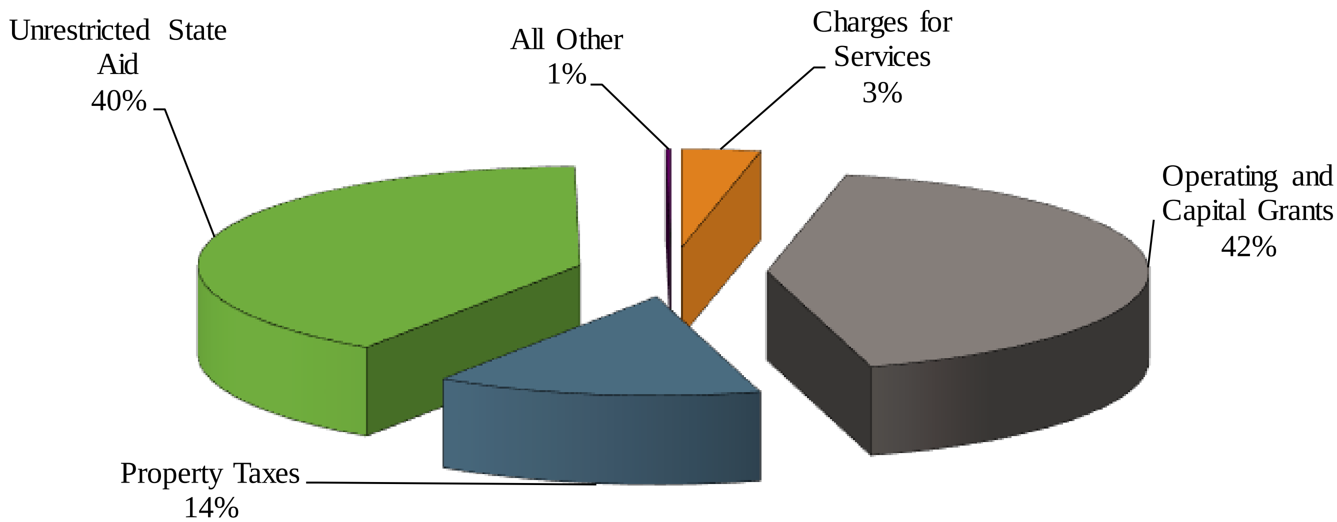
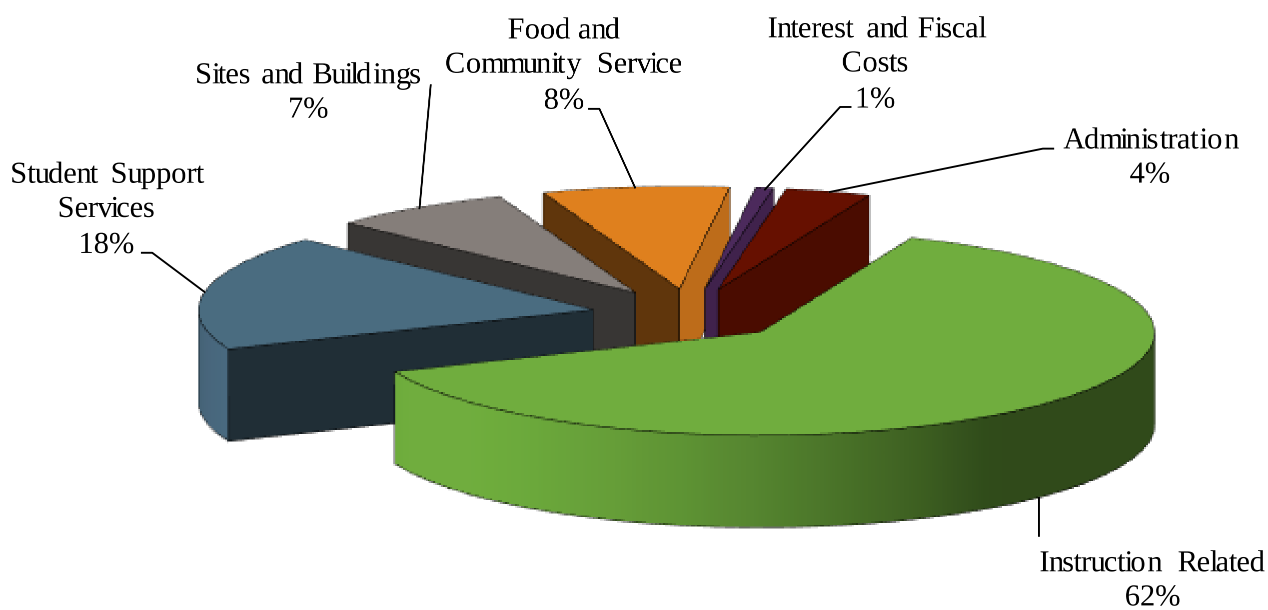


Figure A-4 District Expenses for Fiscal 2021



The total cost of all programs and services was $62,947,547 for fiscal year 2021. The District's expenses are predominately related to educating and caring for students (80%). (See Figure A-4).

The cost of all governmental activities this year was $62,947,547.

- Some of the cost was paid by the users of the District's programs ($2,077,685).

Financial Analysis of the District as A Whole (Continued)

- The federal and state governments subsidized certain programs with grants and contributions ($26,410,451).
- The District's remaining costs ($34,459,411); however, were paid for by District taxpayers and taxpayers of the State of Minnesota.

Typically the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds like Food Service and Community Education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 80% of those resources are spent on instruction and support services associated with education.

Table A-3
Program Expenses and Net Cost of Services

	Total Cost of Services		%	Net Cost of Services		%
	2021	2020	Change	2021	2020	Change
Administration	$ 2,205,602	$ 2,399,952	-8.10%	$ 2,205,602	$ 2,404,785	-8.28%
District support services	1,706,703	1,678,574	1.68%	1,379,794	1,663,075	-17.03%
Regular instruction	26,359,870	19,537,564	34.92%	14,907,330	8,487,544	75.64%
Vocational education instruction	537,539	484,558	10.93%	537,539	485,732	10.67%
Special education instruction	12,413,596	11,916,050	4.18%	3,653,467	4,153,092	-12.03%
Instructional support services	4,031,190	4,047,321	-0.40%	2,411,730	3,292,890	-26.76%
Pupil support services	5,742,085	5,564,106	3.20%	5,424,063	5,144,210	5.44%
Sites and buildings	4,675,970	9,614,967	-51.37%	3,513,547	8,706,283	-59.64%
Fiscal and other fixed cost programs	170,909	173,801	-1.66%	170,909	173,801	-1.66%
Food service	2,111,664	2,147,274	-1.66%	37,811	(131,064)	-128.85%
Community service	2,706,199	2,799,290	-3.33%	(68,601)	375,680	-118.26%
Interest and fiscal charges on long-term liabilities	286,220	320,960	-10.82%	286,220	320,960	-10.82%
Total	$ 62,947,547	$ 60,684,417	3.73%	$ 34,459,411	$ 35,076,988	-1.76%

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $13,438,748. Revenues for the District's governmental funds were $62,392,978 while total expenditures were $64,112,056, for a decrease of $1,719,078. After other financing sources of $4,552,127, the combined fund balance increased $2,833,049. This increase is the result of a $3.82 million issuance of the District's 2020A Certificates of Participation to fund the costs of an early learning center construction project at Roosevelt Elementary School.

General Fund

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

The majority of General Fund revenue is generated by state general education aid. The basic formula allowance in 2021 was $6,567 per adjusted marginal cost per pupil unit (AMCPU). Other factors that influence the general education aid formula include operating referendum allowance, age of school buildings, transportation sparsity index, percent of eligible free and reduced students, number of English Learner (EL) students, number of Gifted and Talented students, and number of open enrolled students in and out of the District. Total general education aid was $31,967,145, which represents 58% of total General Fund revenue. The other major General Fund revenue is state special education aid. Total special education aid in 2021 was $7,291,848, 13% of total General Fund revenue. Other state formulas then determine what portion of the general fund revenue will be provided by property taxes. Property taxes totaled $6,199,033, 11% of total General Fund revenue. Federal grants totaled $6,374,442, 12% of total General Fund Revenue. After factoring in general education aid, special education aid and property taxes, which are all formula driven, and Federal grants, only 6% of General Fund revenues are generated by other miscellaneous state aids and local revenues such as fees or sales.

General Fund – Revenues/Expenditures

The table below presents a summary of General Fund Revenues:

	Year Ended June 30,		Change	
Fund	2021	2020	Increase (Decrease)	Percent
Local sources				
Property taxes	$ 6,199,033	$ 6,093,679	$ 105,354	1.73%
Investment earnings	15,444	195,868	(180,424)	-92.12%
Other	1,390,843	1,373,926	16,917	1.23%
State sources	40,938,994	42,018,113	(1,079,119)	-2.57%
Federal sources	6,374,442	2,805,269	3,569,173	127.23%
Total	$ 54,918,756	$ 52,486,855	$ 2,431,901	4.63%

Revenues from the General Fund totaled $54,918,756, an increase of 4.63% from the prior year. Property taxes increased in the general fund mainly due to decreased equalization aid from the state of Minnesota, resulting in a greater property tax burden on the local taxpayers. Investment earnings decreased due to the rapid drop in interest rates as a result of the economic impact of the COVID-19 pandemic. State sources decreased due to a decrease in enrollment which was partially offset by a 2% increase on the general education aid formula allowance. In addition, the District received increased federal grants as a direct result of the COVID-19 pandemic.

General Fund – Revenues/Expenditures (Continued)
The following schedule presents a summary of General Fund Expenditures:

Table A-6
General Fund Expenditures

	Year Ended June 30,		Change	
	2021	2020	Increase (Decrease)	Percent
Salaries	$ 30,583,055	$ 28,913,093	$ 1,669,962	5.78%
Employee benefits	11,552,662	11,352,781	199,881	1.76%
Purchased services	6,723,079	7,348,094	(625,015)	-8.51%
Supplies and materials	2,916,392	1,942,598	973,794	50.13%
Capital expenditures	2,730,056	1,907,625	822,431	43.11%
Debt service	1,152,281	979,668	172,613	17.62%
Other expenditures	355,036	272,734	82,302	30.18%
Total	$ 56,012,561	$ 52,716,593	$ 3,295,968	6.25%

Total General Fund expenditures increased 6.25% from the prior year. The COVID-19 pandemic resulted in the overall increase in expenditures as a result of federal grants. The District employed additional teachers, academic aids, paraprofessionals, and custodians to meet the evolving demands. Purchased services decreased as a result of paying 85% of the District's transportation contract during distance learning and savings in utilities from the shutdown of buildings during November - February. The large increase in supplies and materials is due to the need for investment in COVID-19 countermeasures, personal protective equipment, and investments in curriculum. Capital expenditures increased due to the replacement the boiler system at the Faribault High School.

Total General Fund balance decreased $525,840. Unassigned General Fund balance increased by $439,247 mainly as a result of savings in expenditures due to the change in learning models and shutdown of buildings in mid-March from the COVID-19 pandemic.

Fund balance is the single best measure of overall financial health. It is the goal of the Faribault Board of Education to maintain an unassigned fund balance of 9.5% of general fund operating expenditures. For the fiscal year ended June 30, 2021, the Faribault School District is in compliance with that fund balance goal.

General Fund Budgetary Highlights
Actual revenues were $436,554 under the final budget, a .8% variance. The variance is due to reduced federal grant spending as a result of the COVID-19 pandemic. Actual expenditures were $1,816,726 under budget, a 3.1% variance. The expenditure variance is mainly the result of less expenditures due to the change in learning models to distance learning in mid-March due to the COVID-19 pandemic.

General Fund Budgetary Highlights (Continued)

The General Fund budget is adjusted throughout the year for changes in enrollment, changes in special education funding assumptions, changes in other state aids, and expenditure changes such as staffing costs, transportation, utilities and capital expenditures. In fiscal year 2021, revenue was adjusted for decreased enrollment, changes in special education funding, increased medical assistance revenue, and changes in local fees due to the COVID-19 pandemic. As for expenditures, the budget was increased throughout the year for changes in staffing and benefit assumptions, however, the District does not reduce the existing budgeted salaries and benefits when the positions are ongoing.

Food Service Fund

The Food Service Fund balance decreased $16,821 for an ending fund balance of $626,639. A larger federal reimbursement rate due to the change in food service delivery models during distance learning contributed to the deficit. The ending fund balance represents slightly over three and a half months' of expenditures.

Community Service Fund

The Community Service Fund balance increased $303,819 for the combined restricted fund balances. New grant opportunities, increased fees for services, and intentional cost control measures implemented to counteract state mandates to provide free childcare during the pandemic resulted in this surplus.

Debt Service Fund

The Debt Service Fund revenues exceeded expenditures and other financing sources by $23,899. The increase is the result of collecting 105% of expected debt service payments through taxes and levies, and the timing of the related prior year adjustments.

Capital Projects Fund

In 2020-2021, the District issued $3,820,000 in Certificates of Participation. This issuance funded an early childhood addition at the Roosevelt Elementary site. This project is included in construction in progress on the Statement of Net Position.

Capital Assets and Debt Administration

Capital Assets

By the end of 2021, the District had invested approximately $104 million in a broad range of capital assets, including school buildings, athletic facilities and fields, computers, and other technology equipment. (More detailed information about capital assets can be found in Note 3 to the financial statements.) Total depreciation expense for the year was $2.7 million.

Capital Assets and Debt Administration (Continued)

Capital Assets (Continued)

Table A-7
Capital Assets (Net of Accumulated Depreciation)

	2021	2020	Percentage Change
Land	$ 1,913,554	$ 1,913,554	0.00%
Construction on progress	736,032	169,722	333.67%
Land improvements	5,731,787	6,135,278	-6.58%
Buildings	43,822,072	43,996,026	-0.40%
Equipment	1,965,738	2,124,551	-7.48%
Total	$ 54,169,183	$ 54,339,131	-0.31%

Long-Term Liabilities

At year-end, the District had $15,604,618 in total long-term debt. See Table A-8. Included in this total, the District has $1,231,845 in compensated absence liabilities. More detailed information about long-term liabilities can be found in Note 4 to the financial statements.

Table A-8
Long-Term Liabilities

	Total Cost of Services		Percentage
	2021	2020	Change
General obligation bonds	$ 7,565,000	$ 9,605,000	-21.24%
Premium	273,572	161,795	69.09%
Certificates of Participation	3,820,000	-	N/A
Lease Purchase Payable	2,314,809	2,625,270	-11.83%
Capital lease	399,392	766,908	-47.92%
Compensated absences payable	1,231,845	1,347,525	-8.58%
Total	$ 15,604,618	$ 14,506,498	7.57%

Factors Bearing on the District's Future

The District is dependent on the State of Minnesota for its revenue authority. The 2021 legislative session did offer 2% on the state aid formula which resulted in additional state aid to the District from the state. Unfortunately, these statutory formula increases are insufficient to meet our instructional needs and increased costs due to inflation.

Enrollment is closely monitored and projections are done using several models. Faribault Public School anticipates continued decline in the number 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 a balanced budget.

Factors Bearing on the District's Future (Continued)
The District is in a strong financial position. Through continued use of enrollment and financial projection models, we will continue to make data-driven decisions to ensure ongoing fiscal health.

The COVID-19 pandemic brings uncertainty to the future financial picture, largely because of the resulting economic downturn.

Contacting the District's Financial Management
This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Finance and Operations Services, Independent School District 656, 710 17th Street SW, Faribault, Minnesota, 55021.

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BASIC FINANCIAL STATEMENTS

Independent School District 656
Statement of Net Position
June 30, 2021

	Governmental Activities
Assets	
Cash and investments	$ 17,701,752
Current property taxes receivable	4,699,216
Delinquent property taxes receivable	66,002
Accounts receivable	45,702
Due from Department of Education	3,803,453
Due from Federal Government through Department of Education	2,484,895
Due from other Minnesota school districts	423,561
Due from Federal Government	3,475
Due from other governmental units	95,719
Prepaid items	55,575
Capital assets	
Capital assets not being depreciated	
Land	1,913,554
Construction in progress	736,032
Capital assets being depreciated (net of depreciation)	
Land improvements	5,731,787
Buildings	43,822,072
Equipment	1,965,738
Total assets	83,548,533
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	14,543,734
Deferred outflows of resources related to other post employment benefits	453,592
Total deferred outflows of resources	14,997,326
Total assets and deferred outflows of resources	$ 98,545,859
Liabilities	
Accounts payable	$ 1,084,639
Salaries and benefits payable	4,811,116
Interest payable	151,682
Due to other Minnesota school districts	380,622
Due to other governmental units	11,190
Unearned revenue	89,167
Bond principal payable, net of premiums	
Payable within one year	2,220,000
Payable after one year	9,438,572
Lease purchase payable	
Payable within one year	318,454
Payable after one year	1,996,355
Capital lease payable	
Payable within one year	92,225
Payable after one year	307,167
Compensated absences payable	
Payable within one year	187,209
Payable after one year	1,044,636
Net pension liability	34,434,815
Net other post employment benefit (OPEB) liability	3,212,664
Total liabilities	59,780,513
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	9,471,767
Deferred inflows of resources related to OPEB	1,334,542
Deferred inflows of resources related to pensions	26,531,091
Total deferred inflows of resources	37,337,400
Net Position	
Net investment in capital assets	43,846,680
Restricted	
Debt service	408,331
Other purposes	2,372,479
Unrestricted	(45,199,544)
Total net position	1,427,946
Total liabilities, deferred inflows of resources, and net position	$ 98,545,859

Independent School District 656
Statement of Activities
Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 2,205,602	$ -	$ -	$ -	$ (2,205,602)
District support services	1,706,703	198	326,711	-	(1,379,794)
Elementary and secondary regular instruction	26,359,870	157,939	11,225,880	68,721	(14,907,330)
Vocational education instruction	537,539	-	-	-	(537,539)
Special education instruction	12,413,596	504,096	8,256,033	-	(3,653,467)
Instructional support services	4,031,190	25,339	1,477,933	116,188	(2,411,730)
Pupil support services	5,742,085	6,159	311,863	-	(5,424,063)
Sites and buildings	4,675,970	294,767	475,725	391,931	(3,513,547)
Fiscal and other fixed cost programs	170,909	-	-	-	(170,909)
Food service	2,111,664	3,054	2,070,799	-	(37,811)
Community education and services	2,706,199	1,086,133	1,688,667	-	68,601
Interest and fiscal charges on long-term debt	286,220	-	-	-	(286,220)
Total governmental activities	$ 62,947,547	$ 2,077,685	$ 25,833,611	$ 576,840	(34,459,411)
General revenues					
Taxes					
Property taxes, levied for general purposes					6,180,563
Property taxes, levied for community service					357,813
Property taxes, levied for debt service					2,063,125
State aid-formula grants					25,209,143
Other general revenues					128,772
Investment income					7,289
Total general revenues					33,946,705
Change in net position					(512,706)
Net position - beginning					1,940,652
Net position - ending					$ 1,427,946

See notes to basic financial statements

Independent School District 656
Balance Sheet – Governmental Funds
June 30, 2021

	General	Food Service	Community Service	Debt Service
Assets				
Cash and investments	$ 10,165,123	$ 667,925	$ 1,160,151	$ 1,631,805
Current property taxes receivable	3,377,157	-	173,315	1,148,744
Delinquent property taxes receivable	45,372	-	2,710	17,920
Accounts receivable	35,243	-	10,459	-
Due from Department of Education	3,572,462	-	210,554	20,437
Due from Federal Government through Department of Education	2,279,465	103,243	102,187	-
Due from federal government	2,774	701	-	-
Due from other Minnesota school districts	423,561	-	-	-
Due from other governmental units	-	-	95,719	-
Prepaid items	55,575	-	-	-
Total assets	$ 19,956,732	$ 771,869	$ 1,755,095	$ 2,818,906
Liabilities				
Accounts payable	$ 501,510	$ 103,594	$ 79,290	$ 474
Salaries and benefits payable	4,693,563	-	117,553	-
Due to other Minnesota school districts	380,622	-	-	-
Due to other governmental units	11,190	-	-	-
Unearned revenue	15,447	41,636	32,084	-
Total liabilities	5,602,332	145,230	228,927	474
Deferred Inflows of Resources				
Unavailable revenue - delinquent property taxes	45,372	-	2,710	17,920
Property taxes levied for subsequent year's expenditures	6,843,311	-	370,037	2,258,419
Total deferred inflows of resources	6,888,683	-	372,747	2,276,339
Fund Balances				
Nonspendable	55,575	-	-	-
Restricted	589,709	626,639	1,153,421	542,093
Assigned	431,013	-	-	-
Unassigned	6,389,420	-	-	-
Total fund balances	7,465,717	626,639	1,153,421	542,093
Total liabilities, deferred inflows of resources, and fund balances	$ 19,956,732	$ 771,869	$ 1,755,095	$ 2,818,906

Building Construction	Total Governmental Funds
$ 3,932,321	$ 17,557,325
-	4,699,216
-	66,002
-	45,702
-	3,803,453
-	2,484,895
-	3,475
-	423,561
-	95,719
-	55,575
$ 3,932,321	$ 29,234,923
$ 281,443	$ 966,311
-	4,811,116
-	380,622
-	11,190
-	89,167
281,443	6,258,406
-	66,002
-	9,471,767
-	9,537,769
-	55,575
3,650,878	6,562,740
-	431,013
-	6,389,420
3,650,878	13,438,748
$ 3,932,321	$ 29,234,923

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Independent School District 656
Reconciliation of the Balance Sheet to
the Statement of Net Position – Governmental Funds
June 30, 2021

Total fund balances - governmental funds	$ 13,438,748
Amounts reported for governmental activities in the Statement of Net Positionare different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	104,419,750
Less accumulated depreciation	(50,250,567)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable, net of premiums	(11,658,572)
Lease purchase payable	(2,314,809)
Capital lease payable	(399,392)
Compensated absences payable	(1,231,845)
Net OPEB liability	(3,212,664)
Net pension liability	(34,434,815)
Deferred outflows of resources and deferred inflows of resources are created as a result of differences in timing and estimates related to pension and OPEB that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	14,543,734
Deferred inflows of resources related to pensions	(26,531,091)
Deferred outflows of resources related to OPEB	453,592
Deferred inflows of resources related to OPEB	(1,334,542)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	66,002
The self-insureself-insured self-insured plans. The assets and liabilities of the Internal Service Fund is included in governmental activities in the Statement of Net Position and interfund activity is removed.	26,099
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	(151,682)
Total net position - governmental activities	$ 1,427,946

Independent School District 656
Statement of Revenues, Expenditures, and
Changes in Fund Balances – Governmental Funds
June 30, 2021

	General	Food Service	Community Service	Debt Service
Revenues				
Local property taxes	$ 6,199,033	$ -	$ 358,864	$ 2,070,493
Other local and county revenues	1,401,838	9,692	1,373,664	1,764
Revenue from state sources	40,938,994	55,222	1,137,804	204,367
Revenue from federal sources	6,374,442	2,008,820	265,264	-
Sales and other conversion of assets	4,449	1,815	-	-
Total revenues	54,918,756	2,075,549	3,135,596	2,276,624
Expenditures				
Current				
Administration	2,156,267	-	-	-
District support services	1,657,776	-	-	-
Elementary and secondary regular instruction	22,311,975	-	-	-
Vocational education instruction	493,783	-	-	-
Special education instruction	11,937,554	-	-	-
Instructional support services	3,737,828	-	-	-
Pupil support services	5,528,336	-	129,297	-
Sites and buildings	4,135,796	-	-	-
Fiscal and other fixed cost programs	170,909	-	-	-
Food service	-	2,090,152	-	-
Community education and services	-	-	2,652,597	-
Capital outlay				
District support services	12,025	-	-	-
Elementary and secondary regular instruction	188,643	-	-	-
Special education instruction	8,955	-	-	-
Instructional support services	219,416	-	-	-
Pupil support services	31,821	-	-	-
Sites and buildings	2,265,605	-	-	-
Food service	-	2,218	-	-
Community education and services	-	-	49,883	-
Debt service				
Principal	1,059,054	-	-	2,040,000
Interest and fiscal charges	93,227	-	-	212,725
Total expenditures	56,012,561	2,092,370	2,831,777	2,252,725
Excess of revenues over (under) expenditures	(1,093,805)	(16,821)	303,819	23,899
Other Financing Sources				
Bond issuance	-	-	-	-
Bond premium	-	-	-	-
Proceeds from capital leases	567,965	-	-	-
Total other financing sources	567,965	-	-	-
Net change in fund balances	(525,840)	(16,821)	303,819	23,899
Fund Balances				
Beginning of year	7,991,557	643,460	849,602	518,194
End of year	$ 7,465,717	$ 626,639	$ 1,153,421	$ 542,093

Building Construction	Total Governmental Funds
$ -	$ 8,628,390
(13,547)	2,773,411
-	42,336,387
-	8,648,526
-	6,264
(13,547)	62,392,978
-	2,156,267
-	1,657,776
-	22,311,975
-	493,783
-	11,937,554
-	3,737,828
-	5,657,633
476,691	4,612,487
-	170,909
-	2,090,152
-	2,652,597
-	12,025
-	188,643
-	8,955
-	219,416
-	31,821
445,932	2,711,537
-	2,218
-	49,883
-	3,099,054
-	305,952
922,623	64,112,056
(936,170)	(1,719,078)
3,820,000	3,820,000
164,162	164,162
-	567,965
3,984,162	4,552,127
3,047,992	2,833,049
602,886	10,605,699
$ 3,650,878	$ 13,438,748

Independent School District 656
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds
Year ended, June 30, 2021

Net change in fund balances - total governmental funds	$ 2,833,049
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	2,520,942
Depreciation expense	(2,690,890)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	115,680
Governmental funds recognize pension contributions as expenditures at the time of payment in the funds whereas the Statement of Activities factors in items related to pension on a full accrual perpective.	
Pension expense	(2,025,632)
Governmental funds recognize OPEB contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to OPEB on a full accural perspective.	(18,613)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.	3,285,943
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus, requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(32,653)
The issuance of long-term debt provides current financial resources to governmental funds and has no effect on net position. These amounts are reported in the governmental funds as a source of financing. These amounts are not shown as revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.	(4,387,965)
Governmental funds report bond premiums as an other financing source at the time of issuance. Premiums are reported as a liability in the government-wide financial statements and amortized over the life of the bond.	(111,777)
The self-insured Health Internal Service Fund is used by management to charge the cost of the self-insured plan. The change in net position is reported within the governmental activities in the Statement of Activities.	26,099
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(26,889)
Change in net position - governmental activities	$ (512,706)

Independent School District 656
Statement of Revenues, Expenditures, and
Changes in Fund Balances –
Budget and Actual – General Fund
Year ended, June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 6,086,668	$ 6,157,614	$ 6,199,033	$ 41,419
Other local and county revenues	1,331,425	1,227,273	1,401,838	174,565
Revenue from state sources	41,001,633	40,957,041	40,938,994	(18,047)
Revenue from federal sources	3,247,436	6,998,482	6,374,442	(624,040)
Sales and other conversion of assets	14,900	14,900	4,449	(10,451)
Total revenues	51,682,062	55,355,310	54,918,756	(436,554)
Expenditures				
Current				
Administration	2,108,779	2,105,027	2,156,267	51,240
District support services	1,768,008	2,150,028	1,657,776	(492,252)
Elementary and secondary regular instruction	21,340,070	23,859,293	22,311,975	(1,547,318)
Vocational education instruction	511,583	537,261	493,783	(43,478)
Special education instruction	11,157,085	11,160,668	11,937,554	776,886
Instructional support services	3,864,141	4,098,209	3,737,828	(360,381)
Pupil support services	5,289,991	5,486,423	5,528,336	41,913
Sites and buildings	4,417,402	4,768,770	4,135,796	(632,974)
Fiscal and other fixed cost programs	176,220	176,220	170,909	(5,311)
Capital outlay				
Administration	8,500	15,600	3,591	(12,009)
District support services	20,000	20,000	12,025	(7,975)
Elementary and secondary regular instruction	97,207	206,363	188,643	(17,720)
Special education instruction	17,500	17,500	8,955	(8,545)
Instructional support services	3,750	202,395	219,416	17,021
Pupil support services	-	32,222	31,821	(401)
Sites and buildings	1,789,700	1,881,144	2,265,605	384,461
Debt service				
Principal	870,555	949,519	1,059,054	109,535
Interest and fiscal charges	132,980	162,645	93,227	(69,418)
Total expenditures	53,573,471	57,829,287	56,012,561	(1,816,726)
Excess of revenues over (under) expenditures	(1,891,409)	(2,473,977)	(1,093,805)	1,380,172
Other Financing Sources (Uses)				
Proceeds from capital leases	-	-	567,965	567,965
Transfers out	(60,000)	(60,000)	-	60,000
Total other financing sources/uses	(60,000)	(60,000)	567,965	627,965
Net change in fund balances	$ (1,951,409)	$ (2,533,977)	(525,840)	$ 2,008,137
Fund Balances				
Beginning of year			7,991,557	
End of year			$ 7,465,717	

Independent School District 656
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Food Service Special Revenue Fund
Year ended, June 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Other local and county revenues	$ 1,020	$ 1,000	$ 9,692	$ 8,692
Revenue from state sources	110,845	-	55,222	55,222
Revenue from federal sources	1,596,106	2,200,000	2,008,820	(191,180)
Sales and other conversion of assets	312,887	1,200	1,815	615
Total revenues	2,020,858	2,202,200	2,075,549	(126,651)
Expenditures				
Current				
Food service	2,128,654	2,040,514	2,090,152	49,638
Capital outlay				
Food service	19,650	19,650	2,218	(17,432)
Total expenditures	2,148,304	2,060,164	2,092,370	32,206
Excess of revenues over (under) expenditures	(127,446)	142,036	(16,821)	(158,857)
Other Financing Sources				
Transfers in	60,000	-	-	-
Net change in fund balances	$ (67,446)	$ 142,036	(16,821)	$ (158,857)
Fund Balances				
Beginning of year			643,460	
End of year			$ 626,639	

Independent School District 656
Statement of Revenues, Expenditures, and
Changes in Fund Balances –
Budget and Actual – Community Service Special Revenue Fund
Year ended, June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 357,406	$ 357,373	$ 358,864	$ 1,491
Other local and county revenues	1,244,792	1,263,899	1,373,664	109,765
Revenue from state sources	1,098,655	1,568,306	1,137,804	(430,502)
Revenue from federal sources	260,750	257,364	265,264	7,900
Total revenues	2,961,603	3,446,942	3,135,596	(311,346)
Expenditures				
Current				
Pupil support services	109,048	139,663	129,297	(10,366)
Community education and services	2,702,444	2,916,215	2,652,597	(263,618)
Capital outlay				
Community education and services	130,436	77,000	49,883	(27,117)
Total expenditures	2,948,388	3,132,878	2,831,777	(301,101)
Net change in fund balances	$ 13,215	$ 314,064	303,819	$ (10,245)
Fund Balances				
Beginning of year			849,602	
End of year			$ 1,153,421	

Independent School District 656
Statement of Net Position – Proprietary Funds
As of June 30, 2021

	Governmental Activities - Health Insurance Internal Service Fund
Assets	
Current	
Cash and cash equivalents	$ 144,427
Liabilities	
Current	
Incurred but not reported claims	$ 118,328
Net Position	
Unrestricted	26,099
Total liabilities and net position	$ 144,427

Independent School District 656
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
Year Ended June 30, 2021

	Governmental Activities - Health Insurance Internal Service Fund
Operating Revenue	
Charges for services	$ 2,730,132
Operating Expenses	
Insurance	2,704,033
Operating income	26,099
Net Position	
Beginning of year	-
End of year	$ 26,099

Independent School District 656
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2021

	Governmental Activities - Internal Service Funds
Cash Flows - Operating Activities	
Receipts from District contributions	$ 2,730,132
Employee claims paid	(2,585,705)
Net cash flows - operating activities	144,427
Cash and Cash Equivalents	
Beginning of year	-
End of year	$ 144,427
Reconciliation of Operating Income to Net Cash Flows - Operating Activities	
Operating income	$ 26,099
Adjustments to reconcile operating income to net cash flows - operating activities	
Incurred but not reported claims	118,328
Net cash flows - operating activities	$ 144,427

Independent School District 656
Statement of Fiduciary Net Position
June 30, 2021

	OPEB Trust Fund
Assets	
Current	
Investments	
Brokered money markets	$ 2,127
Mutual funds	2,892,104
Total assets	$ 2,894,231
Liabilities	
Accounts payable	$ 526
Net Position	
Held in Trust for OPEB	$ 2,893,705

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2021

	OPEB Trust Fund
Additions	
Investment income	$ 585,390
Deductions	
Health insurance benefits	146,480
Administration fees	17,420
Total deductions	163,900
Change in net position	421,490
Net Position Held in Trust for OPEB	
Beginning of year	2,472,215
End of year	$ 2,893,705

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

The student activity accounts of the District are under board control and are not reported separately.

B. Basic Financial Statement Information

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 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 are not included among program revenues; instead they are properly reported as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The OPEB Trust Fund is presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, this Fund is not incorporated into the government-wide statements.

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

2. Recording of Expenditures

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

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds:

Major Funds:

General Fund – This fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures. Local, state, and federal revenues are received in this fund to specifically support the Food Service Program.

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education, or other similar services. The District receipts property tax and local and state revenues that were received for these specific purposes in this fund.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond principal, interest, and related costs.

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

Proprietary Funds:

Health Insurance Internal Service Fund – This fund is used to account for self-insured employee health costs and related stop loss insurance.

Fiduciary Fund:

OPEB Trust Fund – This fund is used to account for financial resources held by the District in a trustee capacity in an irrevocable trust to be used by the District to pay OPEB benefits to employees.

D. Deposits and Investments

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

The District's total cash and investments are comprised of two major components, each with its own set of legal and contractual provisions as described below.

District Funds Other than OPEB Trust Fund

Cash and investments at June 30, 2021, were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF), municipal obligations, brokered money markets, mutual funds, and commercial paper. In accordance with GASB Statement No. 79, the various MSDLAF shares are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF. Investments in the MSDLAF + Max must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions.

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

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

OPEB Trust Fund

These funds represent investments administered by the District's OPEB Trust Fund investment managers. As of June 30, 2021, they were comprised of brokered money markets and mutual funds. The District's investment policy extends to the OPEB Trust Fund investments.

Minnesota Statutes authorize the OPEB Trust Fund to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, corporate bonds, common stock, and foreign stock of the highest quality, mutual funds, repurchase and reverse agreements, commercial paper of the highest quality with a maturity no longer than 270 days and in the State Board of Investments. Investments are stated at fair value.

E. Property Tax Receivable

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2020, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2021. The remaining portion of the levy will be recognized when measurable and available. Property taxes levied for subsequent year's expenditures are reported as deferred inflows of resources.

G. Prepaid Items

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

H. Property Taxes

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

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

I. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets (Continued)

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 purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 15 years for equipment.

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

J. Deferred Outflows/Inflows of Resources

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

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

K. Long-Term Obligations

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Long-Term Obligations (Continued)

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

L. Compensated Absences

The District compensates substantially all full-time classified employees for vacation benefits at various rates based on length of service. The expenditures for vacation pay are recognized when payment is made.

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 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.

The District has recorded a liability for accrued convertible sick leave based on the sick leave accumulated at June 30, 2021 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.

M. Pensions

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Pensions (Continued)

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

N. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, the District recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

O. Fund Equity

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

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include amounts set aside for inventory and prepaid items.

- Restricted Fund Balances – These amounts are subject to externally enforceable legal restrictions by either a) creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.

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

- Assigned Fund Balances – The School Board delegates the Superintendent and the Director of Finance and Operations the power to assign balances for specific purposes. Amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Net Position

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

Q. Use of Estimates

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

R. Budgetary Information

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

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Capital Projects, and Debt Service Funds.
4. Budgets for the General, Special Revenue, Capital Projects, and Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

District Funds Other than OPEB Trust Fund

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

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of 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, which requires that a district's deposits to be collateralized as required by *Minnesota Statutes* 118A.03 for any amount exceeding Federal Deposit Insurance Corporation (FDIC), SAIF, BIF, FCUA, or other federal deposit coverage.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

District Funds Other than OPEB Trust Fund (Continued)
As of June 30, 2021, the District's bank balances were not exposed to custodial credit risk because they were fully insured through FDIC and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

As of June 30, 2021, the District's funds other than OPEB Trust Fund had the following deposits:

Checking	$ 322,296
Savings	3,007,638
Petty cash	2,810
Certificates of deposit	600,000
Total	$ 3,932,744

B. Investments

District Funds Other than OPEB Trust Fund
As of June 30, 2021, the District had the following investments:

Investment Type	Investment Maturities Less than 1 Year
MSDLAF+ Liquid Class	$ 53,914
MSDLAF+ Max Class	9,478,801
Municipal Obligations	1,080,808
Commercial Papers	2,949,049
Brokered Money Markets	10,281
Mutual Funds	196,155
Total investments	$ 13,769,008

Interest Rate Risk: This is the risk related to managing exposure to fair value arising from increasing interest rates. The District's investment policy 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.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

District Funds Other than OPEB Trust Fund (Continued)
Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. As of June 30, 2021, the District's investments in MSDLAF and MSDLAF+ Max Class were rated AAAm by S&P, investments in municipal obligations are rated Aa3 by Moody's and A-1+ by S&P, and investments in commercial paper are rated A to A-1 by S&P. The mutual fund investments are not rated.

Concentration of Credit Risk: This relates to the limit on the amount the District may invest in any one issuer. The District's policy states the District should diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy requires all investment securities to be held in third party safekeeping by an institution designated as custodial agent.

The District has the following recurring fair value measurements as of June 30, 2021.

- $4,029,857 of $13,769,008 are valued using interactive data (level 2 inputs)

OPEB Trust Fund
As of June 30, 2021, the District's OPEB Trust Fund had the following investments:

Investment Type	Maturities Less than 1 Year
Brokered money markets	$ 2,127
Mutual funds	2,892,104
Total investments	$ 2,894,231

Credit Risk: As of June 30, 2021, the District's OPEB Trust Fund investments in the brokered money markets and mutual funds were unrated.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments

The following is a summary of deposits and investments as of June 30, 2021:

District funds other than OPEB trust fund	
Deposits (Note 2.A.)	$ 3,932,744
Investments (Note 2.B.)	13,769,008
OPEB Trust Fund	
Investments (Note 2.B.)	2,894,231
Total deposits and investments	$ 20,595,983

Deposits and investments are presented in the June 30, 2021, basic financial statements as follows:

Statement of Net Position	
Cash and investments	$ 17,701,752
Statement of Fiduciary Net Position	
Investments	2,894,231
Total deposits and investments	$ 20,595,983

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021, 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	169,722	2,201,280	1,634,970	736,032
Total capital assets not being depreciated	2,083,276	2,201,280	1,634,970	2,649,586
Capital assets being depreciated				
Land improvements	10,025,246	34,000	-	10,059,246
Buildings and improvements	83,041,542	1,782,773	-	84,824,315
Equipment	8,048,264	137,859	1,299,520	6,886,603
Total capital assets being depreciated	101,115,052	1,954,632	1,299,520	101,770,164
Less accumulated depreciation for				
Land improvements	3,889,968	437,491	-	4,327,459
Buildings and improvements	39,045,516	1,956,727	-	41,002,243
Equipment	5,923,713	296,672	1,299,520	4,920,865
Total accumulated depreciation	48,859,197	2,690,890	1,299,520	50,250,567
Total capital assets being depreciated, net	52,255,855	(736,258)	-	51,519,597
Governmental activities, capital assets, net	$ 54,339,131	$ 1,465,022	$ 1,634,970	$ 54,169,183

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2021, was charged to the following governmental functions:

Administration	$ 400
District support services	78,098
Elementary and secondary regular instruction	2,478,545
Vocational education	13,805
Special education	1,828
Instructional support services	3,366
Pupil support services	2,200
Sites and buildings	84,097
Food service	27,891
Community service	660
Total depreciation expense	$ 2,690,890

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One year
Long-term liabilities						
G.O. bonds, including refunding bonds						
2017A School Building Refunding Bonds	03/14/17	2.00%	$ 9,780,000	02/01/24	$ 5,880,000	$ 1,920,000
2019A Tax Abatement Bonds	04/17/19	3.00%	1,845,000	02/01/30	1,685,000	165,000
Total G.O. bonds					7,565,000	2,085,000
Certificates of Participation						
2020A Certificate of Participation	12/17/20	3.00%	3,820,000	10/01/40	3,820,000	135,000
Unamortized bond premium					273,572	-
Lease purchase payable					2,314,809	318,454
Capital lease payable					399,392	92,225
Compensated absences					1,231,845	187,209
Total all long-term liabilities					$ 15,604,618	$ 2,817,888

The long-term bond liabilities listed above were issued to finance acquisition and construction of capital facilities, parking lot repairs and improvements, computers, and LED lighting. G.O. bonds are liquidated from the Debt Service Fund while certificates of participation and capital leases are liquidated from the General Fund. Other long-term liabilities, such as compensated absences, OPEB and pensions are typically liquidated through the General Fund.

NOTE 4 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds and Certificate of Participation

Minimum annual principal and interest payments required to retire bond and certificate of participation liabilities:

Year Ending June 30,	G.O. Bonds Principal	G.O. Bonds Interest	G.O. Bonds Total
2022	$ 2,085,000	$ 168,150	$ 2,253,150
2023	2,130,000	124,800	2,254,800
2024	2,175,000	80,500	2,255,500
2025	180,000	35,250	215,250
2026	185,000	29,850	214,850
2027-2030	810,000	61,500	871,500
Total	$ 7,565,000	$ 500,050	$ 8,065,050

Year Ending June 30,	Certificates of Participation Principal	Certificates of Participation Interest	Certificates of Participation Total
2022	$ 135,000	$ 113,202	$ 248,202
2023	155,000	83,025	238,025
2024	155,000	78,375	233,375
2025	160,000	73,650	233,650
2026	165,000	68,775	233,775
2027-2031	910,000	268,700	1,178,700
2032-2036	1,015,000	163,950	1,178,950
2037-2041	1,125,000	57,250	1,182,250
Total	$ 3,820,000	$ 906,927	$ 4,726,927

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	$ 9,605,000	$ -	$ 2,040,000	$ 7,565,000
Unamortized bond premium	161,795	164,162	52,385	273,572
Certificates of participation	-	3,820,000	-	3,820,000
Lease purchase payable	2,625,270	-	310,461	2,314,809
Capital leases	766,908	567,965	935,481	399,392
Compensated absences	1,347,525	1,390,237	1,505,917	1,231,845
Total long-term liabilities	$ 14,506,498	$ 5,942,364	$ 4,844,244	$ 15,604,618

NOTE 4 – LONG-TERM DEBT (CONTINUED)

D. Lease Purchase Payable and Capital Lease Obligations

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:

Year Ending	Lease Purchase Payable		
June 30,	Principal	Interest	Total
2022	$ 319,454	$ 67,084	$ 386,538
2023	328,710	57,828	386,538
2024	338,237	48,301	386,538
2025	348,042	38,496	386,538
2026	252,401	28,403	280,804
2027-2031	727,965	59,849	787,814
Total	$ 2,314,809	$ 299,961	$ 2,614,770

The District entered into a capital lease for copier machines on July 1, 2016. The capital assets related to the copier lease have been capitalized and are being depreciated.

The District entered into a capital lease for iPads on April 19, 2018. The individual units fall below the capitalization threshold and are therefore not capitalized. This lease was paid off during fiscal year 2021.

On July 1, 2020, the District entered into a capital lease for HP laptops. The capital lease obligation totaled $246,375. The capital lease agreement includes annual principal and interest payments of $64,713 through fiscal year 2024. The individual laptops fall below the capitalization threshold and therefore are not capitalized.

On October 22, 2020, the District entered into a capital lease for LED lighting. The capital lease obligation totaled $321,590. The capital lease agreement includes semiannual principal and interest payments of $20,207 through fiscal year 2027. The individual lights fall below the capitalization threshold and therefore are not capitalized.

NOTE 4 – LONG-TERM DEBT (CONTINUED)

D. Lease Purchase Payable and Capital Lease Obligations (Continued)
The future minimum lease obligations and the net present value of these minimum lease payments are listed below.

Year Ending June 30,	
2022	$ 105,128
2023	105,127
2024	105,127
2025	40,415
2026	40,415
2027	40,415
Total minimum lease payments	436,626
Less amount representing interest	(37,234)
Present value of net minimum lease payments	$ 399,392

NOTE 5 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years. The were no significant reductions in the District's insurance coverage during the year ended June 30, 2021.

Starting during the year ended June 30, 2021, the District provides a medical program. All funds of the District participate in the program and make payments to the Health Insurance Self-Insurance Internal Service Fund. Based on requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the basic financial statements indicates that it is probable a liability has been incurred at the date of the basic financial statements and the amount of the loss can be reasonably estimated. Interfund premiums are charged to user funds as quasi-external transactions. The District has stop loss coverage of $125,000 for the Health Self-Insurance Internal Service Fund. The total claims liability reported in the Fund at June 30, 2021, was $118,328 and includes amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability a loss has occurred and the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amounts are as follows:

Year	Beginning Balance	Claims Expense and Estimates	Claims Payments	Ending Balance
2021	$ -	$ 2,411,695	$ 2,293,367	$ 118,328

NOTE 6 – FUND BALANCES/NET POSITION

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

A. Fund Balances

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

	General Fund	Food Service	Community Service	Debt Service	Building Construction
Nonspendable					
Prepaid Items	$ 55,575	$ -	$ -	$ -	$ -
Restricted for					
Student activities	92,785	-	-	-	-
Staff development	45,387	-	-	-	-
Operating Capital	423,872	-	-	-	-
Safe Schools Levy	27,665	-	-	-	-
Building projects funded by COP	-	-	-	-	3,062,438
Debt Service	-	-	-	542,093	-
Capital Projects	-	-	-	-	588,440
Community Services	-	-	11,843	-	-
Community Education	-	-	581,686	-	-
Early Childhood and Family Education	-	-	117,084	-	-
School Readiness	-	-	220,169	-	-
Adult Basic Education	-	-	222,639	-	-
Food Service	-	626,639	-	-	-
Total restricted	589,709	626,639	1,153,421	542,093	3,650,878
Assigned for					
Athletic equipment	112,186	-	-	-	-
Long-term receivable	318,827	-	-	-	-
Total assigned	431,013	-	-	-	-
Unassigned for					
General Purposes	6,808,551	-	-	-	-
Long-Term Facilities Maintenance*	(419,131)	-	-	-	-
Total unassigned	6,389,420	-	-	-	-
Total fund balance	$ 7,465,717	$ 626,639	$ 1,153,421	$ 542,093	$ 3,650,878

* Negative restricted fund balances have been reclassified as unassigned.

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

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

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Code 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (*Minnesota Statutes* 122A.61, subdivision 1).

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

Restricted/Reserved for Safe Schools Levy – The unspent resources available from the safe schools levy must be restricted in this account for future use.

Restricted/Reserved for Building Projects Funded by Certificates of Participation – This balance represents available resources in the Building Construction Fund for projects funded by certificates of participation with related lease levy authority under *Minnesota Statues*, Section 126C.40.

Restricted/Reserved for Debt Service – This balance represents the balances of the Debt Service Fund available for future debt principal and interest payments.

Restricted/Reserved for Capital Projects – This balance represents resources available to fund facilities maintenance projects.

Restricted for Community Service – This balance represents the positive fund balance of the Community Service Fund.

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

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

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

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education.

Restricted for Food Service – This balance represents the positive fund balance of the Food Service Fund.

Assigned Fund Balances – These balances represent amounts segregated from the unassigned fund balance for various purposes as determined by the Superintendent and the Director of Finance and Operations.

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* 123B.595, subd. 12). The balance as of June 30, 2021, is a deficit (negative) $419,131, which is presented within unassigned fund balance for the purposes of reporting in accordance with generally accepted accounting principles.

B. Net Position

Net position restricted for other purposes on the Statement of Net Position is comprised of the total positive net position of the Food Service and Community Service Funds and the total positive position of the restricted fund balance portion of the General Fund.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2021, was $4,746,275. The components of pension expense are noted in the following plan summaries.

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

Teachers' Retirement Association

A. Plan Description

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

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

B. Benefits Provided

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier I Benefits

Tier I	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:

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

Tier II Benefits

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (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

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2019, June 30, 2020, and June 30, 2021, were:

	June 30, 2019		June 30, 2020		June 30, 2021	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.0%	11.71%	11.0%	11.92%	11.0%	12.13%
Coordinated	7.5%	7.71%	7.5%	7.92%	7.5%	8.13%

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

Employer contributions reported in TRA's ACFR Statement of Changes in Fiduciary Net Position	$	425,223
Deduct Employer contributions not related to future contribution efforts		(56)
Deduct TRA's contributions not included in allocation		(508)
Total employer contributions		424,659
Total non-employer contributions		35,587
Total contributions reported in *Schedule of Employer and Non-Employer Allocations*	$	460,246

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation date	July 1, 2020
Experience study	June 5, 2015 November 6, 2017, (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028 and 3.25% thereafter
Projected salary increase	2.85% to 8.85% before July 1, 2028 and 3.25% to 9.25% thereafter
Cost of living adjustment	1.0% for January 2020 through January 2023, then increasing by 0.1% each year up to 1.5% annually.
Mortality Assumptions	
Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

Asset Class	Final Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	35.5 %	5.10 %
International equity	17.5	5.30
Private markets	25.0	5.90
Fixed income	20.0	0.75
Unallocated cash	2.0	0.00
Total	100 %	

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2016 is six years. The "Difference Between Expected and Actual Experience", "Changes of Assumptions", and "Changes in Proportion" use the amortization period of six years in the schedule presented. The amortization period for "Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of five years as required by GASB 68.

Changes in actuarial assumptions and methods for the July 1, 2020 valuation:

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

E. Discount Rate
The discount rate used to measure the total pension liability was 7.5%. 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 2020 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

F. Net Pension Liability
On June 30, 2021, the District reported a liability of $28,163,567 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.3812% at the end of the measurement period and 0.3876% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 28,163,567
State's proportionate share of the net pension liability associated with the District	2,359,927

For the year ended June 30, 2021, the District recognized pension expense of $4,609,881. Included in this amount, the District recognized $216,185 as pension expense for the support provided by direct aid.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

On June 30, 2021, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 564,794	$ 436,261
Net difference between projected and actual earnings on plan investments	385,986	-
Changes of assumptions	10,663,261	24,309,209
Changes in proportion	280,978	1,446,904
Contributions to TRA subsequent to the measurement date	1,905,826	-
Total	$ 13,800,845	$ 26,192,374

The $1,905,826 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

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

Year Ended June 30,	Pension Expense Amount
2022	$ 459,725
2023	(9,274,659)
2024	(6,048,419)
2025	516,785
2026	49,213
Total	$ (14,297,355)

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

G. Pension Liability Sensitivity
The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.5%) and 1 percent higher (8.5%) than the current rate.

District proportionate share of NPL		
1% decrease in Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% increase in Discount Rate (8.5%)
$ 43,118,123	$ 28,163,567	$ 15,841,769

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

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

Public Employees' Retirement Association

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

General Employees Retirement Plan

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan Benefits

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

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

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2021 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2021, were $581,806. The District's contributions were equal to the required contributions as set by state statute.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2021, the District reported a liability of $6,271,248 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $193,337. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.1046% at the end of the measurement period and 0.1056% for the beginning of the period.

District's proportionate share of net pension liability	$	6,271,248
State of Minnesota's proportionate share of the net pension liability associated with the District		193,337
Total	$	6,464,585

For the year ended June 30, 2021, the District recognized pension expense of $136,394 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized an additional $16,826 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)
At June 30, 2021, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 57,721	$ 23,727
Changes in actuarial assumptions	-	233,624
Difference between projected and actual investments earnings	97,814	-
Change in proportion	5,548	81,366
Contributions paid to PERA subsequent to the measurement date	581,806	-
Total	$ 742,889	$ 338,717

The $581,806 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2022	$ (416,866)
2023	(17,783)
2024	105,499
2025	151,516
Total	$ (177,634)

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.25 %	Per year
Active member payroll growth	3.00 %	Per year
Investment rate of return	7.50 %	

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on the Pub-2010 General Employee Mortality table. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year.

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2020:

Changes in Actuarial Assumptions

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

Changes in Actuarial Assumptions (Continued)

- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

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

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

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

Asset Class	Final Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	35.5 %	5.10 %
International stocks	17.5	5.30
Bonds (fixed income)	20.0	0.75
Alternative assets (private markets)	25.0	5.90
Cash	2.0	0.00
Total	100 %	

F. Discount Rates

The discount rate used to measure the total pension liability in 2020 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 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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

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

	1% Decrease in Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proprionate share of the PERA net pension liability	$ 10,050,635	$ 6,271,248	$ 3,153,557

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description
The District's defined benefit OPEB plan provides a single-employer defined benefit health care plan to eligible retirees. The plan offers health insurance and subsidized benefits to eligible employees and their spouses through the District's health insurance plan. Medical coverage is administered by Blue Cross Blue Shield. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

The OPEB plan is included in the report of the District. A separate financial report is not issued.

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 in 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.

Certain non-teaching employees who are at least 55 years of age with year 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 HSA if on a high deductible plan.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

C. Members

As of July 1, 2019, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	32
Active employees	536
Total	568

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Blue Cross Blue Shield. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2021, the District contributed $284,354 to the plan.

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Investment rate of return	5.80%, net of investment expense
Salary increases	Service graded table
Inflation	2.50%
Healthcare cost trend increases	6.25% in 2020, decreasing to 5.0% over five years
Mortality Assumption	Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

The actuarial assumptions used in the July 1, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2014 and a study of economic assumptions dated November 2017.

The following are changes to actuarial assumptions since the prior valuation:

- The discount rate was changed from 3.50% to 2.90%.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term rate of return by weighing the expected future real related of return by the target asset allocation percentage 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	Final Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	33 %	6.70%
Fixed income	50	4.80%
International equity	17	6.70%
Total	100 %	5.80%

The details of the investments and the investment policy are described in Note 2 of the District's basic financial statements. For the year ended June 30, 2020, the annual money-weighted rate of return on investments was 5.2%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Discount Rate

The discount rate used to measure the total OPEB liability was 2.90%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. Changes in Net OPEB Liability

The District's total OPEB liability of $5,684,879 was measured as of June 30, 2020, and was determined by an actuarial valuation as of July 1, 2019.

	Increase (Decrease)		
	Total OPEB Liability (a)	Fiduciary Net Postion (b)	Net OPEB Liability (a)-(b)
Balances at June 30, 2019	$ 5,358,929	$ 2,541,034	$ 2,817,895
Changes for the year			
Service cost	431,991	-	431,991
Interest	194,604	-	194,604
Assumption changes	164,992	-	164,992
Differences between expected and actual economic experience	-	(13,991)	13,991
Employer contributions	-	266,513	(266,513)
Projected investment returns	-	147,380	(147,380)
Benefit payments	(465,637)	(465,637)	-
Administrative expense	-	(3,084)	3,084
Net changes	325,950	(68,819)	394,769
Balances at June 30, 2020	$ 5,684,879	$ 2,472,215	$ 3,212,664

Plan fiduciary net position as a percentage of the total OPEB liability is 43.49%.

H. OPEB Liability Sensitivity

The following presents the District's net OPEB liability calculated using the discount rate of 2.9% well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease in Discount Rate (1.9%)	Current Discount Rate (2.9%)	1% increase in Discount Rate (3.9%)
Net OPEB Liability	$ 3,559,764	$ 3,212,664	$ 2,874,503

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. OPEB Liability Sensitivity (Continued)

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

	1% decrease (5.25% decreasing to 4.00%)	Current (6.25% decreasing to 5.00%)	1% increase (7.25% decreasing to 6.00%)
Net OPEB Liability	$ 2,661,196	$ 3,212,664	$ 3,875,005

I. OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the District recognized OPEB expense of $247,302. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Investment losses	$ 27,817	$ -
Liability gains	-	898,861
Changes of assumptions	141,421	435,681
Employer Contributions	284,354	-
Total	$ 453,592	$ 1,334,542

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

I. OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)
$284,354 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Total
2022	$ (234,997)
2023	(234,997)
2024	(235,001)
2025	(240,544)
2026	(243,331)
Thereafter	23,566
Total	$ (1,165,304)

NOTE 9 – OPERATING LEASE - 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 $237,250 of rent for this building during the year ended June 30, 2021, 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.

NOTE 10 – JOINT POWERS AGREEMENT

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 finance 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, 2021.

NOTE 11 – 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 agreement 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 12 – COMMITMENTS

	Revised Contract Amount	Total Completed	Commitment Outstanding
Roosevelt Elementary Addition	$ 2,351,070	$ 443,219	$ 1,907,851

NOTE 13 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending June 30, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 656
Schedule of Changes in Net OPEB Liability
And Related Rations

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Total OPEB Liability				
Service cost	$ 431,991	$ 382,611	$ 459,497	$ 446,114
Interest	194,604	246,581	246,070	243,084
Differenced between expected and actual experience	-	(1,258,407)	-	-
Changes of assumptions	164,992	(609,955)	-	-
Benefit payments	(465,637)	(567,189)	(659,291)	(570,970)
Other changes	-	14,278	-	-
Net change in total OPEB liability	325,950	(1,792,081)	46,276	118,228
Beginning of year	5,358,929	7,151,010	7,104,734	6,986,506
End of year	$ 5,684,879	$ 5,358,929	$ 7,151,010	$ 7,104,734
Plan Fiduciary Net Pension (FNP)				
Employer contributions	$ 266,513	$ 3,018,189	$ -	$ -
Projected investment income	133,389	90,754	-	-
Benefit payments	(465,637)	(567,189)	-	-
Administrative expense	(3,084)	(720)	-	-
Net change in plan fiduciary net position	(68,819)	2,541,034	-	-
Beginning of year	2,541,034	-	-	-
End of year	$ 2,472,215	$ 2,541,034	$ -	$ -
Net OPEB liability	$ 3,212,664	$ 2,817,895	$ 7,151,010	$ 7,104,734
Plan FNP as a percentage of the total OPEB liability	43.49%	47.42%	0.00%	0.00%
Covered-employee payroll	$ 28,281,892	$ 27,458,148	$ 28,185,892	$ 27,364,944
Net OPEB liability as a percentage of covered-employee	11.36%	10.26%	25.37%	25.96%

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

Independent School District No. 656
Schedule of Investment Returns

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Annual money-weighted rate of return, net of investment expense	5.80%	5.20%	N/A	N/A

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

Independent School District No. 656
Schedule of District's and Non-Employer Proportionate Share (if Applicable) of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1181%	$ 5,547,747	$ -	$ 5,547,747	$ 6,215,476	89.3%	78.75%
2015	0.1103%	5,716,318	-	5,716,318	6,378,760	89.6%	78.19%
2016	0.1136%	9,223,757	120,483	9,344,240	7,058,880	130.7%	68.91%
2017	0.1079%	6,888,265	86,620	6,974,885	6,968,560	98.8%	75.90%
2018	0.1054%	5,847,160	191,696	6,038,856	7,060,427	82.8%	79.53%
2019	0.1056%	5,838,387	181,492	6,019,879	7,478,627	78.1%	80.23%
2020	0.1046%	6,271,248	193,337	6,464,585	7,460,507	84.1%	79.06%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.3926%	$ 18,090,723	$ 1,272,601	$ 19,363,324	$ 17,997,714	100.5%	81.50%
2015	0.3860%	24,038,753	2,948,815	26,987,568	19,928,707	120.6%	76.77%
2016	0.4023%	95,958,149	9,632,120	105,590,269	21,210,000	452.4%	44.88%
2017	0.3908%	78,010,769	7,541,449	85,552,218	20,931,547	372.7%	51.57%
2018	0.3922%	24,635,736	2,314,163	26,949,899	21,913,467	112.4%	78.07%
2019	0.3876%	24,705,706	2,186,373	26,892,079	21,080,078	117.2%	78.21%
2020	0.3812%	28,163,567	2,359,927	30,523,494	22,149,697	127.2%	75.48%

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

Independent School District No. 656
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 450,622	$ 450,622	$ -	$ 6,215,476	7.25%
2015	478,407	478,407	-	6,378,760	7.50%
2016	529,416	529,416	-	7,058,880	7.50%
2017	522,642	522,642	-	6,968,560	7.50%
2018	529,532	529,532	-	7,060,427	7.50%
2019	560,897	560,897	-	7,478,627	7.50%
2020	559,538	559,538	-	7,460,507	7.50%
2021	581,806	581,806	-	7,757,413	7.50%

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

Schedule of District Contributions
TRA Retirement Fund
Last Ten Years

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 1,259,840	$ 1,259,840	$ -	$ 17,997,714	7.00%
2015	1,494,653	1,494,653	-	19,928,707	7.50%
2016	1,590,750	1,590,750	-	21,210,000	7.50%
2017	1,569,866	1,569,866	-	20,931,547	7.50%
2018	1,643,510	1,643,510	-	21,913,467	7.50%
2019	1,625,274	1,625,274	-	21,080,078	7.71%
2020	1,754,256	1,754,256	-	22,149,697	7.92%
2021	1,905,826	1,905,826	-	23,441,894	8.13%

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

Independent School District No. 656
Notes to the Required Supplementary Information

TRA Retirement Fund

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

2019 Changes
Changes in Actuarial Assumptions
- None

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

2017 Changes
Changes in Actuarial Assumptions
- The discount rate was increased to 5.12% from 4.66%.
- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.

TRA Retirement Fund (Continued)

2017 Changes (Continued)
Changes in Actuarial Assumptions (Continued)
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes
Changes in Actuarial Assumptions
- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes
Changes of Benefit Terms
- The DTRFA was merged into TRA on June 30, 2015.

TRA Retirement Fund (Continued)

2015 Changes (Continued)

Changes in Actuarial Assumptions

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

General Employees Fund

2020 Changes
Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2019 Changes
Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2018 Changes
Changes in Actuarial Assumptions

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

General Employees Fund (Continued)

2018 Changes (Continued)
Changes in Plan Provisions

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

2017 Changes
Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2016 Changes
Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

General Employees Fund (Continued)

2015 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

Independent School District No. 656
Notes to the Required Supplementary Information

Other Post Employment Benefits

2021 Changes
Changes in Actuarial Assumptions

- The discount rate was changed from 3.50% to 2.90%.

2020 Changes
Changes in Plan Provisions

- The post employment 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 a $100 per month subsidy was reduced from 50% to 25%.
- The discount rate was changed from 3.40% to 3.50%.
- The discount rate changed from 3.20% to 2.90%.

2019 Changes
Other Changes

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

2018 Changes
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 20 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 School 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%.

SUPPLEMENTARY INFORMATION

Independent School District 656
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2021

	Audit	UFARS	Audit-UFARS
01 GENERAL FUND			
Total revenue	$54,918,756	$54,918,756	$ -
Total expenditures	56,012,561	56,012,563	(2)
Nonspendable:			
4.60 Nonspendable fund balance	55,575	55,575	-
Restricted/Reserved:			
4.01 Student Activities	92,785	92,783	2
4.02 Scholarships	-		-
4.03 Staff Development	45,387	45,387	-
4.07 Capital Projects Levy	-	-	-
4.08 Cooperative Programs	-	-	-
4.13 Building Projects Funded by COP/LP	-	-	-
4.14 Operating Debt	-	-	-
4.16 Levy Reduction	-	-	-
4.17 Taconite Building Maintenance	-	-	-
4.24 Operating Capital	423,872	423,872	-
4.26 $25 Taconite	-	-	-
4.27 Disabled Accessibility	-	-	-
4.28 Learning and Development	-	-	-
4.34 Area Learning Center	-	-	-
4.35 Contracted Alternative Programs	-	-	-
4.36 State Approved Alternative Program	-	-	-
4.38 Gifted and Talented	-	-	-
4.40 Teacher Development and Evaluation	-	-	-
4.41 Basic Skills Programs	-	-	-
4.45 Career Technical Programs	-	-	-
4.48 Achievement and Integration Revenu	-	-	-
4.49 Safe School Crime	27,665	27,665	-
4.50 Transition for Pre-kindergarten	-	-	-
4.51 QZAB payments	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-
4.53 Unfunded Severance and Retirement Levy	-	-	-
4.59 Basic Skills Extended Time	-	-	-
4.67 Long-Term Facilities Maintenance	(419,131)	(419,131)	-
Restricted:		-	-
4.72 Medical Assistance	-	-	-
4.64 Restricted fund balance	-	-	-
4.75 Title VII - Impact Aid	-	-	-
4.76 Payments in Lieu of Taxes	-	-	-
Committed:			
4.18 Committed for separation	-	-	-
4.61 Committed	-	-	-
Assigned:			
4.62 Assigned fund balance	431,013	431,013	-
Unassigned:			
4.22 Unassigned fund balance (net positio	6,808,551	6,808,551	-
02 FOOD SERVICE FUND			
Total revenue	$ 2,075,549	$ 2,075,548	$ 1
Total expenditures	2,092,370	2,092,371	(1)
Nonspendable:			
4.60 Nonspendable fund balance	-	-	-
Restricted/Reserved:			
4.52 OPEB liabilities not held in trust	-	-	-
Restricted:			
4.64 Restricted fund balance	626,639	626,637	2
Unassigned:			
4.63 Unassigned fund balance	-	-	-
04 COMMUNITY SERVICE FUND			
Total revenue	$ 3,135,596	$ 3,135,595	$ 1
Total expenditures	2,831,777	2,831,777	-
Nonspendable:			
4.60 Nonspendable fund balance	-	-	-
Restricted/Reserved:			
4.26 $25 Taconite	-	-	-
4.31 Community Education	581,686	581,687	(1)
4.32 ECFE	117,084	117,084	-
4.40 Teacher Development and Evaluation	-	-	-
4.44 School Readiness	220,169	220,169	-
4.47 Adult Basic Education	222,639	222,639	-
4.52 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
4.64 Restricted fund balance	11,843	11,843	-
Unassigned:			
4.63 Unassigned fund balance	-	-	-

	Audit	UFARS	Audit-UFARS
06 BUILDING CONSTRUCTION FUND			
Total revenue	$ (13,547)	$ (13,547)	$ -
Total expenditures	922,623	922,623	-
Nonspendable:			
4.60 Nonspendable Fund Balance	-	-	-
Restricted/Reserved:			
4.07 Capital Projects Levy	-	-	-
4.13 Building Projects Funded by COP	3,062,438	3,062,438	-
4.67 LTFM	-	-	-
Restricted:			
4.64 Restricted fund balance	588,440	588,440	-
Unassigned:			
4.63 Unassigned fund balance	-	-	-
07 DEBT SERVICE FUND			
Total revenue	$ 2,276,624	$ 2,276,623	$ 1
Total expenditures	2,252,725	2,252,725	-
Nonspendable:			
4.60 Nonspendable fund balance	-	-	-
Restricted/Reserved:			
4.25 Bond refunding	-	-	-
4.33 Maximum effort loan aid	-	-	-
4.51 QZAB payments	-	-	-
4.67 LTFM	-	-	-
Restricted:			
4.64 Restricted fund balance	542,093	542,092	1
Unassigned:			
4.63 Unassigned fund balance	-	-	-
08 TRUST FUND			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
4.01 Student Activities	-	-	-
4.02 Scholarships	-	-	-
4.22 Net position	-	-	-
18 CUSTODIAL			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Restricted/Reserved:			
4.01 Student Activities	-	-	-
4.02 Scholarships	-	-	-
4.48 Achievement and Integration	-	-	-
4.64 Restricted	-	-	-
20 INTERNAL SERVICE FUND			
Total revenue	$ 2,730,132	$ 2,730,132	$ -
Total expenditures	2,704,033	2,704,032	1
Unassigned:			
4.22 Net position	26,099	26,100	(1)
25 OPEB REVOCABLE TRUST			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
4.22 Net position	-	-	-
45 OPEB IRREVOCABLE TRUST			
Total revenue	$ 585,390	$ 585,390	$ -
Total expenditures	163,900	163,900	-
Unassigned:			
4.22 Net position	2,893,705	2,893,705	-
47 OPEB DEBT SERVICE			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Nonspendable:			
4.60 Nonspendable fund balance	-	-	-
Restricted:			
4.25 Bond refundings	-	-	-
4.64 Restricted fund balance	-	-	-
Unassigned:			
4.63 Unassigned fund balance	-	-	-

Independent School District 656
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Funding Source	Federal CFDA Number	Pass Through Entity	Grant Name	Expenditures
Department of Agriculture	10.555	Minnesota Department of Education	Commodities Program	$ 130,885
Department of Agriculture	10.556	Minnesota Department of Education	Special Milk	620
Department of Agriculture	10.559	Minnesota Department of Education	Summer Food Service	1,666,418
			Total Child Nutrition Cluster	1,797,923
Department of Agriculture	10.558	Minnesota Department of Education	Child Care Food Program	216,779
Department of Education	84.010	Minnesota Department of Education	Title I, Part A	952,854
Department of Education	84.367	Minnesota Department of Education	Title II, Part A - Supporting Effective Instruction	160,237
Department of Education	84.365	Minnesota Department of Education	Title III, Part A - English Language Acquisition	106,923
Department of Education	84.424	Minnesota Department of Education	Title IV, Part A - Student Support and Academic Enrichment	64,840
Department of Education	84.027	Minnesota Department of Education	Special Education	922,913
Department of Education	84.173	Minnesota Department of Education	Disabled Early Education	28,586
			Total Special Education Cluster	951,499
Department of Education	84.181	Minnesota Department of Education	Special Education - Grants for Infants and Families	17,908
Department of Education	84.371	Minnesota Department of Education	Comprehensive Literacy Development	1,719,467
Department of Education	84.287	Minnesota Department of Education	Twenty-First Century Community Learning Centers	207,144
Department of Education	84.206	Minnesota Department of Education	Javits Gifted and Talented	22,827
Department of Education	21.019C	Minnesota Department of Education	COVID-19 Coronavirus Relief Fund	1,129,267
Department of Education	21.019C	Direct	COVID-19 Coronavirus Relief Fund	3,475
			Total Coronavirus Relief Fund	1,132,742
Department of Education	84.425D	Minnesota Department of Education	COVID-19 Elementary and Secondary School Education Relief (ESSER) Fund	790,224
Department of Education	84.425C	Minnesota Department of Education	COVID-19 Governor's Emergency Education Relief (GEER) Fund	101,562
Department of Education	84.425D	Minnesota Department of Education	COVID-19 Elementary and Secondary School Education Relief (ESSER) II Fund	156,680
Department of Education	84.425D	Minnesota Department of Education	COVID-19 Expanded Summer Larning - ESSER	172,951
			Total Education Relief Cluster	1,221,417
Department of Education	84.002	Southern MN ABE Consortium	Adult Basic Education	18,457
Total Federal Expenditures				$ 8,591,017

Independent School District No. 656
Notes to Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INVENTORY

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

NOTE 4 – INDIRECT COST RATE

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

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

Independent Auditor's Report

To the School Board
Independent School District No. 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 basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656, Faribault, Minnesota, as of and for the year ending June 30, 2021, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 12, 2021.

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

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

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

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the District's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the basic financial statement. 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*.

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

BerganKDV, Ltd.

St. Cloud, Minnesota
October 12, 2021

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Independent Auditor's Report

To the School Board
Independent School District No. 656
Faribault, Minnesota

Report on Compliance for Each Major Federal Program
We have audited Independent School District No. 656's, Faribault, Minnesota compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplemen*t that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

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.

Auditor's 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 of 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 legal determination of the District's compliance.

Opinion on Each Major Federal Program
In our opinion, Independent School District No. 656 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, 2021.

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

BerganKDV, Ltd.

St. Cloud, Minnesota
October 12, 2021

Independent School District No. 656
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Basic Financial Statements	
Type of auditor's report issued:	We issued an unmodified opinion on the fair presentation of the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP)
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Noncompliance material to basic financial statements noted?	No
Federal Awards	
Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No
Identification of Major Programs	
CFDA No.:	10.555, 10.556, 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
CFDA No.:	21.019
Name of Federal Program or Cluster:	Coronavirus Relief Fund
CFDA No.:	84.425
Name of Federal Program or Cluster:	Education Stabilization Fund
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	No

Independent School District No. 656
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – BASIC 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, 2021.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs identified.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.

Minnesota Legal Compliance

Independent Auditor's Report

To the School Board
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 basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656, Faribault, Minnesota, as of and for the year ended June 30, 2021, and the related notes to basic financial statements, and have issued our report thereon dated October 12, 2021.

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

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

BerganKDV, Ltd.

St. Cloud, Minnesota
October 12, 2021