



Financial Statements

June 30, 2022

Independent School District No. 2752
Fairmont Area Schools

Independent School District No. 2752

Fairmont Area Schools

Table of Contents

June 30, 2022

School Board and Administration (Unaudited).....	1
Independent Auditor's Report	2
Management's Discussion and Analysis	6
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Governmental Funds	
Balance Sheet	17
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Positions	18
Statement of Revenues, Expenditures and Changes in Fund Balances	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund	21
Statement of Net Position - Fiduciary Fund	22
Statement of Changes in Fiduciary Net Position - Fiduciary Fund.....	23
Notes to Financial Statements.....	24
Required Supplementary Information	
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	62
Schedule of Employer's Share of Net Pension Liability	64
Schedule of Employer's Contributions	65
Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.....	66
Combining and Individual Fund Schedules	
General Fund	
Schedule of Changes in UFARS Fund Balances	72
Nonmajor Governmental Funds	
Combining Balance Sheet	73
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	74
Other Supplementary Information	
Schedule of Expenditures of Federal Awards	75
Notes to Schedule of Expenditures of Federal Awards	76
Uniform Financial Accounting and Reporting Standards Compliance Table	77
Additional Reports	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	78
Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance	80
Report on <i>Minnesota Legal Compliance</i>	83
Schedule of Findings and Questioned Costs.....	84

Independent School District No. 2752
Fairmont Area Schools
School Board and Administration (Unaudited)
Year Ended June 30, 2022

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Board		
Nicole Green	Chairperson	2024
Rufus Rodriguez	Vice-Chairperson	2022
Mari Myren	Clerk	2022
Julie Laue	Treasurer	2024
Dan Brookens	Director	2024
Michael Edman	Director	2022
Administration		
Andy Traetow	Superintendent	
Chris Muhvich	Business Manager	



Independent Auditor's Report

The School Board of
Independent School District No. 2752
Fairmont Area Schools
Fairmont, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairmont Area Schools ("the District"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2022, and the respective changes in financial position, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Adoption of New Accounting Standard

As discussed in Notes 1 and 12 to the financial statements, the District has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement has been made to the general fund balance and governmental activities net position as of July 1, 2021, to restate beginning net position. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the District's total OPEB liability and related ratios, and schedule of employer's share of net pension liability and schedule of employer's contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of changes in the general fund UFARS fund balances; nonmajor fund combining balance sheet; nonmajor fund combining schedule of revenues, expenditures, and changes in fund balances; and the uniform financial accounting and reporting standards compliance table and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of changes in the general fund uniform financial accounting and reporting standards fund balances; nonmajor fund combining balance sheet; nonmajor fund combining schedule of revenues, expenditures, and changes in fund balances; and the uniform financial accounting and reporting standards compliance table and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with Legal Compliance Audit Guide prepared by the Office of the State Auditor pursuant to Minn. Stat. §6.65, we have also issued a report dated October 11, 2022 on our consideration of the District's compliance with aspects of the provisions of the Minnesota Legal Compliance Audit Guide for School Districts. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with Office of the State Auditor's Minnesota Legal Compliance Audit Guide for School Districts in considering the District's compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.

A handwritten signature in black ink that reads "Eide Sallie LLP". The signature is written in a cursive, flowing style.

Mankato, Minnesota
October 11, 2022

This section of Fairmont Area Schools – Independent School District No. 2752's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2022.

Financial Highlights

Key financial highlights for the 2022 fiscal year:

- The District's net deficit decreased by \$3,152,123 to a deficit of \$9,982,556. This deficit is primarily related to the net pension liability, which has had a cumulative effect of decreasing net position by approximately \$15,829,000 since its implementation in fiscal year 2015.
- General fund revenues were \$24,399,061 while expenditures were \$26,100,980.
- The general fund total fund balance decreased approximately \$1,673,000 resulting in a total of approximately \$7,762,000.
- The Capital Projects fund balance decreased by approximately \$5,000,000 to a total of approximately \$2,400,000.
- The Debt service fund balance decreased by approximately \$61,000 due to the payoff of bonds, to a total of approximately \$411,000.
- The Food service fund balance increased by approximately \$294,000 to a total of approximately \$1,124,000.
- The Community Service fund balance increased by approximately \$99,000 to a total of approximately \$499,000.

Overview of the Financial Statements

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

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- The fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

- A. Management's Discussion and Analysis
- B. Basic Financial Statements
- C. District-Wide Financial Statements
- D. Fund Financial Statements

Footnote 1 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 management's discussion and analysis highlights the structure and contents of each of the statements.

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, 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 when earned or incurred regardless of when cash is received or paid.

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds as follows:

Governmental Funds – All 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.

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 district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the fund which is held for Partners in Education. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of 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 deficit was \$9,982,556 on June 30, 2022. This deficit is primarily related to the net pension liability, which has had a cumulative effect of decreasing net position by approximately \$15,829,000 since its implementation in fiscal year 2015.

Statement of Net Position June 30, 2022 and 2021

	2022	2021
Assets		
Current assets	\$ 21,984,273	\$ 27,904,581
Capital assets	31,024,720	27,057,589
Total assets	<u>53,008,993</u>	<u>54,962,170</u>
Deferred Outflows of Resources	<u>6,289,225</u>	<u>6,357,740</u>
Liabilities		
Other liabilities	3,447,060	3,208,925
Long-term liabilities	46,874,915	53,433,944
Total liabilities	<u>50,321,975</u>	<u>56,642,869</u>
Deferred Inflows of Resources	<u>18,958,799</u>	<u>17,803,573</u>
Net Deficit		
Net investment in capital assets	(2,619,348)	(2,243,651)
Restricted for specific purposes	2,330,226	9,402,970
Unrestricted	<u>(9,693,434)</u>	<u>(20,285,851)</u>
Total net deficit	<u>\$ (9,982,556)</u>	<u>\$ (13,126,532)</u>

The District maintains \$9,693,434 in negative unrestricted net position due to various restrictions thereof.

Independent School District No. 2752

Fairmont Area Schools

Management's Discussion and Analysis

June 30, 2022

Statement of Activities
Years Ended June 30, 2022 and 2021

	2022	2021
Revenues		
Program revenues		
Charges for service	\$ 842,696	\$ 560,339
Operating grants and contributions	5,652,544	3,640,028
General		
Property taxes	4,901,198	5,139,462
Aids and payments from state and other	17,769,433	18,229,256
Unrestricted investment earnings	6	337,702
Miscellaneous revenues	322,447	197,567
Total revenues	<u>29,488,324</u>	<u>28,104,354</u>
Expenses		
Administration	1,300,641	1,140,201
District support services	672,034	701,312
Regular instruction	8,340,376	16,336,849
Vocational education instruction	888,052	611,520
Special education instruction	3,673,314	3,706,046
Community education and services	553,142	522,079
Instructional support services	1,281,450	1,364,119
Pupil support services	3,963,180	3,612,187
Sites and buildings	4,613,479	3,175,202
Fiscal and other fixed-cost programs	1,050,533	958,742
Total expenses	<u>26,336,201</u>	<u>32,128,257</u>
Change in Net Deficit	3,152,123	(4,023,903)
Net Deficit - Beginning, as Restated for 2022 (Note 12)	<u>(13,134,679)</u>	<u>(9,102,629)</u>
Net Deficit - Ending	<u>\$ (9,982,556)</u>	<u>\$ (13,126,532)</u>

Changes in Net Position – The District's total revenues were \$29,488,324 for the year ended June 30, 2022. Property taxes and state formula aid accounted for 76.9% of total revenue for the year. The remainder came from other general revenues, investment earnings, and program revenues.

The total cost of all programs and services was \$26,336,201. The District's expenses are predominantly related to educating and caring for students. The purely administrative activities of the District accounted for 4.9% of the total expenses.

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds. The Districts' governmental funds reported a combined positive fund balance of \$13,177,550. The District had a decrease in the combined fund balance of \$6,440,786. Revenues for the District's governmental funds were \$29,443,304 while total expenditures were \$35,912,627. The primary reason for the decrease in fund balance was due to expenditures for the building construction project.

General Fund

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

The following schedule presents a summary of General Fund Revenues:

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2022	2021		
Local property taxes	\$ 2,774,906	\$3,237,512	\$ (462,606)	-14.3%
Other local sources	811,750	505,575	306,175	60.6%
State sources	18,364,406	17,800,033	564,373	3.2%
Federal sources	2,447,999	1,928,678	519,321	26.9%
Total General Fund revenues	<u>\$ 24,399,061</u>	<u>\$ 23,471,798</u>	<u>\$ 927,263</u>	4.0%

The revenue increased in the General Fund by \$927,263 or 4.0% from the previous fiscal year. The decrease in local property taxes is attributed to changes in levy amounts. The mix of property tax and state aid can change significantly from year to year without any net change on revenue. The increase in other local sources is attributed to resuming fundraising and charging admission to sports events that were suspended for COVID-19 in the prior year. The increase in federal sources is attributed to the various federal COVID-19 grants the district received.

Independent School District No. 2752

Fairmont Area Schools

Management's Discussion and Analysis

June 30, 2022

The following schedule presents a summary of General Fund expenditures:

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2022	2021		
Salaries and benefits	\$ 17,868,173	\$16,708,401	\$ 1,159,772	6.9%
Purchased services	5,353,621	4,604,769	748,852	16.3%
Supplies and materials	1,008,497	1,380,430	(371,933)	-26.9%
Capital expenditures	1,795,666	906,598	889,068	98.1%
Other expenditures	75,023	66,120	8,903	13.5%
Total General Fund expenditures	<u>\$ 26,100,980</u>	<u>\$ 23,666,318</u>	<u>\$ 2,434,662</u>	10.3%

Total General Fund expenditures increased \$2,434,662 or 10.3% from the previous year. The increase to salaries and benefits is primarily attributed to the various federal COVID-19 grants the district received throughout the year. These grants allowed the district to increase staffing to help with the transition of learning models, increased hours for support staff to help ensure proper COVID-19 protocols were followed, and the purchase of PP&E supplies to help slow the spread of COVID-19. The increase to purchased services is primarily due to an increase in resident students attending Southern Plains ALC and PSEO options and a significant increase in utility costs. The increase in capital expenditures is primarily related to the construction project for the vocational building.

General Fund Budgetary Highlights

Over the course of the year, the District amended the annual operating budget through board action.

The District's final general fund results when compared to the budget are:

- Actual revenues were approximately \$44,000 less than budgeted.
- Actual expenditures were approximately \$12,000 more than budgeted.

Capital Project Fund

- Expenditures exceeded revenues and other financing sources by approximately \$4,998,000 in the Capital Project Fund.

Debt Service Fund

- Expenditures exceeded revenues by approximately \$61,000 in the Debt Service Fund.

Food Service Fund

- Revenues exceeded expenditures by approximately \$294,000 in the Food Service Fund.

Community Service Fund

- Revenues exceeded expenditures by approximately \$99,000 in the Community Service Fund.

Enrichment Opportunities Permanent Trust Fund

- Revenues exceeded expenditures by \$73 in the Enrichment Opportunities Permanent Trust Fund.

Hunt Farm Permanent Trust Fund

- Expenditures exceeded revenues by \$102,000 in the Hunt Farm Permanent Trust Fund.

Capital Asset and Debt Administration

By the end of 2022, the District had invested \$68,956,883 in a broad range of capital assets, including district buildings, athletic facilities, computer and equipment. Total depreciation/amortization expense for fiscal year 2022 was \$2,215,979. See Note 6 to the financial statements for further information.

Capital Assets
June 30, 2022 and 2021

	2022	2021
Land	\$ 232,907	\$ 232,907
Construction in progress	4,931,192	836,892
Site improvements	6,749,186	6,374,981
Building	53,483,433	52,142,358
Equipment	3,390,349	3,252,129
Right-of-use leased property	169,816	169,816
Accumulated depreciation/amortization	(37,932,163)	(35,815,642)
Total capital assets	<u>\$ 31,024,720</u>	<u>\$ 27,193,441</u>

Long-Term Liabilities

At year-end, the District had \$35,000,000 in general obligation bonds, along with unamortized bond premiums and discounts which total an additional \$1,065,168, a decrease of \$1,809,148 from the prior year. The District also has \$276,981 in severance payable and \$77,969 in compensated absences payable.

The District also has \$8,616,417 in net pension liability and \$1,838,380 in total OPEB obligations at June 30, 2022.

See Notes 7, 8, 9, and 10 to the financial statements for further information.

Factors Bearing on the District's Future

With the exception of the voter-approved operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. The district is in a very strong financial position due to administration working very carefully to ensure that important areas such as: classroom and district technology, curriculum, staff development, vocational, equipment and literacy are funded by setting aside money into assigned fund balances.

The district anticipates normal operations moving forward in the wake of the COVID-19 Pandemic. The district has remaining funds from the Elementary and Secondary School Emergency Relief Fund (ESSER II & III) that we will be using to target learning loss while maintaining a balance budget.

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 Superintendent's Office, Independent School District 2752, 714 Victoria Street, Suite 103, Fairmont, MN 56031.

Independent School District No. 2752
Fairmont Area Schools
Statement of Net Position
June 30, 2022

Assets	
Cash and cash equivalents	\$ 14,280,171
Investment, land	933,031
Receivables	
Current property taxes	2,991,909
Delinquent property taxes	85,352
Accounts	68,689
Due from other governmental units	3,229,338
Interest	13,923
Prepaid items	343,483
Inventories	38,377
	<u>21,984,273</u>
Capital assets	
Land	232,907
Construction in progress	4,931,192
Improvements	6,749,186
Buildings	53,483,433
Equipment	3,390,349
Right-of-use assets	169,816
Less accumulated depreciation	<u>(37,932,163)</u>
Total capital assets, net of depreciation	<u>31,024,720</u>
Total assets	<u>53,008,993</u>
Deferred Outflows of Resources	
Other postemployment benefits	357,362
Pension plans	5,931,863
Total deferred outflows of resources	<u>6,289,225</u>
Liabilities	
Accounts payable	848,946
Accrued interest payable	440,211
Due to other governmental units	110,505
Payroll deductions	917,777
Salaries payable	1,067,668
Unearned revenue	61,953
Long-term liabilities	
Due within one year - other than OPEB and pension	1,985,877
Due in more than one year - other than OPEB and pension	34,434,241
Due in more than one year - total other post-employment benefits obligation	1,838,380
Due in more than one year - net pension liability	8,616,417
Total liabilities	<u>50,321,975</u>
Deferred Inflows of Resources	
Property tax levied for subsequent year	5,714,522
Other postemployment benefits	99,771
Pension plans	13,144,506
Total deferred inflows of resources	<u>18,958,799</u>
Net Deficit	
Net investment in capital assets	(2,619,348)
Restricted for specific purposes	2,330,226
Unrestricted	(9,693,434)
Total net deficit	<u>\$ (9,982,556)</u>

The Notes to Financial Statements are an integral part of this statement.

Independent School District No. 2752
Fairmont Area Schools
Statement of Activities
Year Ended June 30, 2022

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities				
Administration	\$ 1,300,641	\$ -	\$ 135,407	\$ (1,165,234)
District support services	672,034	-	-	(672,034)
Regular instruction	8,340,376	433,640	3,060	(7,903,676)
Vocational education instruction	888,052	2,883	-	(885,169)
Special education instruction	3,673,314	53,836	1,968,751	(1,650,727)
Community education and services	553,142	245,813	235,003	(72,326)
Instructional support services	1,281,450	96	-	(1,281,354)
Pupil support services	3,963,180	105,695	3,310,323	(547,162)
Sites and buildings	4,613,479	733	-	(4,612,746)
Fiscal and other fixed-cost programs	1,050,533	-	-	(1,050,533)
Total governmental activities	<u>\$ 26,336,201</u>	<u>\$ 842,696</u>	<u>\$ 5,652,544</u>	<u>(19,840,961)</u>
General Revenues				
Property taxes, levied for general purposes				2,796,602
Property taxes, levied for community service				144,933
Property taxes, levied for debt service				1,959,663
Aids and payments from state and federal				17,733,722
County apportionment				35,711
Unrestricted investment income				6
Gain on disposal of capital assets				23,324
Miscellaneous revenues				299,123
Total general revenues				<u>22,993,084</u>
Change in Net Deficit				3,152,123
Net Deficit - Beginning, as Restated (Note 12)				<u>(13,134,679)</u>
Net Deficit - Ending				<u>\$ (9,982,556)</u>

Independent School District No. 2752
Fairmont Area Schools
Governmental Funds
Balance Sheet
June 30, 2022

	General	Capital Projects	Debt Service	Other Governmental Funds	Totals
Assets					
Cash and cash equivalents	\$ 8,118,239	\$ 2,748,615	\$ 1,634,276	\$ 1,779,041	\$ 14,280,171
Investment, land	-		-	933,031	933,031
Receivables					
Current property taxes	1,702,624	-	1,219,616	69,669	2,991,909
Delinquent property taxes	44,580	-	38,468	2,304	85,352
Accounts	67,786	-	-	903	68,689
Due from other governmental units	3,129,541	-	71,540	28,257	3,229,338
Interest	13,923	-	-	-	13,923
Prepaid items	340,817	-	-	2,666	343,483
Inventories	13,121	-	-	25,256	38,377
Total assets	\$ 13,430,631	\$ 2,748,615	\$ 2,963,900	\$ 2,841,127	\$ 21,984,273
Liabilities					
Accounts payable	\$ 494,568	\$ 327,515	\$ -	\$ 26,863	\$ 848,946
Due to other governmental units	110,505	-	-	-	110,505
Payroll deductions	917,777	-	-	-	917,777
Salaries payable	1,045,166	-	-	22,502	1,067,668
Unearned revenue	-	-	-	61,953	61,953
Total liabilities	2,568,016	327,515	-	111,318	3,006,849
Deferred Inflows of Resources					
Unavailable revenue - property taxes	44,580	-	38,468	2,304	85,352
Property taxes levied for subsequent year	3,056,305	-	2,514,576	143,641	5,714,522
Total deferred inflows of resources	3,100,885	-	2,553,044	145,945	5,799,874
Fund Balance					
Nonspendable	353,938	-	-	964,704	1,318,642
Restricted	699,649	2,421,100	410,856	1,619,160	5,150,765
Committed	400,000	-	-	-	400,000
Assigned	2,832,537	-	-	-	2,832,537
Unassigned	3,475,606	-	-	-	3,475,606
Total fund balance	7,761,730	2,421,100	410,856	2,583,864	13,177,550
Total liabilities, deferred inflows of resources, and fund balance	\$ 13,430,631	\$ 2,748,615	\$ 2,963,900	\$ 2,841,127	\$ 21,984,273

Independent School District No. 2752
Fairmont Area Schools
Reconciliation of the Governmental Fund
Balance Sheet to the Statement of Net Positions
June 30, 2022

Total Fund Balances - Governmental Funds	\$ 13,177,550
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the funds.	31,024,720
Accrued interest payable for long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(440,211)
Delinquent property taxes are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	85,352
Total OPEB obligation liabilities are not recognized in the funds.	(1,838,380)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.	(6,955,052)
Long-term liabilities, including bonds payable, severance, compensated absences, and net pension liability are not due and payable in the current period, and therefore are not reported as liabilities in the funds.	<u>(45,036,535)</u>
Total Net Deficit - Governmental Activities	<u><u>\$ (9,982,556)</u></u>

Independent School District No. 2752
Fairmont Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2022

	General	Capital Project	Debt Service	Other Governmental Funds	Totals
Revenues					
Local property tax levies	\$ 2,774,906	\$ -	\$ 1,959,663	\$ 144,933	\$ 4,879,502
Other local and county sources	811,750	67,972	2,783	282,374	1,164,879
State sources	18,364,406	-	717,279	282,641	19,364,326
Federal sources	2,447,999	-	-	1,573,092	4,021,091
Loss on investments	-	-	-	(101,969)	(101,969)
Sales and other conversion of assets	-	-	-	105,603	105,603
Miscellaneous	-	9,872	-	-	9,872
Total revenues	24,399,061	77,844	2,679,725	2,286,674	29,443,304
Expenditures					
Current					
Administration	1,300,641	-	-	-	1,300,641
District support services	669,701	-	-	-	669,701
Regular instruction	11,943,156	-	-	-	11,943,156
Vocational education instruction	884,587	-	-	-	884,587
Special education instruction	3,630,733	-	-	-	3,630,733
Community education and service	-	-	-	517,585	517,585
Instructional support services	1,241,869	-	-	-	1,241,869
Pupil support services	2,473,851	-	-	1,477,537	3,951,388
Sites and buildings	2,447,447	-	-	-	2,447,447
Fiscal and other fixed cost programs	116,260	-	2,741,021	-	2,857,281
Capital outlay					
Regular instruction	217,278	-	-	-	217,278
Instructional support services	9,453	-	-	-	9,453
Pupil support services	12,340	-	-	-	12,340
Sites and buildings	1,153,664	5,075,504	-	-	6,229,168
Total expenditures	26,100,980	5,075,504	2,741,021	1,995,122	35,912,627
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,701,919)	(4,997,660)	(61,296)	291,552	(6,469,323)
Other Financing Sources					
Sale of capital assets	28,537	-	-	-	28,537
Net Change in Fund Balance	(1,673,382)	(4,997,660)	(61,296)	291,552	(6,440,786)
Fund Balance, Beginning of Year, as Restated for the General Fund (Note 12)	9,435,112	7,418,760	472,152	2,292,312	19,618,336
Fund Balance, End of Year	\$ 7,761,730	\$ 2,421,100	\$ 410,856	\$ 2,583,864	\$ 13,177,550

Independent School District No. 2752
Fairmont Area Schools
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2022

Net Change in Fund Balances - Total Governmental Funds \$ (6,440,786)

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

Capital outlays are reported as expenditures in governmental funds.

However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which the loss on disposal of capital assets and depreciation expense exceeded capital outlays in the current period.

Capital outlay	6,052,469
Depreciation expense	(2,215,979)
Disposal of capital assets	(5,211)

Revenues in the statement of activities that do not provide current financial resources are unearned and not reported as revenues in the funds.	21,696
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In the statement of activities compensated absences and severance payable are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.	87,067
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In the statement of activities OPEB assets are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.	2,533
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In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	3,883,768
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,766,566
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Change in Net Position of Governmental Activities	\$ 3,152,123
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Independent School District No. 2752

Fairmont Area Schools

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund

Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Local property tax levies	\$ 2,808,419	\$ 2,808,846	\$ 2,774,906	\$ (33,940)
Other local and county sources	778,713	784,210	811,750	27,540
State sources	17,965,710	18,290,794	18,364,406	73,612
Federal sources	1,915,974	2,558,889	2,447,999	(110,890)
Total revenues	23,468,816	24,442,739	24,399,061	(43,678)
Expenditures				
Current				
Administration	1,237,879	1,265,788	1,300,641	(34,853)
District support services	665,590	660,231	669,701	(9,470)
Regular instruction	11,605,925	12,004,146	11,943,156	60,990
Vocational education instruction	808,313	832,817	884,587	(51,770)
Special education instruction	3,797,434	3,812,205	3,630,733	181,472
Instructional support services	992,385	1,074,147	1,241,869	(167,722)
Pupil support services	2,454,718	2,462,930	2,473,851	(10,921)
Sites and buildings	2,246,290	2,399,433	2,447,447	(48,014)
Fiscal and other fixed cost programs	107,000	116,000	116,260	(260)
Capital outlay				
Regular instruction	89,551	242,190	217,278	24,912
Instructional support services	34,450	9,500	9,453	47
Pupil support services	-	30,281	12,340	17,941
Sites and buildings	917,300	1,179,388	1,153,664	25,724
Total expenditures	24,956,835	26,089,056	26,100,980	(11,924)
Deficiency of Revenues Under Expenditures	(1,488,019)	(1,646,317)	(1,701,919)	(55,602)
Other Financing Sources				
Sale of capital assets	-	18,427	28,537	10,110
Net Change in Fund Balance	\$ (1,488,019)	\$ (1,627,890)	(1,673,382)	\$ (45,492)
Fund Balance, Beginning of Year, as Restated (Note 12)			9,435,112	
Fund Balance, End of Year			<u>\$ 7,761,730</u>	

Independent School District No. 2752
Fairmont Area Schools
Statement of Net Position - Fiduciary Fund
Year Ended June 30, 2022

	<u>Partners In Education Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 38,822</u>
Liabilities	
Accounts payable	<u> 3,338</u>
Net Position	
Restricted for partners in education	<u><u>\$ 35,484</u></u>

Independent School District No. 2752
Fairmont Area Schools
Statement of Changes in Fiduciary Net Position - Fiduciary Fund
Year Ended June 30, 2022

	<u>Partners In Education Fund</u>
Additions	
Miscellaneous revenues	\$ 31,349
Deductions	
Pupil support services	<u>21,281</u>
Change in Net Position	10,068
Net Position - Beginning	<u>25,416</u>
Net Position - Ending	<u><u>\$ 35,484</u></u>

Note 1 - Summary of Significant Accounting Policies

A. Organization

Fairmont Area Schools, Fairmont, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

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

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

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board controls and is financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are included in these financial statements.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District. Generally, the effect of interfund activity has been removed from the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported as general revenues.

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

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

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

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. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.
2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, severance and healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are included within the applicable functional areas.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described in these notes.

Description of Funds

The existence of the various district funds has been established by the Minnesota Department of Education. Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

Major Governmental Funds

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

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

Capital Projects Fund – The capital projects fund is used to account for the accumulation of resources for and the payment for building construction projects of the District.

Nonmajor Governmental Funds

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

Community Service Fund – The community service fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, extended day programs, or other similar services.

Enrichment Opportunities Permanent Trust Fund – The Enrichment Opportunities Trust is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for high potential students and enrichment programs.

Hunt Farm Permanent Trust Fund – The Hunt Farm Trust is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for scholarships and enrichment programs.

Fiduciary Fund

Custodial Fund – The Custodial Fund is established to account for resources held for others in a custodial capacity. The District's Custodial Fund is Partners in Education.

E. Other Significant Accounting Policies

Budgeting

An operating budget is adopted by July 1 of each fiscal year for all governmental funds on the same modified accrual basis used to reflect actual revenues and expenditures. The superintendent is authorized to transfer budget amounts within line items; however, supplemental appropriations that amend total appropriations of any fund require a board resolution. Reported budgeted amounts are as originally adopted or as amended by board resolution. Unencumbered appropriations lapse at year-end.

Cash and Cash Equivalents

Cash balances of the District's funds are combined (pooled) and deposited to the extent available in various deposits authorized by Minnesota State Statutes. Each fund shares in the investment earnings according to its average cash and investments balance. Cash includes amounts in demand deposits as well as short-term investments with an original maturity date within three months of the date acquired by the District. Investments include amounts in the Minnesota School District Liquid Asset Fund Plus (MSDLAF), an external investment pool, which in accordance with GASB 79 are valued at amortized cost, which approximates fair value. GASB Statement No. 79 requires a comparison of the MSDLAF+ Portfolio's investments on an amortized cost basis to fair values determined on a market value basis at least monthly.

Investment, Land

On November 14, 1990 the District received a donation of 162 acres of farm land. This land is carried at fair market value and is in a Permanent Trust Fund. The District received an appraisal of the land in 2021 and evaluates fair value annually. Any change in fair value is recorded as investment income (loss). Any earnings from this investment are used for scholarships and enrichment grants.

Receivables

All receivables are shown net of any allowance for uncollectibles. No allowances for uncollectibles have been recorded. The only receivables not expected to be fully collected within one year are delinquent property taxes receivable.

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, state and federal aids, and revenue from other Minnesota school districts. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible.

Interest and certain receivables are recorded as revenue in the year that the interest is earned and is available to pay liabilities of the current period

On or before September 30th of each year, the School Board certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All school districts must hold public hearings on their proposed property tax levies. Also, at this time the School Board certifies its proposed property tax levy to the county auditor for collection in the following year.

Beginning on November 29th and through December 20th of each year, the District is required by state law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the School Board certifies its final adopted property taxes payable the following year to the county auditor. If the District has not certified its final property tax by this time, its property tax will be the amount levied by it in the preceding year.

In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on May 15 and November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to Districts three times a year, in January, June, and November.

Property tax revenue is recorded under the intact levy concept whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning with the year of collection. Current taxes receivable represent taxes levied in 2021 which are not payable until 2022 less amounts received before June 30, 2022. Delinquent taxes receivable represent levies collectible during 2021 and prior years. Delinquent taxes are recorded as unavailable revenue. Taxes levied for subsequent years represent current taxes receivable, which are levied in 2021, but not payable until 2022 and are not expendable by the District until the 2022-2023 school year, adjusted for the property tax shift amount.

Prepaid Items

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

Inventories

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

Capital Assets

Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historic cost is not available. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential.

The District maintains a threshold level of \$3,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statements but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 50 years.

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

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

Fair Value

The District has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs.

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

Property Taxes

The majority of district revenue is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aids by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. The remaining portion of the taxes collectible in 2022 is recorded as deferred inflows of resources (property taxes levied for subsequent years).

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county general remits taxes to the District at periodic intervals as they are collected. A portion of the property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported unearned revenues for unearned grant revenue, unearned revenue for fees collected in advance of future fiscal years, and for student account balances available for future meals in the Food Service Fund.

Leases

The District is a lessee for a noncancellable lease of a gymnastics center. The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements; however, the District elected to pay the full amount of the lease at the inception of the lease. The District recognizes lease liabilities with an initial, individual value of \$25,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease(s) and will remeasure the lease asset(s) and liability(ies) if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

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. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

In the government-wide financial statements bond premiums and discounts are deferred and amortized over the life of the bonds and issuance costs are expensed in the period incurred. In the fund financial statements, governmental fund types recognize premiums received on debt issuances 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.

Accrued Employee Benefits

The District has employee and union contracts with several different employee groups. Employee benefits under the contracts are different, but generally include provisions for sick leave, vacation leave, severance, and retiree health insurance benefits. The District accounts for the employee benefits as follows:

Vacation – vests and carries over for various contracts for up to 40 hours. The liability is recorded for earned but unpaid vacation. The expenditure for vacation pay is recognized when payment is made.

Sick Pay – does not vest and is accounted for as an expenditure when paid, except as discussed below.

Severance Pay – is available for certain eligible employees. The maximum benefit is generally based on accumulated unused sick leave and years of service depending on the employment contract. The total amounts cannot exceed certain contract limits.

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 the 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.

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 Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for their merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 10.

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.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then.

The District has two items that qualify for reporting in this category on the government-wide statement of net position. Deferred outflows of resources related to other postemployment benefits consists of various estimate differences and contributions made to the plan subsequent to the measurement date that will be recognized as expenditures in future years. Deferred outflows of resources related to pension plans consists of various estimate differences and contributions made to the plan subsequent to the measurement date that will be recognized as expenses in future years.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

The District has three types of items that 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 related to pension and OPEB activity as a result of various estimate differences that will be recognized as expenses in future years, reported in the government-wide statement of net position.

Net Position

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

Fund Balance

In governmental fund types, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called "fund balance." The District's governmental funds report the following categories of fund balance, based on the nature of any limitations requiring the use of resources for specific purposes.

- Nonspendable fund balance amounts are comprised of funds that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. They include items that are inherently unspendable, such as, but not limited to, inventories, prepaids, long-term receivables, non-financial assets held for resale, or the permanent principal of endowment funds.
- Restricted fund balance amounts are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by source providers or creditors (such as through debt covenants), grantors, contributors, voters, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

- Committed fund balance 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. A majority vote of the school board is required to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the board. The formal action to commit a fund balance must occur prior to fiscal year end; however, the specific amounts to be committed can be determined in the subsequent fiscal year. A committed fund balance cannot be a negative number.
- Assigned fund balance amounts are comprised of unrestricted funds constrained by the school district's intent that they be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. In funds other than the general fund, the assigned fund balance represents the remaining amount that is not restricted or committed. The assigned fund balance category will cover the portion of a fund balance that reflects the school district's intended use of those resources. The School Board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The School Board also delegates the power to assign fund balances to the following: Superintendent and Business Manager. Assignments so made shall be reported to the Operations Committee. The action to assign fund balance may be taken after the end of the fiscal year. An assigned fund balance cannot be a negative number.
- Unassigned fund balance amounts are the residual amounts in the general fund not reported in any other classification. Unassigned amounts in the general fund are technically available for expenditure for any purpose. The general fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

The School Board has established a minimum General Fund balance in an amount of no less than one month of operating expenses. The first priority is to utilize the balance as restricted fund balance. Committed funds will be considered second with assigned fund balance third when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used like assigned or unassigned.

Estimates

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

Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2022.

Implementation of GASB Statement No. 87

As of June 30, 2022, the District adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position is disclosed in Note 12 and the additional disclosures required by this standard is included in Note 7.

Note 2 - Stewardship, Compliance, and Accountability

A. Budgetary Information

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the School Board for review. The School Board holds public hearings and a final budget must be prepared and adopted no later than one week after the School Board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end. The actual revenues, expenditures, and transfers for the year ended June 30, 2022, have been compared to the District's budget for the year where applicable. Variances in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Any revisions that alter total expenditures of any fund must be approved by the School Board.

Budgetary control is maintained by fund, at the object of expenditure category level within each program, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the School Board. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (1) adequate funds were appropriated, (2) the expenditure is still necessary, and (3) funds are available. Budgeted amounts are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year end. The school board made several supplemental budgetary appropriations throughout the year.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2022, expenditures exceeded appropriations in the general fund (the legal level of budgetary control) by \$11,924. These over expenditures were funded by available fund balance.

Note 3 - Deposits and Investments

Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District's School Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

At June 30, 2022, all deposits were insured or collateralized by securities held by the District's agent in the District's name.

Investments

As of June 30, 2022, the District had investments in Minnesota School District Liquid Asset Fund (MSDLAF). MSDLAF is a money market account and is available to service the District's financial needs immediately. The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. According to GASB 79, the fair value of the position in the pool is the same as the value of the pool's shares.

Custodial Credit Risk-Investments. The investment in the MSDLAF is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40. The District does not have an investment policy for custodial credit risk.

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

Credit Risk. The District may invest funds as authorized by Minnesota Statutes Section 118A.04. All funds in the MSDLAF are invested in accordance with Minnesota Statutes Section 475.66. Each Minnesota School District owns a pro-rata share of each investment which is held in the name of the Funds. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk. The District places no limit on the amount the district may invest in any one issuer. More than five percent of the District's investments are invested with MSDLAF (100%).

The following table presents the District's deposit and investment balances at June 30, 2022:

Type	Total	Investment Maturities (in Years)	
		N/A	1 - 5
Cash and cash equivalents			
MN School District Liquid Asset Fund	\$ 4,734,011	\$ 4,734,011	\$ -
Deposits	9,584,982	9,584,982	-
	<u>\$ 14,318,993</u>	<u>\$ 14,318,993</u>	<u>\$ -</u>

All items are valued at amortized cost.

Cash and cash equivalents are included on the basic financial statements as follows:

Cash and cash equivalents - Statement of Net Position	\$ 14,280,171
Cash and cash equivalents - Statement of Fiduciary Net Position	38,822
	<u>\$ 14,318,993</u>

Fair Value of Assets

There are three general valuation techniques that may be used to measure fair value, as described below:

1. Market approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;
2. Cost approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
3. Income approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Assets and liabilities itemized below were measured at fair value during the year ended using the market and income approaches. The market approach was used for Level 2 assets and liabilities. The income approach was used for Level 3 assets and liabilities.

Type	Level 1	Level 2	Level 3	Total
Investment, Land	\$ -	\$ 933,031	\$ -	\$ 933,031

Note 4 - Receivables

Receivables as of the year ended June 30, 2022 for the District are reported on the Statement of Net Position and the Balance Sheet.

The Balance Sheet reports unavailable revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The Statement of Net Position and the Balance Sheet also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of unearned revenue reported was as follows:

	Received but Unearned
Food service fund	\$ 43,229
Community service fund	18,724
	<u>\$ 61,953</u>

Note 5 - Due from other Governmental Units

Amounts receivable from other governments as of June 30, 2022, include:

Fund	State	Federal	Other	Total
Major funds				
General	\$ 2,418,540	\$ 695,350	\$ 15,651	\$ 3,129,541
Debt service	71,540	-	-	71,540
Nonmajor funds	23,003	5,254	-	28,257
	<u>\$ 2,513,083</u>	<u>\$ 700,604</u>	<u>\$ 15,651</u>	<u>\$ 3,229,338</u>

Note 6 - Capital Assets

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

	Balance July 1, 2021 (as Restated)	Additions	Deletions	Balance June 30, 2022
Capital assets not being depreciated/amortized:				
Land	\$ 232,907	\$ -	\$ -	\$ 232,907
Construction in progress	836,892	4,548,863	(454,563)	4,931,192
Total capital assets not being depreciated	<u>1,069,799</u>	<u>4,548,863</u>	<u>(454,563)</u>	<u>5,164,099</u>
Capital assets being depreciated/amortized:				
Improvements	6,374,981	381,310	(7,105)	6,749,186
Buildings	52,142,358	1,341,990	(915)	53,483,433
Equipment	3,252,129	234,869	(96,649)	3,390,349
Right-of-use assets	169,816	-	-	169,816
Total capital assets being depreciated/amortized	<u>61,939,284</u>	<u>1,958,169</u>	<u>(104,669)</u>	<u>63,792,784</u>
Less accumulated depreciation/amortization for:				
Improvements	3,041,917	327,992	(2,487)	3,367,422
Buildings	30,897,212	1,649,429	(322)	32,546,319
Equipment	1,842,550	204,595	(96,649)	1,950,496
Right-of-use assets	33,963	33,963	-	67,926
Total accumulated depreciation/amortization	<u>35,815,642</u>	<u>2,215,979</u>	<u>(99,458)</u>	<u>37,932,163</u>
Net capital assets, depreciated/amortized	<u>26,123,642</u>	<u>(257,810)</u>	<u>(5,211)</u>	<u>25,860,621</u>
Total capital assets, net	<u>\$ 27,193,441</u>	<u>\$ 4,291,053</u>	<u>\$ (459,774)</u>	<u>\$ 31,024,720</u>

Depreciation/amortization expense for the year ended June 30, 2022 was charged to the following functions/programs:

District and school administration	\$ 1,593
Regular instruction	2,100,280
Vocational support services	3,466
Community education services	35,557
Instructional support services	1,384
Pupil support services	31,336
Sites and buildings	<u>42,363</u>
Total depreciation/amortization expense	<u>\$ 2,215,979</u>

As of year-end, the District had started various capital projects, expending \$4,548,863 in the current year. As of June 30, 2022, the projects had a remaining commitment of about \$2.8 million. The District expects these projects to be completed in fiscal year 2022 – 2023.

Note 7 - Long-Term Leases

During the year ended June 30, 2021, The District entered into a five-year lease agreement as lessee for the acquisition and use of a gymnastics center. At the inception of the lease, the District elected to pay the full amount of the lease obligation. The gymnastics center has a 5-year estimated useful life.

As the District paid the full amount of the lease at inception, there is no future lease payment obligation.

Note 8 - Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2022 are as follows:

	Balance July 1, 2021	Additions	Deletions	Balance June 30, 2022	Due Within One Year
Bonds payable					
General obligation bonds	\$ 36,720,000	\$ -	\$ 1,720,000	\$ 35,000,000	\$ 1,770,000
Unamortized bond premium	1,174,209	-	90,569	1,083,640	49,311
Unamortized bond discount	(19,893)	-	(1,421)	(18,472)	(1,421)
Total bonds payable	<u>37,874,316</u>	<u>-</u>	<u>1,809,148</u>	<u>36,065,168</u>	<u>1,817,890</u>
Severance payable	373,218	-	96,237	276,981	90,018
Compensated absences	<u>68,799</u>	<u>155,418</u>	<u>146,248</u>	<u>77,969</u>	<u>77,969</u>
	<u>\$ 38,316,333</u>	<u>\$ 155,418</u>	<u>\$ 2,051,633</u>	<u>\$ 36,420,118</u>	<u>\$ 1,985,877</u>

Following is a summary of bonds payable as of June 30, 2022:

Bond Description	Final Maturities	Interest Rate	Original Balance	Outstanding Balance
General Obligation School Building Refunding Bonds Series 2015A	2/1/2036	2.0% - 3.25%	\$ 14,930,000	\$ 11,605,000
General Obligation School Building Refunding Bonds Series 2016A	2/1/2034	2.0% - 3.0%	11,620,000	9,625,000
General Obligation School Building Refunding Bonds Series 2017A	2/1/2035	2.75% - 5.00%	6,560,000	5,630,000
General Obligation Facility Maintenance Bond Series 2020A	2/1/2031	4.00% - 5.00%	1,670,000	1,535,000
General Obligation School Building Bonds Series 2021A	2/1/2039	2.00%	6,605,000	6,605,000
				<u>\$ 35,000,000</u>

Bond principal and interest payments are made by the Debt Service Fund.

Remaining principal and interest payments on long-term liabilities are as follows:

Years Ending June 30,	Bonds Payable	
	Principal	Interest
2023	\$ 1,770,000	\$ 998,507
2024	1,815,000	941,557
2025	1,870,000	876,882
2026	1,930,000	809,932
2027	1,975,000	749,107
2028-2032	10,310,000	2,906,357
2033-2037	10,830,000	1,363,107
2038-2039	4,500,000	135,500
	<u>\$ 35,000,000</u>	<u>\$ 8,780,949</u>

Severance Benefits Payable – The District will make payments out of the General Fund and amounts consist of benefits as discussed in Note 1.

Compensated Absences Payable – The District will make payments out of the General Fund and amounts consist of benefits as discussed in Note 1.

Note 9 - Other Post-Employment Benefits

A. Plan Description

All employees are allowed upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the District's health insurance plan after retirement. TRA eligible employees are required to reach age 55 with three years of service. PERA eligible employees are required to reach age 55 with five years of service.

Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. A separately issued report is not available.

B. Benefits Provided

The contract groups have access to other post-retirement benefits of medical premiums for single coverage of \$626 for PEIP VEBA or PEIP Advantage HSA/VEBA, and \$892 for PEIP Advantage. The contract groups also have access to family coverage of \$1,661 for PEIP VEBA or PEIP Advantage HSA/VEBA, and \$2,372 for PEIP Advantage. The implicit rate subsidy is only until Medicare eligibility.

Annual subsidized post-employment medical benefit payments are summarized below:

Teachers with 20 years of service and TRA eligibility

<u>Retirement Date</u>	<u>Amount</u>
7/1/05 - 6/30/07	\$ 6,226
7/1/07 - 6/30/09	6,606
7/1/09 - 6/30/11	7,332
7/1/11 - 6/30/15	8,190
7/1/15 - 6/30/21	7,266
7/1/21 - Thereafter	7,510

Principals reaching age 58 with 14 years of service or rule of 90

<u>Retirement Date</u>	<u>Amount</u>
N/A	\$ 8,190

The subsidized benefit is available for the earlier of seven years or Medicare eligibility.

Eligible teachers may elect life insurance coverage at a rate of \$0.97 per \$10,000 of coverage up to a base amount of \$50,000 and additional coverage at a rate of \$3.10 per \$10,000 of coverage. Principals with 10 years of service may elect insurance coverage at a rate of \$0.97 per \$10,000 of coverage up to a base amount of \$200,000 and additional coverage at a rate of \$3.10 per \$10,000 of coverage.

C. Employees Covered by Benefit Terms

At the valuation date of June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	19
Active employees waiving coverage	91
Active employees	157
	<u>267</u>

D. Total OPEB Liability

The District's total OPEB liability of \$1,838,380 was measured as of June 30, 2021, and was determined by an actuarial valuation as June 30, 2021.

E. Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	2.25 percent
Salary increases	Based on the most recently disclosed assumption for the pension plan in which the employee participates.
Discount rate	1.92 percent
Health care cost trend rate	6.7% for FY2022, gradually decreasing over several decades to an ultimate rate of 3.7% in FY2075 and later years.
Retiree plan participation	
Subsidy available	100%
Subsidy not available	20%
Percent of married retirees electing spouse coverage	Based on review of the District's historical experience and current participant elections

Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-Year Municipal Bond Yield.

Mortality rates for teachers were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments. Mortality rates for non-teachers were based on the Pub-2010 General mortality tables with projected mortality improvements based on scale MP-2020, and other adjustments.

The actuarial assumptions used in the June 30, 2021, valuation were based on inputs from a variety of published sources of historical and projected future financial data.

The following changes in actuarial assumptions occurred during the year ended June 30, 2022:

- The discount rate was changed from 2.45% to 1.92% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience, including an adjustment to reflect age/gender based risk scores published by the Society of Actuaries.
- Withdrawal, retirement, mortality, disability, and salary increase rates were updated from the rates used in the 7/1/2018 PERA General Employees Plan and 7/1/2018 Teachers Retirement Association valuations to the rates used in the 7/1/2021 valuations.
- The inflation assumption was changed from 2.50% to 2.25% based on an updated historical analysis of inflation rates and forward-looking market expectations.

The following changes in plan provisions occurred during the year ended June 30, 2022:

- Retiree premiums were updated to current levels.
- The base life insurance rate was lowered from \$1.06 to \$0.97 per \$10,000.
- The period of life insurance coverage for the principal was changed from ten years to the earlier of seven years or Medicare eligibility.
- The Superintendent is no longer eligible for life insurance.

F. Changes in Total OPEB Liability

Balance at July 1, 2021	\$ 1,576,235
Changes from the Prior Year:	
Service Cost	103,247
Interest Cost	39,158
Differences between Expected and Actual Experience	271,103
Assumption Changes	14,901
Plan Changes	(3,875)
Benefit Payments	(162,389)
	<hr/>
Total Changes	262,145
	<hr/>
Balance at June 30, 2022	<u><u>\$ 1,838,380</u></u>

G. Sensitivity of the Total OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount rate	0.92%	1.92%	2.92%
Total OPEB Liability	\$ 1,939,466	\$ 1,838,380	\$ 1,740,006

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate 1 percentage point lower and 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease in Healthcare Trend Rate	Selected Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
Health care cost and trend rate	5.4% decreasing to 3.0% in 2076 and later years	6.4% decreasing to 4.0% in 2076 and later years	7.4% decreasing to 5.0% in 2076 and later years
Total OPEB Liability	\$ 1,729,041	\$ 1,838,380	\$ 1,968,130

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

For the year ended June 30, 2022, the District recognized OPEB expense of \$157,752. At June 30, 2022, 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
Differences between expected and actual liability	\$ 235,432	\$ 28,387
Changes in actuarial assumptions	59,029	71,384
Estimated employer contributions	62,901	-
Total	<u>\$ 357,362</u>	<u>\$ 99,771</u>

The \$62,901 reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2023.

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

Years Ended June 30,	OPEB Expense
2023	\$ 19,222
2024	19,222
2025	23,804
2026	27,405
2027	44,825
Thereafter	60,212

Note 10 - Defined Benefit Pension Plans

Substantially all employees of the District are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Public Employees' Retirement Association (PERA) or the Teachers' Retirement Association (TRA), both of which are administered on a state-wide basis.

For the year ended June 30, 2022, the District reported its proportionate share of deferred outflows of resources, net pension liabilities, deferred inflows of resources, and pension expense for each of the plans as follows:

	Deferred Outflows of Resources	Net Pension Liability	Deferred Inflows of Resources	Pension Expense (Income)
PERA	\$ 2,055,979	\$ 2,139,494	\$ 1,958,361	\$ 245,694
TRA	3,875,884	6,476,923	11,186,145	(61,042)
Total all plans	<u>\$ 5,931,863</u>	<u>\$ 8,616,417</u>	<u>\$ 13,144,506</u>	<u>\$ 184,652</u>

Disclosures relating to these plans are as follows:

1. Public Employees Retirement Association (PERA)

A. Plan Description

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

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

B. Benefits Provided

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

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent 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 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of 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. Contribution Rate

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2021 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2022, were \$291,378. The District's contributions were equal to the required contributions as set by state statute.

D. Net Pension Liability

At June 30, 2022, the District reported a liability of \$2,139,494 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 \$65,298.

The net pension liability was measured as of **June 30, 2021**, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0501 percent at the end of the measurement period and 0.0457 percent for the beginning of the period.

Independent School District No. 2752
Fairmont Area Schools
Notes to Financial Statements
June 30, 2022

District's proportionate share of net pension liability	\$ 2,139,494
State's proportionate share of the net pension liability associated with the District	<u>65,298</u>
Total	<u>\$ 2,204,792</u>

For the year ended June 30, 2022, the District recognized pension expense of \$245,694 for its proportionate share of General Employees Plan's pension expense. In addition, the District recognized an additional \$5,268 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual \$16 million contribution.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 11,098	\$ 64,809
Changes in actuarial assumptions	1,306,331	42,149
Net collective difference between projected and actual investment earnings	-	1,851,403
Changes in proportion	447,172	-
Contributions paid to PERA subsequent to the measurement date	<u>291,378</u>	<u>-</u>
Total	<u>\$ 2,055,979</u>	<u>\$ 1,958,361</u>

The \$291,378 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, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2023	\$ 193,212
2024	75,498
2025	42,911
2026	(505,381)

E. Long-Term Expected Return on Investment

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

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
	100.0%	

F. Actuarial Methods and Assumptions

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

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

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

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

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

The following changes in actuarial assumptions and plan provisions occurred in 2021:

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

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

G. Discount Rate

The discount rate used to measure the total pension liability in **2021** was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H Pension Liability Sensitivity

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

Sensitivity Analysis		
<i>Net Pension Liability (Asset) at Different Discount Rates</i>		
	General Employees Fund	
1% Lower	5.50%	\$ 4,363,477
Current Discount Rate	6.50%	\$ 2,139,494
1% Higher	7.50%	\$ 314,581

I. Pension Plan Fiduciary Net Position

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

2. Teachers Retirement Association (TRA)

A. Plan Descriptions

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

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

B. Benefits Provided

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

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

Tier I Benefits

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

With these provisions:

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

or

Tier II Benefits

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

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

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

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

C. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ending June 30, 2020, June 30, 2021, and June 30, 2022, were:

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

The following is a reconciliation of employer contributions in TRA's fiscal year 2021 Comprehensive Annual Financial Report "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

	<i>in thousands</i>
Employer contributions reported in TRA's Comprehensive Annual Financial Report, Statement of Changes in Fiduciary Net Position	\$ 448,829
Add employer contributions not related to future contribution efforts	379
Deduct TRA's contributions not included in allocation	<u>(538)</u>
Total employer contributions	448,670
Total non-employer contributions	<u>37,840</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u><u>\$ 486,510</u></u>

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

D. Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation Date	July 1, 2021
Measurement Date	June 30, 2021
Experience Study	June 5, 2019 (demographic assumptions) November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment rate of return	7.00%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028, and 3.25% after June 30, 2028
Projected salary increase	2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% after June 30, 2028
Cost of living adjustment	1.0% for January 2020 through January 2023, then increasing by 0.1% each year up to 1.5% annually
Mortality Assumptions	
Pre-retirement	RP-2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

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

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

Asset Class	Target Allocations	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	100.0%	

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

Changes in actuarial assumptions since the 2020 valuation

- The investment return assumption was changed from 7.50 percent to 7.00 percent.

E. Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent. The discount rate used to measure the TPL at the Prior Measurement Date was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2021 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

F. Net Pension Liability

At June 30, 2022, the District reported a liability of \$6,476,923 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.1480 percent at the end of the measurement period and 0.1462 percent 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	\$ 6,476,923
State's proportionate share of the net pension liability associated with the district	\$ 546,317

For the year ended June 30, 2022, the District recognized pension revenue of \$61,042. It also recognized \$6,117 as a decrease to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 173,290	\$ 179,609
Changes in actuarial assumptions	2,373,468	5,574,915
Net difference between projected and actual earnings on pension plan investments	-	5,431,621
Changes in proportion	512,735	-
District's contributions to TRA subsequent to the measurement date	816,391	-
Total	\$ 3,875,884	\$ 11,186,145

The \$816,391 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, 2023.

Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2023	\$ (3,988,222)
2024	(3,048,830)
2025	(670,744)
2026	(908,407)
2027	489,551

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.00 percent as well what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate.

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
TRA discount rate	6.00%	7.00%	8.00%
District's proportionate share of the TRA net pension liability	\$ 13,083,699	\$ 6,476,923	\$ 6,075,726

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

Note 11 - Fund Balance and Net Position

Certain portions of fund balances and net position 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.

At June 30, 2022, the District has recorded the following fund balances for the following purposes:

	General Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	Total
Fund balances					
Nonspendable					
Prepays	\$ 340,817	\$ -	\$ -	\$ 2,666	\$ 343,483
Inventory	13,121	-	-	25,256	38,377
Permanent fund principal	-	-	-	936,782	936,782
Total nonspendable	353,938	-	-	964,704	1,318,642
Restricted					
Student activities	103,763	-	-	-	103,763
Operating capital	315,896	-	-	-	315,896
Basic skills	18,901	-	-	-	18,901
Safe schools	23,279	-	-	-	23,279
Long term facilities maintenance	237,810	-	-	-	237,810
Capital projects	-	2,421,100	-	-	2,421,100
Debt service	-	-	410,856	-	410,856
Food service	-	-	-	1,096,832	1,096,832
Community service	-	-	-	10,933	10,933
Community education	-	-	-	53,437	53,437
E.C.F.E.	-	-	-	268,795	268,795
School readiness	-	-	-	165,172	165,172
Enrichment Opportunities Trust	-	-	-	23,991	23,991
Total restricted	699,649	2,421,100	410,856	1,619,160	5,150,765
Committed	400,000	-	-	-	400,000
Assigned	2,832,537	-	-	-	2,832,537
Unassigned	3,475,606	-	-	-	3,475,606
Total fund balance	\$ 7,761,730	\$ 2,421,100	\$ 410,856	\$ 2,583,864	\$ 13,177,550

Independent School District No. 2752

Fairmont Area Schools

Notes to Financial Statements

June 30, 2022

The UFARS fund balance reporting standards are slightly different than the reporting standards under GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). Below is a reconciliation between the fund balance reporting under GASB 54 and UFARS reporting standards:

	GASB Balance	Reconciling Items	UFARS Balance
Fund balances			
Nonspendable			
Inventory	\$ 343,483	\$ -	\$ 343,483
Prepays	38,377	-	38,377
Permanent fund principal	936,782	-	936,782
Total nonspendable	1,318,642	-	1,318,642
Restricted			
Student activities	103,763	-	103,763
Operating capital	315,896	-	315,896
Basic skills	18,901	-	18,901
Safe schools	23,279	-	23,279
Long term facilities maintenance			
General fund	237,810	-	237,810
Capital projects	2,421,100	-	2,421,100
Debt service	410,856	-	410,856
Food service	1,096,832	-	1,096,832
Community service	10,933	-	10,933
Community education	53,437	-	53,437
E.C.F.E.	268,795	-	268,795
School readiness	165,172	-	165,172
Enrichment Opportunities Trust	23,991	-	23,991
Total restricted	5,150,765	-	5,150,765
Committed	400,000	-	400,000
Assigned	2,832,537	-	2,832,537
Unassigned	3,475,606	-	3,475,606
Total fund balance	\$ 13,177,550	\$ -	\$ 13,177,550

Note 12 - Adoption of New Standard

As of July 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Beginning net position and general fund balance was restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

	Governmental Activities	General Fund
Net deficit/fund balance at June 30, 2021, as previously reported	\$ (13,126,532)	\$ 9,579,112
Remove prepaid expense for lease agreement	(144,000)	(144,000)
Add right-to-use lease asset	135,853	-
Net deficit/fund balance at July 1, 2021, as restated	<u>\$ (13,134,679)</u>	<u>\$ 9,435,112</u>

Note 13 - Flexible Benefit Plan

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

Before the beginning of the Plan year, which is from July 1 to June 30, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants’ annual contributions to the medical reimbursement portion of the Plan, whether or not such contributions have been made.

Payment of insurance premiums (health, dental, life, and disability) are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund and special revenue funds.

Amounts withheld for medical reimbursement and dependent care are paid by the District to an outside administrator upon an employee submitting a request for reimbursement. Payments are made by the outside administrator to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the employee.

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

Note 14 - Employee Benefit Plan 403(b)

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amount set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the year ended June 30, 2022, 2021, and 2020 were \$180,775, \$182,535, and \$132,402, respectively. The related employee contributions for 2022, 2021, and 2020 were \$252,483, \$250,252, and \$212,113, respectively.

Note 15 - Other Information

Federal Revenue

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

Affiliated Organization

The District is a member of the Southern Plains Education Cooperative. The Southern Plains Education Cooperative was established for the primary objective to provide specialized services for special education students, as defined by state law, and to provide other programs and services as approved by the Joint Powers Governing Board. The Cooperative was established by five separate member districts. Each member district shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements and other charges for services. The education district is able to recover the cost of its programs through the previously mentioned revenue sources. The affiliated organization's financial statements are audited and are available for inspection.



Required Supplementary Information
June 30, 2022

Fairmont Area Schools
Independent School District No. 2752

Independent School District No. 2752
Fairmont Area Schools
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
June 30, 2022

Schedule of Changes in the District's Total OPEB Liability and Related Ratios, Last 10 Fiscal Years*

	2022	2021	2020	2019	2018
Service cost	\$ 103,247	\$ 86,839	\$ 90,287	\$ 84,957	\$ 88,628
Interest	39,158	48,430	61,212	59,081	49,940
Differences between Expected and Actual Experience	271,103	-	(50,338)	-	-
Changes of assumptions	14,901	56,225	(98,304)	13,668	(50,154)
Changes of benefit terms	(3,875)	-	-	-	-
Benefit payments	(162,389)	(151,424)	(134,663)	(128,690)	(142,211)
Net change in total OPEB liability	262,145	40,070	(131,806)	29,016	(53,797)
Total OPEB liability - beginning	1,576,235	1,536,165	1,667,971	1,638,955	1,692,752
Total OPEB liability - ending	<u>\$ 1,838,380</u>	<u>\$ 1,576,235</u>	<u>\$ 1,536,165</u>	<u>\$ 1,667,971</u>	<u>\$ 1,638,955</u>
Covered-employee payroll	\$ 13,078,541	\$ 12,251,721	\$ 11,625,507	\$ 10,136,491	\$ 9,975,165
Total OPEB liability as a percentage of covered-employee payroll	14.06%	12.87%	13.21%	16.46%	16.43%

*GASB Statement No. 75 require ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Note to the Schedule of Changes in the District's Net OPEB Liability and Related Ratios

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

2022 Changes:

Plan Changes:

- Retiree premiums were updated to current levels.
- The base life insurance rate was lowered from \$1.06 to \$0.97 per \$10,000.
- The period of life insurance coverage for the principal was changed from ten years to the earlier of seven years or Medicare eligibility.
- The Superintendent is no longer eligible for life insurance.

Actuarial Assumptions:

- The discount rate was changed from 2.45% to 1.92% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience, including an adjustment to reflect age/gender based risk scores published by the Society of Actuaries.
- Withdrawal, retirement, mortality, disability, and salary increase rates were updated from the rates used in the 7/1/2018 PERA General Employees Plan and 7/1/2018 Teachers Retirement Association valuations to the rates used in the 7/1/2021 valuations.
- The inflation assumption was changed from 2.50% to 2.25% based on an updated historical analysis of inflation rates and forward-looking market expectations.

Independent School District No. 2752
Fairmont Area Schools
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
June 30, 2022

2021 Changes:

Plan Changes:

- None

Assumption Changes:

- The discount rate was changed from 3.13% to 2.45% based on updated 20-year municipal bond rates.

2020 Changes:

Plan Changes:

- Retiree premiums were updated to current levels

Assumption Changes:

- The discount rate was changed from 3.62% to 3.13% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including repeal of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience and new plan offerings.
- Mortality and salary increase rates were updated from the rates used in the 7/1/2017 PERA General Employees Plan and 7/1/2017 Teachers Retirement Association valuations to the rates used in the 7/1/2018 valuations.
- The percent of future retirees not eligible for an explicit subsidy assumed to elect coverage at retirement changed from 10% to 20% to reflect recent plan experience.
- The percent of future non-Medicare eligible retirees electing each medical plan changed to reflect recent plan experience and new plan offerings.
- The inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

2019 Changes:

Plan Changes:

- None

Assumption Changes:

- The discount rate was changed from 3.56% to 3.62% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including the effects of Affordable Care Act's Excise Tax on high-cost health insurance plans.

Independent School District No. 2752
Fairmont Area Schools
Schedule of Employer's Share of Net Pension Liability
June 30, 2022

**Schedule of Employer's Share of Net Pension Liability
Last 10 Fiscal Years ***

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (c) (a+b)	Employer's Covered Payroll (e)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (c/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	6/30/21	0.0501%	\$ 2,139,494	\$ 65,298	\$ 2,204,792	\$ 3,387,440	63.2%	87.0%
	6/30/20	0.0457%	2,739,924	84,473	2,824,397	3,061,333	89.5%	79.1%
	6/30/19	0.0423%	2,338,672	72,830	2,411,502	2,759,547	84.7%	80.2%
	6/30/18	0.0311%	1,725,300	56,557	1,781,857	1,958,933	88.1%	79.5%
	6/30/17	0.0316%	2,017,323	25,401	2,042,724	1,945,600	103.7%	75.9%
	6/30/16	0.0308%	2,500,807	7,432	2,508,239	1,778,293	140.6%	68.9%
	6/30/15	0.0318%	1,648,041	N/A	1,648,041	1,867,373	88.3%	78.2%
	6/30/14	0.0370%	1,738,075	N/A	1,738,075	1,817,514	95.6%	78.8%
TRA	6/30/21	0.1480%	\$ 6,476,923	\$ 546,317	\$ 7,023,240	\$ 8,853,899	73.2%	86.6%
	6/30/20	0.1462%	10,801,452	905,467	11,706,919	8,496,654	127.1%	78.1%
	6/30/19	0.1437%	9,159,468	810,497	9,969,965	8,160,636	112.2%	78.1%
	6/30/18	0.1412%	8,869,431	833,420	9,702,851	7,801,813	113.7%	78.1%
	6/30/17	0.1411%	28,166,120	2,722,030	30,888,150	7,596,307	370.8%	51.6%
	6/30/16	0.1371%	32,701,621	3,283,232	35,984,853	7,134,067	458.4%	44.9%
	6/30/15	0.1358%	8,400,573	1,030,700	9,431,273	6,916,333	121.5%	76.8%
	6/30/14	0.1539%	7,091,601	498,804	7,590,405	6,723,628	105.5%	81.5%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Independent School District No. 2752
Fairmont Area Schools
Schedule of Employer's Contributions
June 30, 2022

**Schedule of Employer's Contributions
Last 10 Fiscal Years ***

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
PERA	6/30/22	\$ 291,378	\$ 291,378	-	\$ 3,885,040	7.5%
	6/30/21	254,058	254,058	-	3,387,440	7.5%
	6/30/20	229,600	229,600	-	3,061,333	7.5%
	6/30/19	206,966	206,966	-	2,759,547	7.5%
	6/30/18	146,920	146,920	-	1,958,933	7.5%
	6/30/17	145,920	145,920	-	1,945,600	7.5%
	6/30/16	133,372	133,372	-	1,778,293	7.5%
	6/30/15	140,053	140,053	-	1,867,373	7.5%
TRA	6/30/22	\$ 816,391	\$ 816,391	-	\$ 10,041,710	8.1%
	6/30/21	719,822	719,822	-	8,853,899	8.1%
	6/30/20	672,935	672,935	-	8,496,654	7.9%
	6/30/19	629,185	629,185	-	8,160,636	7.7%
	6/30/18	585,136	585,136	-	7,801,813	7.5%
	6/30/17	569,723	569,723	-	7,596,307	7.5%
	6/30/16	535,055	535,055	-	7,134,067	7.5%
	6/30/15	518,725	518,725	-	6,916,333	7.5%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions**PERA****2021 Changes**

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

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

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

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

2019 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2018 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2017 Changes

Changes in Actuarial Assumptions

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

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

2016 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent 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 increase 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.

TRA

2021 Changes

Changes in Actuarial Assumptions

- The investment return assumption was changed from 7.50 percent to 7.00 percent

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020 Changes

Changes in Actuarial Assumptions

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.

- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2019 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.

- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero% 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.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2017 Changes**Changes in Actuarial Assumptions**

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

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.
- Augmentation in the early retirement reduction factors is phased out of 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.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes of benefit terms

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

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%. Details, if necessary, can be obtained from the TRA Comprehensive Annual Financial Report.

PERA's Comprehensive Annual Financial Report may be obtained on the PERA's website at www.mnpera.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.

Additional financial and actuarial information can be found in TRA's GASB 67-68 report. Both reports can be obtained at <https://minnesotatra.org>.



Combining and Individual Fund Schedules
June 30, 2022

Independent School District No. 2752 Fairmont Area Schools

Independent School District No. 2752
Fairmont Area Schools
General Fund
Schedule of Changes in UFARS Fund Balances
Year Ended June 30, 2022

	Fund Balance (Deficit) Beginning of Year, as Adjusted	Net Change in Fund Balance	Fund Balance (Deficit) End of Year
Nonspendable	\$ 234,895	\$ 119,043	\$ 353,938
Restricted for student activities	135,448	(31,685)	103,763
Restricted for operating capital	367,750	(51,854)	315,896
Restricted for basic skills	135,745	(116,844)	18,901
Restricted for safe schools	43,218	(19,939)	23,279
Restricted for long term facilities maintenance	(67,680)	305,490	237,810
Committed for retirement / separation benefits	400,000	-	400,000
Committed for vocational building	88,152	(88,152)	-
Assigned for literacy	190,961	(89,021)	101,940
Assigned for classroom technology	402,688	(35,367)	367,321
Assigned for curriculum	646,885	(133,873)	513,012
Assigned for wellness	11,798	8,076	19,874
Assigned for Q-Comp	6,762	42,028	48,790
Assigned for staff development	295,598	(95,000)	200,598
Assigned for fine arts	72,443	211,916	284,359
Assigned for summer/Saturday	594,290	(460,000)	134,290
Assigned for vocational	699,031	(299,030)	400,001
Assigned for district technology	299,669	(93,568)	206,101
Assigned for equipment	224,771	(24,141)	200,630
Assigned for tutoring centers	81,246	(81,246)	-
Assigned for enrollment growth programs	4,219	39,329	43,548
Assigned for STEM innovation grants	204,360	67,713	272,073
Assigned for graduate classes	-	40,000	40,000
Assigned for gifted & talented programs	50,000	(50,000)	-
Assigned for ELL grants	75,262	(75,262)	-
Unassigned	4,237,601	(761,995)	3,475,606
	<u>\$ 9,435,112</u>	<u>\$ (1,673,382)</u>	<u>\$ 7,761,730</u>

Independent School District No. 2752
Fairmont Area Schools
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2022

	Food Service	Community Service	Enrichment Opportunities Permanent Trust Fund	Hunt Farm Permanent Trust Fund	Totals
Assets					
Cash and cash equivalents	\$ 1,151,922	\$ 597,877	\$ 23,991	\$ 5,251	\$ 1,779,041
Investment, Land	-	-	-	933,031	933,031
Receivables					
Current property taxes	-	69,669	-	-	69,669
Delinquent property taxes	-	2,304	-	-	2,304
Accounts	41	862	-	-	903
Due from other governmental units	5,254	23,003	-	-	28,257
Prepaid items	2,271	395	-	-	2,666
Inventories	25,256	-	-	-	25,256
Total assets	\$ 1,184,744	\$ 694,110	\$ 23,991	\$ 938,282	\$ 2,841,127
Liabilities					
Accounts payable	\$ 17,156	\$ 8,207	\$ -	\$ 1,500	\$ 26,863
Salaries payable	-	22,502	-	-	22,502
Unearned revenue	43,229	18,724	-	-	61,953
Total liabilities	60,385	49,433	-	1,500	111,318
Deferred Inflows of Resources					
Unavailable revenue - property taxes	-	2,304	-	-	2,304
Property taxes levied for subsequent year	-	143,641	-	-	143,641
Total deferred inflows of resources	-	145,945	-	-	145,945
Fund Balance					
Nonspendable	27,527	395	-	936,782	964,704
Restricted	1,096,832	498,337	23,991	-	1,619,160
Total fund balance	1,124,359	498,732	23,991	936,782	2,583,864
Total liabilities, deferred inflows of resources, and fund balance	\$ 1,184,744	\$ 694,110	\$ 23,991	\$ 938,282	\$ 2,841,127

Independent School District No. 2752
Fairmont Area Schools
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2022

	Food Service	Community Service	Enrichment Opportunities Permanent Trust Fund	Hunt Farm Permanent Trust Fund	Totals
Revenues					
Local property taxes	\$ -	\$ 144,933	\$ -	\$ -	\$ 144,933
Other local and county sources	2,679	247,736	73	31,886	282,374
State sources	51,318	231,323	-	-	282,641
Federal sources	1,542,200	30,892	-	-	1,573,092
Loss on investments	-	-	-	(101,969)	(101,969)
Sale and other conversion of assets	105,603	-	-	-	105,603
Total revenues	1,701,800	654,884	73	(70,083)	2,286,674
Expenditures					
Current					
Community education and services	-	517,585	-	-	517,585
Pupil support services	1,407,382	38,270	-	31,885	1,477,537
Total expenditures	1,407,382	555,855	-	31,885	1,995,122
Net Change in Fund Balance	294,418	99,029	73	(101,968)	291,552
Fund Balance, Beginning of Year	829,941	399,703	23,918	1,038,750	2,292,312
Fund Balance, End of Year	\$ 1,124,359	\$ 498,732	\$ 23,991	\$ 936,782	\$ 2,583,864



Other Supplementary Information
June 30, 2022

Independent School District No. 2752 Fairmont Area Schools

Independent School District No. 2752
Fairmont Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/ Federal CFDA Number	Agency or Pass-Through Number	Expenditures
Department of Agriculture			
<i>Passed through Minnesota Department of Education</i>			
Child Nutrition Cluster			
Non-Cash Assistance (Commodities):			
National School Lunch Program	10.555	01-2752-000-000	\$ 92,306
Cash Assistance:			
School Breakfast Program	10.553	01-2752-000-000	327,586
National School Lunch Program	10.555	01-2752-000-000	1,069,344
Special Milk Program for Children	10.556	01-2752-000-000	1,057
Summer Food Service Program for Children	10.559	01-2752-000-000	18,220
Total Child Nutrition Cluster			\$ 1,508,513
Child and Adult Care Food Program	10.558	01-2752-000-000	33,533
Total Department of Agriculture			\$ 1,542,046
Department of Treasury			
<i>Passed through Minnesota Department of Education</i>			
COVID-19 Coronavirus State and Local Fiscal Recovery Fund	21.027	01-2752-000-000	131,619
Department of Education			
<i>Passed through Minnesota Department of Education</i>			
Adult Education - Basic Grants to States	84.002	01-2752-000-000	3,968
Title I Grants to Local Educational Agencies	84.010	01-2752-000-000	501,838
Career and Technical Education - Basic Grants to States	84.048	01-2752-000-000	3,060
English Language Acquisition State Grants	84.365	01-2752-000-000	14,968
Supporting Effective Instruction State Grants	84.367	01-2752-000-000	71,353
Student Support and Academic Enrichment Program	84.424	01-2752-000-000	29,292
COVID-19 Education Stabilization Fund	84.425C	01-2752-000-000	1,284
COVID-19 Education Stabilization Fund	84.425D	01-2752-000-000	1,130,572
COVID-19 Education Stabilization Fund	84.425U	01-2752-000-000	578,086
Total 84.425			1,709,942
Total Department of Education			2,334,421
Department of Health and Human Services			
<i>Passed through Minnesota Department of Education</i>			
State Actions to Improve Oral Health Outcomes and Partner			
Actions to Improve Oral Health Outcomes	93.366	01-2752-000-000	2,200
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	01-2752-000-000	10,652
Total Department of Health and Human Services			12,852
Total Federal Financial Assistance			\$ 4,020,938

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the District under programs of the federal government for the year ended June 30, 2022. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The District has not elected to use the 10% de minimis cost rate.

Note 4 - Food Donation

Nonmonetary assistance is reported in this schedule at the fair market value of the commodities received and disbursed. At June 30, 2022, the District had food commodities totaling \$25,256 in inventory.

Independent School District No. 2752
Fairmont Area Schools
Uniform Financial Accounting and Reporting Standards Compliance Table
Year Ended June 30, 2022

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$24,399,061	<u>\$24,399,061</u>	<u>\$0</u>	Total Revenue	\$77,844	<u>\$77,845</u>	<u>(\$1)</u>
Total Expenditures	\$26,100,980	<u>\$26,100,979</u>	<u>\$1</u>	Total Expenditures	\$5,075,504	<u>\$5,075,504</u>	<u>\$0</u>
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$353,938	<u>\$353,939</u>	<u>(\$1)</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
Restricted / Reserved:				Restricted / Reserved:			
4.01 Student Activities	\$103,763	<u>\$103,763</u>	<u>\$0</u>	4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.02 Scholarships	\$0	<u>\$0</u>	<u>\$0</u>	4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.03 Staff Development	\$0	<u>\$0</u>	<u>\$0</u>	4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>	Restricted:			
4.08 Cooperative Revenue	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$2,421,100	<u>\$2,421,100</u>	<u>\$0</u>
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>	Unassigned:			
4.14 Operating Debt	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.16 Levy Reduction	\$0	<u>\$0</u>	<u>\$0</u>				
4.17 Taconite Building Maint	\$0	<u>\$0</u>	<u>\$0</u>	07 DEBT SERVICE			
4.24 Operating Capital	\$315,896	<u>\$315,896</u>	<u>\$0</u>	Total Revenue	\$2,679,725	<u>\$2,679,725</u>	<u>\$0</u>
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$2,741,021	<u>\$2,741,022</u>	<u>(\$1)</u>
4.27 Disabled Accessibility	\$0	<u>\$0</u>	<u>\$0</u>	Non Spendable:			
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>	Restricted / Reserved:			
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>	4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>	4.33 Maximum Effort Loan Aid	\$0	<u>\$0</u>	<u>\$0</u>
4.38 Gifted & Talented	\$0	<u>\$0</u>	<u>\$0</u>	4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>	4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.41 Basic Skills Programs	\$18,901	<u>\$18,901</u>	<u>\$0</u>	Restricted:			
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$410,856	<u>\$410,856</u>	<u>\$0</u>
4.49 Safe School Crime - Crime Levy	\$23,279	<u>\$23,279</u>	<u>\$0</u>	Unassigned:			
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>				
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	<u>\$0</u>	08 TRUST			
4.59 Basic Skills Extended Time	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	(\$70,010)	<u>(\$70,010)</u>	<u>\$0</u>
4.67 LTFM	\$237,810	<u>\$237,810</u>	<u>\$0</u>	Total Expenditures	\$31,885	<u>\$31,885</u>	<u>\$0</u>
4.72 Medical Assistance	\$0	<u>\$0</u>	<u>\$0</u>	Restricted / Reserved:			
4.73 PPP Loan	\$0	<u>\$0</u>	<u>\$0</u>	4.01 Student Activities	\$0	<u>\$0</u>	<u>\$0</u>
4.74 EIDL Loan	\$0	<u>\$0</u>	<u>\$0</u>	4.02 Scholarships	\$0	<u>\$0</u>	<u>\$0</u>
Restricted:				4.22 Unassigned Fund Balance (Net Assets)	\$960,773	<u>\$960,773</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>				
4.75 Title VII Impact Aid	\$0	<u>\$0</u>	<u>\$0</u>	18 CUSTODIAL			
4.76 Payments in Lieu of Taxes	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$31,349	<u>\$31,349</u>	<u>\$0</u>
Committed:				Total Expenditures	\$21,281	<u>\$21,281</u>	<u>\$0</u>
4.18 Committed for Separation	\$400,000	<u>\$400,000</u>	<u>\$0</u>	Restricted / Reserved:			
4.61 Committed Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.01 Student Activities	\$0	<u>\$0</u>	<u>\$0</u>
Assigned:				4.02 Scholarships	\$0	<u>\$0</u>	<u>\$0</u>
4.62 Assigned Fund Balance	\$2,832,537	<u>\$2,832,538</u>	<u>(\$1)</u>	4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>
Unassigned:				4.64 Restricted Fund Balance	\$35,484	<u>\$35,484</u>	<u>\$0</u>
4.22 Unassigned Fund Balance	\$3,475,606	<u>\$3,475,605</u>	<u>\$1</u>				
				20 INTERNAL SERVICE			
02 FOOD SERVICES				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Revenue	\$1,701,800	<u>\$1,701,800</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$1,407,382	<u>\$1,407,382</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
Non Spendable:							
4.60 Non Spendable Fund Balance	\$27,527	<u>\$27,527</u>	<u>\$0</u>	25 OPEB REVOCABLE TRUST			
Restricted / Reserved:				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.74 EIDL Loan	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
Restricted:							
4.64 Restricted Fund Balance	\$1,096,832	<u>\$1,096,831</u>	<u>\$1</u>	45 OPEB IRREVOCABLE TRUST			
Unassigned:				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
04 COMMUNITY SERVICE							
Total Revenue	\$654,884	<u>\$654,884</u>	<u>\$0</u>	47 OPEB DEBT SERVICE			
Total Expenditures	\$555,855	<u>\$555,855</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Non Spendable:				Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.60 Non Spendable Fund Balance	\$395	<u>\$395</u>	<u>\$0</u>	Non Spendable:			
Restricted / Reserved:				4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>	Restricted:			
4.31 Community Education	\$53,437	<u>\$53,437</u>	<u>\$0</u>	4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.32 E.C.F.E	\$268,795	<u>\$268,795</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>	Unassigned:			
4.44 School Readiness	\$165,172	<u>\$165,172</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>				
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>				
4.73 PPP Loan	\$0	<u>\$0</u>	<u>\$0</u>				
4.74 EIDL Loan	\$0	<u>\$0</u>	<u>\$0</u>				
Restricted:							
4.64 Restricted Fund Balance	\$10,933	<u>\$10,934</u>	<u>(\$1)</u>				
Unassigned:							
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>				



Additional Reports
June 30, 2022

Independent School District No. 2752 Fairmont Area Schools



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

The School Board of
Independent School District No. 2752
Fairmont Area Schools
Fairmont, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2752 ("the District"), Fairmont Area Schools, as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 11, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Mankato, Minnesota
October 11, 2022



Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance

The School Board of
Independent School District No. 2752
Fairmont Area Schools
Fairmont, Minnesota

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Independent School District No. 2752's ("the District") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2022. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

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

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

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



Mankato, Minnesota
October 11, 2022



Report on Minnesota Legal Compliance

The School Board of
Independent School District No. 2752
Fairmont Area Schools
Fairmont, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2752, Fairmont Area Schools, as of and for the year ended June 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2022.

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

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

A handwritten signature in black ink that reads "Eide Bailly LLP".

Mankato, Minnesota
October 11, 2022

Independent School District No. 2752
Fairmont Area Schools
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
COVID-19 Education Stabilization Fund	84.425
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

2022-001 Preparation of Financial Statements
Material Weakness

Criteria: A good system of internal accounting control contemplates an adequate system for internally preparing the District's financial statements.

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the financial statements, and accompanying notes to the financial statements.

Cause: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Effect: The disclosures in the financial statements could be incomplete.

Recommendation: This circumstance is not unusual in a District of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials: There is no disagreement with the audit finding.

Section III – Major Federal Awards Program Audit

None reported

Section IV – Minnesota Legal Compliance Findings

None reported